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THE INTELLECTUAL PROPERTY AND ANTITRUST REVIEW
THE INTELLECTUAL PROPERTY REVIEW
THE INTERNATIONAL ARBITRATION REVIEW
THE INTERNATIONAL CAPITAL MARKETS REVIEW
THE INTERNATIONAL INVESTIGATIONS REVIEW

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Intellectual property is taking a more and more central position in the global economy, and this is true not only in highly developed economies, but also in emerging ones. China and India, to take just two examples, are moving rapidly up the value chain and now have world-class technology companies for which intellectual property protection is crucial.

As the significance of intellectual property grows, so too does the relationship between intellectual property and antitrust law. Antitrust law constrains the exercise of intellectual property rights in certain circumstances, and both owners and users of intellectual property rights need to know how the two bodies of law interact and where antitrust draws lines for intellectual property. Intellectual property practitioners need to look beyond intellectual property laws themselves to understand the antitrust limits on the free exercise of rights.

The task of this book is, with respect to key jurisdictions globally, to provide an annual concrete and practical overview of developments on the relationship between antitrust and intellectual property. This third edition provides an update on recent developments, as well as an overview of the overall existing lay of the land regarding the relationship between the two bodies of law.

Key topics covered in this and future editions include the constraints imposed by antitrust on licensing, the circumstances under which a refusal to license intellectual property rights can be unlawful, the imposition of antitrust obligations on owners of standard-essential patents, the application of antitrust law to cross-border e-commerce, the growing importance of intellectual property issues in merger cases and the intense disputes regarding the application of antitrust law to patent settlements in the pharmaceutical industry.

As intellectual property continues to gain importance in the world economy, and as the number, resources and sophistication of antitrust authorities grows across the globe, new battles will be fought over the circumstances in which antitrust constrains intellectual property. Existing differences in the application of antitrust to intellectual property – already significant, and perhaps even greater than in intellectual property laws themselves – may grow, perhaps especially as more net intellectual property-consuming countries devote resources to antitrust enforcement. Future editions of this book will analyse these developments, and we hope the reader will find this to be a useful compilation and oft-consulted guide.

Finally, I would like to thank Ashwin van Rooijen and Axelle D’heygere for their important contributions to this third edition of The Intellectual Property and Antitrust Review.

Thomas Vinje
Clifford Chance LLP
Brussels
June 2018
Chapter 1

AUSTRALIA

Jane Owen and Cicely Sylow

I INTRODUCTION

Intellectual property and competition (antitrust) in Australia are governed by federal laws. In the case of competition, they are principally found in Part IV of the Competition and Consumer Act 2010 (Cth) (CCA). The laws relating to intellectual property are found in the Trade Marks Act 1995 (Cth), the Patents Act 1990 (Cth), the Copyright Act 1968 (Cth), the Designs Act 2003 (Cth), the Plant Breeders Rights Act 1994 (Cth) and the Circuit Layouts Act 1989 (Cth).

There is very little legislative crossover between competition and intellectual property laws although Section 51(3) of the CCA provides an exemption from certain provisions of Part IV of the CCA (other than Sections 46 and 46A (misuse of market power) and Section 48 (resale price maintenance)), for the imposing, or giving effect to, a condition of a licence granted by the owner or licensee of a patent, registered design, copyright or circuit layout right or by an applicant for registration of a patent or design; or an assignment of any of these rights.

The exemption only applies ‘to the extent that the condition relates’ to the invention, product, work or other subject matter, or eligible layout that is the subject of the right being licensed or assigned.

The Section 51(3) exception also applies to the inclusion of, or giving effect to, a provision authorising the use of a certification trademark in accordance with the rules that apply to use of the certification trademark; or an agreement between the owner of a registered trademark and an authorised user of the mark, to the extent that it relates to the kinds, qualities or standards of goods bearing the mark that may be produced or supplied by the authorised user.

The precise extent of the Section 51(3) exception is unclear and has been the subject of relatively little judicial comment. In Transfield Pty Ltd v. Arlo International Ltd, Mason J of the Australian High Court stated, in obiter dicta, that Section 51(3) goes no further than determining the scope of restrictions that a patentee may properly impose on use of the patent but not conditions that are collateral to the patent. This is to be contrasted with the decision in ACCC v. Pfizer Australia Pty Ltd in which the Federal Court held that the Section should not be given a narrow construction.

1 Jane Owen is partner and Cicely Sylow is a senior associate at Bird & Bird. Acknowledgement is made to Kathryn Edghill who contributed to a previous edition of this article.

2 (1980) 144 CLR 83.


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Section 51(4) preserves the validity of contract terms protected by Section 51(3), which otherwise would be rendered unenforceable or void under Part IV of the CCA.

Unlike in many other jurisdictions, no guidelines have been issued by the Australian Competition and Consumer Commission (ACCC), which is the regulatory body that oversees the CCA, concerning the interaction between competition law and intellectual property law.

II YEAR IN REVIEW

On 20 December 2016, the Australian Productivity Commission released its report on its inquiry into intellectual property (IP) arrangements in Australia, Intellectual Property Arrangements: Productivity Commission Inquiry Report: Overview & Recommendations. The report recommended that ‘Commercial transactions involving IP rights should be subject to competition law. The current exemption under the Competition and Consumer Act is based on outdated views and should be repealed’ and that ACCC guidance on the application of competition law to IP transactions be developed to overcome uncertainties for rights holders and licencees. The Australian government, in its response to the report that was released on 25 August 2017, supports the repeal of Section 51(3) of the CCA, reasoning that ‘it is now generally agreed that there is no fundamental conflict between IP rights and competition policy’ and that ‘where there is evidence of anti-competitive conduct associated with IP licencing arrangements, it is important that such conduct is appropriately regulated.’ In the second half of 2017 various Acts amended the CCA (which included anticipated amendments to the misuse of market power provision), and on 28 March 2018, the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 (the IP Amendment Bill) was introduced to Parliament. Despite these developments, at the time of writing, draft legislation to amend the CCA has not included the repeal of Section 51(3) of the CCA, although IP Australia has indicated there will be a ‘Part 2’ to implement other aspects of the government’s response.

In terms of cases concerning the interplay between intellectual property and competition laws, the most significant event in the past year is the matter between Motorola Solutions Inc and Hytera Communications Corporation Ltd concerning standard-essential patents that was brought before the Federal Court in mid 2017, and which is set for hearing in mid-2019. Another significant event (or, more accurately, non-event) of the past year is that judgment on the appeal by the ACCC to the Full Federal Court from the decision of the Federal Court in Australian Competition & Consumer Commission v. Pfizer Australia Pty Ltd remains undelivered, despite the fact that the appeal was heard in late November 2015. The ACCC appealed the findings at first instance that Pfizer had not misused its market power in breach of the former Section 46 of the CCA and engaged in exclusive dealing in breach of Section 47 of the CCA as a result of steps taken to minimise loss of market share to generics following the expiry of its atorvastatin patent. Those steps, taken in anticipation of intense competition from generics, to minimise expected declines in revenue, included restructuring its marketing

and distribution arrangements to allow it to sell direct to pharmacies, and restructuring its rebates and discounts. The Court at first instance found that this conduct did not amount to misuse of market power because Pfizer lacked the requisite anticompetitive purpose and that it did not amount to exclusive dealing because its offer of discounts and rebates to pharmacies that purchased directly from Pfizer lacked the requisite conditionality and did not have a purpose of substantially lessening competition. Judgment on the appeal is much anticipated although the new Section 46 of the CCA, which introduced an effects test, may now limit the judgment’s relevance.

III LICENSING AND ANTITRUST

i  Anticompetitive restraints

The imposition of terms of intellectual property licences that restrict the ability of the licensee to compete with the owner or rights holder or restrict or limit the scope of the licence in terms of pricing, territory or customers may be a breach of the following provisions of the CCA:

- the prohibition on the making or giving effect to agreements, arrangements or understandings, or engaging with one or more persons in a concerted practice, that have the purpose, effect or likely effect of substantially lessening competition in a market (Section 45 of the CCA), but only if it does not fall within one of the exceptions in Section 51(3);
- the prohibition on exclusive dealing in Section 47 of the CCA (by, for example, the holder of an intellectual property right making the licensing of the right conditional on the acquirer accepting a restriction on its rights to deal with competitors), but, again, only if it does not fall within one of the exceptions in Section 51(3); or
- the prohibition on misuse of market power in Section 46 of the CCA (which is not subject to the exception in Section 51(3)).

ii  Refusals to license

Australian competition law does not oblige a party to license its intellectual property rights. A refusal to license by a party that has a substantial degree of market power does not mean that a breach of Section 46 has occurred. For Section 46 to be engaged, the refusal must be for the purpose or have the effect or likely effect of substantially lessening competition in a relevant market. Under the former Section 46 of the CCA, the Australian High Court in Melway Publishing Pty Ltd v. Robert Hicks Pty Ltd\(^8\) recognised that, where a party is otherwise entitled to refuse to licence its intellectual property rights without contravention of the CCA, it is not the purpose of Section 46 to dictate how that party should choose its licensees.\(^9\) Whether this reasoning will continue to be relevant under the current Section 46, which replaced the former anticompetitive purpose test with a test of having the purpose, effect or likely effect of substantially lessening competition in a market, remains to be seen.

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\(^8\) (2001) 205 CLR 1.

\(^9\) Ibid., at [17].
iii Unfair and discriminatory licensing

Engaging in unfair and discriminatory licensing may breach the following provisions of the CCA:

a the prohibition on misuse of market power in Section 46 of the CCA, if conduct engaged in by a company with a substantial degree of market power has the purpose, or has or is likely to have the effect, of substantially lessening competition in a relevant market;

b the prohibition on unconscionable conduct contained in Section 21 of the Australian Consumer Law, which is Schedule 2 to the CCA, particularly where the party imposing the unfair and discriminatory licensing is in a stronger bargaining position than the licensee or where undue influence or pressure is brought to bear; and

c the prohibition on unfair contract terms in standard form consumer contracts or small business contracts contained in Section 25 of the Australian Consumer Law.

Where the conduct involves requiring the licensee to sell goods, manufactured using the licensed intellectual property, at a particular price, this may amount to resale price maintenance, which is prohibited by Section 48 of the CCA. The exception in Section 51(3) does not apply to resale price maintenance.

iv Patent pooling

The aggregation of patent rights that are then offered as a joint package and portfolio cross-licensing of patents have been recognised by the ACCC as having the potential to give rise to competition concerns. These concerns include cartel conduct, through facilitation of price-fixing, coordinated output restrictions among competitors; substantial lessening of competition, where there is foreclosure of innovation; and the enabling of the exercise of market power. Notwithstanding the identification of these concerns, no case has been brought before the Australian courts in which allegations of breach of competition laws arising from patent pooling and cross-licensing have been determined.

v Software licensing

Australian competition law does not contain any provisions that are specific to software licensing. However, in ACCC v. Valve Corporation (No. 3), the Federal Court held that licence agreements under which consumers access certain software constituted a supply of goods for the purposes of the CCA, meaning that software licences are subject to the consumer guarantee provisions of the CCA.

vi Trademark licensing

As is the case with software licensing, Australian competition law does not contain any provisions that are specific to trademark licensing.

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IV STANDARD-ESSENTIAL PATENTS

To date, Australian courts have not delivered any decisions in which standard-essential patents (SEPs) have been enforced. Similarly, no Australian court has yet delivered judgment on the question of whether conduct involving SEPs amounts to a breach of the Australian competition laws. Rather, there has been one case in respect of SEPs declared essential in respect of certain 3GPP standards, which was commenced and then settled within 18 months of issue,\(^\text{12}\) and the long-running Apple v. Samsung dispute,\(^\text{13}\) which was settled after the completion of an unprecedented number of trial-hearing days over an 11-month period, imminently hours before the judgment was due to be handed down by the Federal Court. Some judicial guidance on SEPs may be forthcoming in due course with Motorola Solutions Inc bringing proceedings against Hytera Communications Corporation Ltd in mid 2017. The matter is listed for trial commencing on 22 July 2019. If not settled beforehand, this case could provide seminal Australian jurisprudence on when a patent might be regarded as essential, the role of standard-making bodies and the applicability of fair, reasonable, and non-discriminatory (FRAND) terms.

Until Australian courts deliver a judgment in this area, it remains only conjecture as to whether the reasoning of the European Commission in Huawei\(^\text{14}\) as to enforcement of SEPs and appropriateness of remedies in such proceedings would be applicable in the Australian courts.

As to the legal force of SEPs in general, it is to be expected that Australian courts would be persuaded by the reasoning of the UK courts as to the legal effect a declaration of essentiality and the FRAND terms undertaking of a patentee. In this regard, the recent decision of Birss J of the High Court of Justice in Unwired Planet\(^\text{15}\) provides a sound prediction of the approach of Australian courts: ‘As a matter of French Law, the FRAND undertaking to ETSI is a legally enforceable obligation which any implementer can rely on against the patentee. FRAND is justiciable in an English court and enforceable in that court.’\(^\text{16}\)

However, as to the remainder of the reasoning applied in Unwired Planet, it is uncertain that it would apply given the differences between Australian and European laws.

i Dominance

Under Section 46 of the CCA, misuse of market power is prohibited. The prohibition was amended in November 2017, and this replaced the anticompetitive purpose test with a new purpose and effects test, which prohibits a company with a substantial degree of market power from engaging in conduct that has the purpose, effect or likely effect of substantially lessening competition in a relevant market in Australia.

While there has been no decision of any Australian court on the question, the role of SEPs and their relationship with misuse of market power was considered in the Apple v. Samsung case. In that case Apple claimed that Samsung’s commencement of proceedings for injunctive relief against it, alleging infringement of three of its SEPs and its making of a non-FRAND licensing offer constituted a misuse of market power in breach of the former

\(^{12}\) Vringo Infrastructure Inc v. ZTE (Australia) NSD1010/2013.
\(^{14}\) Huawei Technologies Co Ltd v. ZTE Corp ECLI:EU:C:2015:477.
\(^{15}\) Unwired Planet Ltd v. Huawei Technologies Co Ltd & Anor [2017] EWHC 711 (Pat).
\(^{16}\) Ibid., at [806].
Section 46 of the CCA. Unfortunately (for jurisprudence in the area, at least), the case was settled before judgment was delivered and no indication has been given of the court’s likely attitude to the claim.

Notwithstanding the lack of judicial pronouncement on the issue, and the fact that the High Court in the Melway Publishing case held that the fact that a company possesses a substantial degree of market power arising from its intellectual property rights does not, of itself, mean that the company will misuse that power merely by enforcing those rights, because it could, and probably would, have enforced those rights in the same way if it did not have a substantial degree of market power, the prospect of conduct involving SEPs giving rise to a claim of misuse of market power in breach of Section 46 of the CCA remains a real one, particularly given the recent amendments to the test.

Where SEPs are truly essential to a relevant standard and allow the holder to act in a manner unconstrained by its competitors, it is likely that an Australian court would conclude the holder of the SEP had the requisite substantial degree of market power to attract the prohibition in Section 46 of the CCA. It would then fall to be determined whether the holder had exercised that power for the purpose, effect or likely effect of substantially lessening competition.

ii Injunctions

As the Australian courts have not had to decide whether an injunction is an available remedy in relation to the assertion of an SEP, guidance can be gleaned from the application of general principles of Australian patent law.

In this respect, a patentee is granted exclusive rights to exploit the patent. The Australian courts have invariably ordered that conduct infringing a patent be restrained by issuing an injunction. In two recent cases in the pharmaceutical area, judges of the Federal Court have expressed, obiter dicta, support for a view that the scope of an injunction may not be absolute in all circumstances of a finding of patent infringement. This was on the basis of some uses of alleged infringing products constituting infringing conduct or not: ‘It seems to us that, all other things being equal, the more difficult it is for the patentee to establish that there is a likelihood of widespread infringing use, the more difficult it should be for the patentee to obtain injunctive relief in the broad terms restraining any supply of the relevant product.’

Given this position, Australian courts would start with the position that the patentee is entitled to injunctive relief on the infringement finding and the only question for consideration may be scope of the injunction.

It remains to be seen whether an Australian court would be persuaded to follow the Huawei approach to determining if a misuse of market power has occurred in the course of seeking injunctions by way of enforcement of SEPs. Currently, the mere enforcement of an SEP and the seeking of an injunction would not of itself give rise to a claim of misuse of market power unless it was found to be undertaken for the purpose, or has the effect or likely effect, of substantially lessening competition in a relevant market. Thus, if a patentee who
Australia

has sought and failed to negotiate a licence under FRAND terms subsequently seeks damages and injunctive relief in the course of an enforcement action, the action is not likely to be found to be a misuse of market power in breach of Section 46. However, the result may be different where the patentee has not offered FRAND terms and does so for the purpose of substantially lessening competition, or where there is an effect or likely effect of substantially lessening competition in a relevant market.

iii Licensing under FRAND terms

The question of whether an offer to license SEPs on non-FRAND terms was a breach of the former Section 46 of the CCA was raised, but not determined in the Apple v. Samsung case. Indeed, Australian courts have not been faced with determination of issues related to licensing on FRAND terms, generally. While not binding, judicial determination in other jurisdictions as to the determination of FRAND terms is likely to be persuasive in Australian courts.

However, offers to license on non-FRAND terms may give rise to a number of potential breaches of Australian competition law including misuse of market power (discussed above), unconscionable conduct and the prohibition on the making and giving effect to agreements that substantially lessen competition. In its November 2015 Submission to the Productivity Commission Inquiry into Intellectual Property Arrangements in Australia, the ACCC recognised the potential for such offers to be anticompetitive, stating: ‘if there are inadequate avenues to access patents on reasonable terms and conditions, then this has the potential to seriously undermine sequential innovation and thus reduce dynamic efficiency’.21

iv Anticompetitive or exclusionary royalties

The imposition of royalties payments that are anticompetitive or exclusionary may breach:

a the prohibition on misuse of market power in Section 46 of the CCA, if engaged in by a company with a substantial degree of market power for the purpose of substantially lessening competition in a relevant market or where the conduct has or is likely to have that effect;

b the prohibition on unconscionable conduct contained in Section 21 of the Australian Consumer Law, which is Schedule 2 to the CCA, particularly where the party imposing the royalties is in a stronger bargaining position than the payee or where undue influence or pressure is brought to bear; and

c the prohibition on unfair contract terms in standard form consumer contracts or small business contracts contained in Section 25 of the Australian Consumer Law.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

Section 50 of the CCA prohibits the acquisition of shares or assets of a company where the acquisition would have the effect, or be likely to have the effect of substantially lessening competition in any market. An acquisition involving the transfer of IP rights, whether

alone or in conjunction with other assets may, therefore, amount to a ‘merger’ and trigger Section 50, requiring an assessment of the impact of the transfer on competition in the relevant Australian market or markets.

There is no mandatory notification requirement for mergers in Australia. Where parties are concerned that the acquisition of shares or assets, including the transfer of IP rights, may trigger Section 50, they have the option of seeking authorisation or informal clearance from the ACCC. Authorisation, which until November 2017 was sought from the Australian Competition Tribunal but is now sought from the ACCC, has rarely been used, with the vast majority of parties using the informal clearance process. The ACCC has issued Informal Merger Review Process Guidelines and Merger Authorisation Guidelines, which set out the administrative steps relevant to an informal merger clearance review and merger authorisations respectively, and Merger Guidelines, which set out the steps the ACCC takes to analyse a merger.

ii Remedies involving divestitures of intellectual property

The ACCC has power to give its informal clearance to a merger where it is satisfied that the merger will not result in a substantial lessening of competition in any market, or, to authorise a merger where the merger will not result in a substantial lessening of competition in any market or the likely benefit from the proposed acquisition outweighs the likely public detriment. On occasions this requires the parties to agree to divest certain assets including, but not limited to, intellectual property. The agreement to do so usually takes the form of the provision of a court enforceable undertaking to the ACCC pursuant to Section 87B of the CCA. Two recent merger clearances that have involved the divestiture of intellectual property include:

a. DowDuPont Inc’s proposed acquisition of EI du Pont de Nemours and Company and The Dow Chemical Company – in this matter the ACCC raised concerns that ‘a potential effect of a merger between two originators (such as Dow and DuPont) is to reduce the rate of innovation by lessening competition between originator companies’, but concluded that DowDuPont Inc’s divestiture commitments to the European Commission, which included divestiture of certain businesses including intellectual property, would address any competition concerns in Australia; and

b. Iron Mountain Incorporated’s proposed acquisition of Recall Holdings Limited (2016) – in this matter Iron Mountain undertook to divest most of its Australian business including, relevantly, ownership of, or licences to use, operational, invoice, human resources and finance systems necessary for its business, and all permits and licences granted to it to carry on a physical document management service and a digital document management service in Australia.

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25 ACCC Statement of Issues, dated 3 November 2016, on the proposed merger of The Dow Chemical Company and EI du Pont de Nemours and Company.
26 http://registers.accc.gov.au/content/index.phtml/itemId/1202487/fromItemId/751046.
27 http://registers.accc.gov.au/content/index.phtml/itemId/1194800/fromItemId/751046.
VI OTHER ABUSES

i Sham or vexatious IP litigation

There exist a number of legislative mechanisms in Australia to deter the issue of sham or vexatious litigation. The introduction of the Civil Dispute Resolution Act 2011 (Cth) was one such measure, specifically requiring legal practitioners to file upon commencement of proceedings a statement of genuine steps undertaken to resolve a dispute prior to the issue of proceedings. Failure to undertake such genuine steps, by a client or a lawyer, may result in unfavourable costs orders being made against clients or personally against lawyers.28

In the particular context of IP disputes, the availability of remedies for unjustified threats of infringement is a useful foil for sham or vexatious litigation by a patentee (or copyright owner). In 2016, the Australian Federal Court delivered a decision that reinforces its willingness to find that a patentee who does not establish patent infringement and has undertaken a course of correspondence with the putative infringer’s customers may have engaged in unjustified threats of infringement contrary to Section 128 of the Patents Act. In *CQMS Pty Ltd v. Bradken Resources Pty Limited*29 Drummond J found that issue by the patentee of ‘Notice of Federal Court Proceedings’ to the alleged infringer’s customers that said that its ‘claim of patent infringement . . . is in part, based on supplying product to their customers whereby those customers’ use of that product results in . . . customers infringing’30 was an unjustified threat that entitled the respondent to an injunction and damages.

Notably, the mere commencement and prosecution of patent infringement proceedings subsequent to the issue of a threat does not render earlier threats of infringement justifiable.31 This is in contradistinction to the defence arising for unjustified threats of trademark infringement by the commencement of infringement proceedings.32

ii Misuse of the patent process

The ACCC has recognised that ‘Patents can be used to impose large costs on businesses that need access to licences or filed defensively to stall or exclude the entry of competitors or products. They can also impose costs on society by providing supernormal returns for patent holders, particularly if they are excessively long in duration’ and that ‘if patent protections extend too broadly, and if there are inadequate avenues to access patents on reasonable terms and conditions, then this has the potential to seriously undermine sequential innovation and thus reduce dynamic efficiency’.33

iii Anticompetitive settlements of IP disputes

Australian courts have not adjudicated any disputes concerning anticompetitive settlement of IP disputes.

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28 Sections 11 and 12 Civil Dispute Resolution Act 2011 (Cth).
29 *CQMS Pty Ltd v. Bradken Resources Pty Limited* [2016] FCA 847.
30 *CQMS Pty Ltd v. Bradken Resources Pty Limited* [2016] FCA 847 at 171.
31 *CQMS Pty Ltd v. Bradken Resources Pty Limited* [2016] FCA 847 at 177.
32 Section 129(5) Trade Marks Act 1995 (Cth).
The closest decision to determination of the anticompetitive effects of ‘pay-for-delay’ launch of generic pharmaceuticals is the 2015 decision in the action brought by the ACCC against Pfizer for its commencement of an exclusive supply arrangement with pharmacies in relation to Lipitor, prior to patent expiry of its atorvastatin patent in 2012.34 The court found that this pre-patent expiry tie-up of pharmacies, together with the making of bundled offers and a special rebate fund available to pharmacists who entered into the exclusive arrangement was not a misuse of market power, as the conduct had been engaged in to improve the chances of pharmacies continuing to deal with Pfizer and its atorvastatin products rather than returning immediately to their usual generic supplier. The court’s finding was that this was not conduct pursued by Pfizer for the purpose of deterring or preventing a person from engaging in competitive conduct, but for the purpose of Pfizer remaining competitive.35 However, it remains to be seen whether such conduct would now fall foul of the new Section 46 of the CCA.

In its report on its inquiry into intellectual property arrangements in Australia,36 the Productivity Commission raised pay-for-delay settlements as a potential issue in Australia and recommended introducing a new reporting and monitoring regime (administered by the ACCC) for pay-for-delay settlements. The introduction of such a regime would require pharmaceutical companies and the originator to lodge patent settlement agreements with the ACCC, giving the ACCC greater visibility of the extent to which pay-for-delay agreements are being entered into in Australia, and the details of those agreements, without having to rely or utilise its investigative powers to seek that information.

VII OUTLOOK AND CONCLUSIONS

Significant amendments to the CCA, including the revised Section 46, came into force in November 2017. It is notable that these changes (and the changes proposed by the IP Amendment Bill) did not repeal Section 51(3) of the CCA (or the removal of the exemption of certain intellectual property arrangements from the application of Australia’s competition laws). This is a recommendation that has been made many times before and lack of progress questions whether the Australian parliament has the appetite to repeal Section 51(3) of CCA.

The amended prohibition on misuse of market power in Section 46 of the CCA no doubt changes the scope of the prohibition, but whether this amendment results in increased in cases in which holders of intellectual property rights are held to have misused market power remains to be seen.

34 Australian Competition & Consumer Commission v. Pfizer Australia Pty Ltd, op. cit.
35 Australian Competition & Consumer Commission v. Pfizer Australia Pty Ltd, op. cit., at [464].
Chapter 2

BRAZIL

Ademir Antonio Pereira Jr and Mário André Machado Cabral

I INTRODUCTION

Intellectual property rights (IPRs) are not subject to any tailored exemption, and the Brazilian Competition Law is applicable to business practices involving IPRs (Law 12,529, enacted in 2011). Notably, several decisions issued by the Brazilian Competition Agency (CADE) reinforce the assumption that IPRs are not immune from competition law and emphasise that both bodies of law, although somewhat conflicting in certain instances, share the same basic goals of promoting innovation and consumer welfare.

The past months have seen a major development in the intersection of IP and competition in Brazil. A decade-long investigation has finally come to an end, establishing the limits of competition law intervention over the enforcement of IPRs. While a more interventionist view had been taking central stage in staff reports and the initial statement of objections, the final administrative decision from CADE’s Tribunal seems to strike an appropriate balance of IPRs and competition policy. The Tribunal’s majority vote held that the mere enforcement of lawfully obtained IPRs against infringers should not be subject to competition scrutiny.²

In brief, the Competition Law establishes a merger review regime and tools for behavioural control. Practices or transactions involving IPRs are subject to both these types of control.

Merger review, established by Articles 88–90, ensures that merger control encompasses prior review (before consummation) of transactions that may lead to some degree of economic concentration, including mergers and acquisitions, acquisitions of tangible and intangible assets, joint ventures and associative agreements. Under this regime, transactions involving a group of companies that meet certain turnover thresholds have to be filed for review and cannot be consummated until clearance. While this type of control is reasonably equivalent to merger review regimes in other jurisdictions, the Brazilian regime also includes agreements called ‘associative agreements’ that create some degree of cooperation between companies while preserving their independence in all other spheres.

With regard to behavioural control, Article 36 of Law 12,529 establishes that acts (including contracts or unilateral practices) that have the intent or potential to (1) limit or...

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1 Ademir Antonio Pereira Jr is a partner and Mário André Machado Cabral is an associate at Advocacia Del Chiaro. This chapter is based on the Brazil section of ‘IP & Antitrust 2018’, (Global Competition Review, 20 February 2018), https://globalcompetitionreview.com/jurisdiction/1000462/brazil, written by the same authors.

2 It should be noted that we represented one of the defendants in this case. Any opinions and views expressed here are our own and do not represent our client’s position in the case.
harm free competition; (2) dominate a relevant market; (3) arbitrarily increase profits; or (4) abuse a dominant position, might be deemed unlawful. This provision has been used to punish horizontal and vertical conduct that restricts competition.

Law 9,279, issued in 1996, disciplines the procurement and enforcement of patents, trademarks, industrial design rights (similar to design patents) and unfair competition practices. Copyrights (or author rights) are regulated by Law 9,610, issued in 1998.

The provisions of Law 12,529 may be enforced by CADE, the federal administrative agency in charge of enforcing such statute. The statute is also applicable in courts, where private plaintiffs or state and federal prosecutors can file claims based on the Competition Law provisions.

According to Article 47 of Law 12,529, any party affected by practices deemed unlawful by Article 36 are entitled to claims seeking injunctive relief and recovery of damages. It means that interested parties may start private suits in courts against anticompetitive practices involving IPRs without previous authorisation or support from CADE. It should be noted, however, that private claims have not played a substantive role in Brazil so far. Except for the judicial review of CADE’s decisions, courts have not had many opportunities to issue decisions applying the Competition Law.

II YEAR IN REVIEW
The past 12 months have been particularly relevant for the analysis of the intersection of IP and antitrust. CADE spent over a decade investigating a complaint filed by an association of autoparts manufacturers (named ANFAPE) and finally released a final decision on the matter. Because the scope of the investigation targeted the heart of the intersection of IP and competition, this case was largely seen as a landmark to shape the balance of these two policies in Brazil.3

In 2007, ANFAPE accused Fiat, Ford and Volkswagen of an anticompetitive conduct for bringing lawsuits to enforce industrial design rights (similar to design patents) over automobile spare parts against infringement actions. After a preliminary inquiry, CADE’s Tribunal ordered the initiation of a full-blown investigation in 2010 (this order is similar to a statement of objections so this chapter will refer to it as SO). The SO argued that original equipment manufactures (OEMs) may abuse their dominant position by merely enforcing industrial design rights through lawsuits against independent auto parts manufacturers that copy their designs to sell in the aftermarket. Notably, the SO acknowledged that: (1) design patents had been lawfully obtained and were valid; (2) there had been no sham litigation; and (3) there has been no excessive pricing.

The SO was centred on a theory that legitimate lawsuits to enforce lawfully-obtained design patents against infringers in the independent aftermarket constituted an anticompetitive conduct because they had the potential to produce anticompetitive effects not compensated by pro-competitive justifications. In other words, the SO proposed to use the rule of reason to determine whether the mere enforcement of design patents constitute an ‘abuse’. In brief, the SO assumed that independent manufactures may not design around the industrial design rights conferred, so that the enforcement of such rights would prevent any competition.

See Administrative Process No. 08012.002673/2007-51. It should be noted that we represented Volkswagen in this case. Any opinions and views expressed here are our own and do not represent our client’s position in the case.
Additionally, it was argued that OEMs invest in new designs for the sale of vehicles and not of spare parts, which would eliminate pro-competitive justifications for the enforcement of such rights against independent manufacturers acting only in aftermarkets.

This theory was later endorsed by technical reports from CADE’s Superintendency, CADE’s attorney general and the Office of Federal Public Prosecutors, recommending the condemnation of the defendants. The reports supporting that theory indicated a trend towards an inappropriate balance of IPRs and competition policy in Brazil. Such trend was gaining traction and generating negative spillover in other matters; the same theory was adopted in other SOs in sham litigation cases in several industries to establish that CADE would be in position to review the enforcement of IPRs even if there had been no sham or misrepresentation.

After a long review by the Commissioners, a tight four to three majority voted to close the investigation. The majority vote held that the mere enforcement of lawfully obtained rights does not constitute unlawful conduct. Alleged anticompetitive effects were a result from the IP policy in that specific market, and CADE was not entitled to review and reverse the IP policy to hold that defendants’ behaviour was unlawful. The majority held that only if there was misuse of an IPR would the rule of reason be applicable.

CADE’s Tribunal seems to strike an appropriate balance of IPRs and competition policy. The decision avoids a dangerous overreach of competition policy while also maintaining CADE’s ability to review conduct in opposition to, or not expressly permitted by, the IP statutes.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

Technology transfer and licensing agreements are subject to behavioural control under Article 36 of Law 12,529.

In sum, Article 36 of Law 12,529 establishes that acts (including contracts or unilateral practices) that have the intent or potential to (1) limit or harm free competition; (2) dominate a relevant market; (3) arbitrarily increase profits; or (4) abuse a dominant position, will be deemed unlawful. The case law has been built using a framework similar to the American rule of reason: for every contract or practice under investigation, CADE typically considers whether there is market power, anticompetitive effects and possible pro-competitive justifications that compensate the anticompetitive effects verified.

Licences granted to competitors (horizontal relation) or cross-licences might be problematic if accompanied by price restrictions to customers or certain output limitations.

Vertical restraints in licences to vertically related players might also result in antitrust liability. Potentially problematic vertical restraints include tying arrangements, exclusive dealing, resale price maintenance, bundling and territorial restraints. These restraints would also be analysed under a framework similar to the rule of reason in the US. The fact that an IPR is involved is unlikely to preclude an antitrust investigation for monopolisation or abuse of dominance. In these types of cases, the ordinary framework to assess monopolisation or abuse of dominance cases might be applied, meaning that a practice will be unlawful if (1) the player holds a dominant position (as defined in the previous answer), (2) the conduct results in anticompetitive effects, and (3) the anticompetitive effects are not compensated by pro-competitive justifications.
ii Refusals to license

There is no specific precedent on the topic of refusal to license in Brazil. In a decision released in 2009, there is dicta suggesting that a refusal to license might be subject to antitrust scrutiny if the licence would constitute an essential input for an entire production chain, having characteristics similar to an ‘essential facility’.\(^4\)

The recent case involving design of spare parts detailed in Section II is the closest to a refusal-to-license type of claim.\(^5\) In this matter, however, the complainant was seeking an administrative decision ordering IPR holders to stop enforcing its design patents against players in the aftermarket. Interestingly, the complainants were not seeking a licence, and it was well established that there had not been a refusal to license.

While the SO and staff reports indicated that a licence-free relief would be a viable remedy, the majority of commissioners voted to close the investigation and held that IPR holders are entitled to enforce their IPRs against infringers. The fact that complainants had not asked for a licence and simply wanted to reproduce the patented designs for free were important in the justifications presented by the majority vote.

Against this background, it remains unclear CADE’s views of a potential refusal to license. Given the language adopted in that decision, a refusal to license with negative impacts on a product or service not protected by an IPR would probably be subject to detailed scrutiny (i.e., refusal to license an IPR over product X prevents a rival from rendering a service Y or developing a product Z on another relevant market). Nevertheless, it is unclear whether CADE would conduct a detailed inquiry of a refusal to grant a licence for a player that merely wants to copy the patented product to put it for sale (and, therefore, does not develop another product or service using the patented product or technology merely as an input).

iii Unfair and discriminatory licensing

In many cases, CADE held that competition law does not give a mandate to arbitrate reasonable prices in response to a merely exploitative conduct – therefore, several claims based solely on an excessive pricing theory were dismissed.\(^6\)

Consistent with such position, CADE rejected excessive royalties claims in two cases in 2009, holding that a stand-alone investigation against excessive royalties is not warranted; only if there is an exclusionary conduct could an investigation proceed.\(^7\) Dicta in these cases suggest that royalty schemes would be subject to competition scrutiny only if they are part of an exclusionary conduct with the potential to harm rivals, including (1) a bundle of essential patents to non-essential patents; (2) discrimination of players without legitimate business justifications; and (3) unreasonable price increases that result in refusal of access to an essential technology.

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\(^6\) Excessive pricing would be a problem only if followed by another conduct (see Administrative Process No. 08012.000966/2000-01) or if implemented with an exclusionary purpose, like price increase of an essential input that actually constitutes a refusal to deal (see Administrative Process No. 08012.005181/2006-37.
In 2010, a tight majority voted in favour of allowing investigations of merely exploitative excessive pricing. While that case had the potential to be a turning point and influence excessive royalty cases, it has not gained traction as the majority of commissioners has shifted and has not shown interest for this line of cases. In addition, while the former Competition Law (Law No. 8884) had a specific provision against excessive pricing, the current statute (Law No. 12529) does not contain any provision in that regard. This change in the applicable statute has been used to defend the view that stand-alone excessive pricing cases are not allowed in Brazil.

iv Patent pooling
CADE has recognised that patent pools are often pro-competitive as they reduce transaction costs. In any event, patent pools may be subject to scrutiny under behavioural control (restrictions on stand-alone licences or exchange of sensitive information among pool members might be problematic) and under the merger control when a new legal entity is formed.

v Software and trademark licensing
There is no public investigation in Brazil related to software and trademark licensing practices (except for the case involving standard-essential patents discussed below).

IV STANDARD-ESSENTIAL PATENTS
i Dominance
In cases involving IPRs, CADE has adopted the same principles applicable to other forms of property, goods or services to define relevant markets.

In line with the experience in foreign jurisdictions, CADE usually defines the product and geographic markets involved. Concerning the product dimension, CADE defines a given set of substitutes integrating a market considering the reasonable interchangeability of use and the cross-price elasticity of demand. In turn, the geographic market depends on the disposition or ability of suppliers to serve customers and the disposition or ability of customers to purchase substitutes within given geographic limits.

While IPRs by their nature confer to holders the ability to exclude others, it is well established in Brazil that an IPR does not necessarily lead to the existence of market power. It is conceived, however, that an IPR might contribute in certain circumstances to the acquisition and maintenance of market power. Provided a product protected by an IPR is desirable enough and no viable alternatives can be developed without infringing the IPR, the existence of the IPR will then be an important element in the acquisition and maintenance of market power. For the benefit of clarity, it should be noted that the mere existence of market power is not unlawful in Brazil.

8 See Administrative Process No. 08012.003648/1998-05.
9 In a recent case, Commissioner Polyanna Vilanova noted that excessive pricing would only be a problem if it is part of larger anticompetitive conduct (see Administrative Process No. 08700.0000625/2014-08).
In the case of essential patents, CADE has indicated that the patent holder should be considered a monopolist.\(^{11}\)

### ii  Injunctions

In June 2015, CADE issued its first and only decision involving the use of injunctions to enforce essential patents.\(^{12}\) In reaching this decision, the Brazilian agency was writing on a blank slate; prior to this case, CADE had never investigated a complaint involving the use of injunctions to enforce essential patents, nor had any Brazilian court addressed the antitrust issues related to essential patent disputes.

CADE reassured essential patent holders that it will not rush to condemn actions seeking injunctive relief for infringement of those patents, but will consider both the evidence of holdup and holdout when examining the failure to reach a licence on FRAND terms. Furthermore, CADE has endorsed the view that essential patent holders are generally entitled to file lawsuits to enforce legitimate patents. It seems safe to conclude that only cases involving clear harm to competition without legitimate justification (e.g., a complete and unjustifiable refusal to license an essential patent to prevent entry or exclude a rival) are likely to be a concern. Antitrust intervention will be exceptional.

Given the language in the decision, it seems reasonable for essential patent holders to seek injunctive relief against unwilling infringers engaged in a holdout strategy. CADE noted that the lawsuits filed by Ericsson against TCL seemed reasonable given the lengthy period of unfruitful negotiations and the many similar licensing agreements entered by Ericsson with others throughout the industry. CADE recognised that Ericsson had been willing to offer a licence and to negotiate its terms, while it was TCL that appeared engaged in intentionally delaying such an agreement. It is possible to infer from this aspect of the decision that CADE sees injunctive relief as a proper remedy against ‘unwilling’ infringers, and recognised a right to exclude in such situations.

### iii  Licensing under FRAND terms

Language in the same decision involving TCL’s complaint against Ericsson indicates that an essential patent holder duty to provide a licence under FRAND terms will be subject to scrutiny in very narrow circumstances. If an essential patent holder is willing to negotiate a licence in good-faith, antitrust law will only intervene exceptionally, so that the terms and conditions of the licence are mostly seen as a merely private matter.

### iv  Anticompetitive or exclusionary royalties

CADE reaffirmed that Antitrust Law prevents monopolisation of a market and is not concerned with excessive pricing or royalties. CADE recognised the lack of an exclusionary practice where Ericsson was not a vertically integrated manufacturer of mobile devices in competition with TCL at the time the lawsuits were filed. Thus, Ericsson had no interest in excluding TCL from the market; Ericsson’s interests were in expanding sales of licensed devices. The decision seems to rule out the possibility of a stand-alone excessive royalty claim,  

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\(^{11}\) See Merger Review No. 08012.008810/2009-23.  
\(^{12}\) Preparatory Proceeding No. 08700.008409/2014-00. It should be noted that we represented Ericsson in this case. Any opinions and views expressed here are our own and do not represent our client’s position in the case.

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in which the practice is merely exploitative and not exclusionary. Therefore, CADE’s Ericsson decisions can be read as consistent with the view that antitrust law does not give a mandate to a competition authority to arbitrate reasonable royalties (or punish excessive royalties).

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

The transfer of IPRs may be subject to merger review under Articles 88 and 90, II, of Law 12,529. According to these provisions, the acquisition of control or part of a company through the acquisition of tangible and intangible assets has to be filed. Hence, if a hypothetical transfer of IPRs corresponds to the transfer of part of the business of a company, the transaction has to be notified (see Merger Review No. 08700.010731/2015-72).

Finally, if the transfer of an IPR does not meet the thresholds for previous notification, it may still be reviewed under the behavioural control. Transfer of IPRs are in principle legitimate, but may be held illegal if they cover a horizontal agreement to fix prices or restrain output, or result in market foreclosure or any anticompetitive effect not compensated by efficiencies.

The rules disciplining the notification of licensing agreements under the merger review system have been changing significantly over the past years. Before 2012, under the former Brazilian Competition Law, Law No. 8,884/94, licensing agreements were frequently subject to merger review. During the former regime, the main criterion applied by CADE to identify whether the licensing agreement should be notified was the existence of exclusivity clauses or clauses that entailed a cooperation in the exploration of the assets between the parties (see Merger Review No. 08012.008656/2006-47).

However, after the new Competition Law was enacted in 2011, the rules governing the notification of technology transfer and licensing agreements have changed. Articles 88 and 90, IV, of Law 12,529 establish that ‘associative agreements’ must be notified. The lack of further guidance on the meaning of ‘associative agreements’ has originated many discussions among practitioners and several questions about what type of contract to submit for review.

In 2014, CADE released Regulation No. 10 establishing which types of horizontal and vertical agreements should be considered ‘associative’ under Law 12,529. Under that regulation, some technology licensing agreements were notified and cleared by CADE. 13

13 According to Regulation No. 10/2014, an agreement that lasts two years or more is associative if: (1) parties are horizontally related with regard to the scope of the agreement and hold together 20 per cent or more of market share; or (2) the parties are vertically related with regard to the scope of the agreement, one of them holds 30 per cent or more of one of the relevant markets and the agreement establish the sharing of profits or losses, or there is exclusivity. Right after Regulation No. 10/2014 came into force, a technology transfer and licensing agreement between Monsanto and EMBRAPA was deemed notifiable, but the analysis was exclusively based on the turnover threshold and did not comprise a specific assessment of the thresholds established by the regulation (see Merger Review No. 08700.001226/2015-37). In more recent decisions, CADE started to more clearly apply the thresholds set by Regulation No. 10/2014. In a deal involving Monsanto and Syngenta, CADE held that the licensing agreement is vertical in nature and so limited the initial inquiry as to determine the need to file as to whether one of the parties held 30 per cent or more of the markets and was either exclusive or set the sharing of losses and profits (see Merger Review No. 08700.004282/2016-12 and 08700.011952/2015-68). In Merger Review No. 08700.006315/2016-51, 08700.005689/2016-59 and 08700.012599/2015-33, CADE analysed transactions involving non-exclusive licences granted by Warner Bros Home Entertainment related to video games software,
Seeking to further improve the regulation and adjust the thresholds for notification, CADE revoked Regulation No. 10 and released Regulation No. 17/2016. The new rules changed considerably the notification thresholds, establishing that a commercial agreement will be deemed associative if:

- it establishes a common venture to explore an economic activity;
- parties compete in the activity in the scope of the agreement; and
- parties share the risks and revenues of the economic activity.

Under the new thresholds, CADE analysed two recent cases of licensing agreements and held they did not meet the thresholds for notification. In Merger Review No. 08700.008484/2016-25 (Applicants: Aurobindo Pharma Limited and Medley Farmacêutica Ltda) a distribution, licence and supply agreement was submitted to CADE. This agreement established that Medley was authorised to sell in the Brazilian market three generic drugs produced by the Indian Aurobindo. In its analysis, CADE held that although the parties could be considered competitors in the market affected by the deal; there would be no sharing of risks and profits. In Consultation No. 08700.008419/2016-08 (Consultants: Warner Bros Home Entertainment Inc e EA Swiss Sàrl), the parties asked for CADE's opinion regarding a video game software licensing agreement, whereby Warner could replicate and sell certain video games created by EA Swiss. CADE held that parties were rivals in software development, but as the agreement was limited to hardware manufacturing (an activity where parties did not overlap), the agreement was not notifiable. In addition, CADE stated that the agreement did not establish a common venture to explore economic activity or sharing of risks and results. CADE sustained that agreement’s remuneration was static, predetermined by the parties and did not change their independence.

Thus, the question as to whether a licensing agreement should be notified in Brazil is fact-specific and demands a careful assessment to determine the need to file.

Finally, we should note that mergers involving IPRs will be assessed under the same standards used to analyse mergers that do not involve IPRs. In line with international practice, CADE will analyse whether the merger increases the likelihood of exercise of market power (either by increase in prices or decrease in product quality or innovation), considering both unilateral and coordinated effects.

In conducting this assessment, CADE usually proceeds by defining relevant markets and respective market shares pre- and post-merger, barriers to entry and the current conditions of rivalry among players. A transaction may result in unilateral effects if the loss of head-to-head competition between the merging parties is not counterweighed by the possible entry of new players or by the rivalry presented by established players. Coordinated effects may be observed if the merger creates or enhances the likelihood of coordination between the remaining players in the marketplace. If this assessment leads to the conclusion that the exercise of market power is likely, CADE will consider whether the efficiencies generated by the merger may compensate these issues, balancing anticompetitive and pro-competitive effects.

Similar concerns guide the analysis of mergers involving IPRs. In this context, CADE might be particularly concerned with possible exclusionary effects generated by the IPRs and
how they affect the possibility of entry and the ability of rivals to effectively compete. For instance, patents over a product or components may raise the barriers of entry by requiring the research and development of a substitute designed around the patent. Patents may also originate concerns if a vertically integrated player holds patents for a given component necessary for the production of a downstream product. By its turn, trademarks may reinforce a market position and lessen the degree of rivalry manifested by competitors increasing the identification and loyalty to a given brand.

The singular dynamics of innovation markets may also be taken into account. Incentives to design around IPRs may play an important role in the analysis and high market shares might be a relative concern once shorter innovation cycles may indicate the lack of basis for stronger antitrust intervention.

ii Remedies involving divestitures of intellectual property

According to Brazilian Competition Law, if CADE considers that a merger gives rise to competitive concerns, the transaction should be blocked or remedies should be imposed. The remedies may be both behavioural and structural and are usually negotiated in the context of the merger review settlement (ACC).

Applicants are eligible to submit settlement proposals from the moment of the filing until 30 days after the Superintendency submits the case to the Tribunal. In this sense, negotiations of a potential settlement may start at the Superintendency or only take place at the Tribunal, if the parties decide to wait for the Superintendency decision and submit the settlement directly to the Tribunal. In any event, the Tribunal will issue the final decision on the settlement proposal, deciding whether it is accepted or rejected.

The structural remedies may involve divestiture measures that aim at safeguarding competition in the market after the merger through the development of a new player. In the past years, assets divested included intangible and tangible assets, namely brands, industrial plants and distribution assets.

A settlement negotiation is frequently a one shot game, meaning that if negotiations fail there aren’t other opportunities to restart negotiations. Negotiations take place at CADE and normally last a very short period of time (20 to 60 days). Actually, parties should be prepared to dedicate a lot of time and effort during negotiations and be ready to make decisions quickly.

The structural remedies involve divestiture measures that aim to safeguard competition in the market after the merger through the development of a new player. In past years, assets divested included intangible and tangible assets, namely brands, industrial plants and distribution assets.

Generally, assets must be divested to a third party that is capable of carrying on with the divested business but, at the same time, is unrelated to the groups involved in the merger and has a market share lower than 20 per cent.

Recently, CADE negotiated ACCs that established the divestiture of intangible assets as structural remedies, such as the Merger Review No. 08700.008607/2014-66 (GSK-Novartis).

VI OTHER ABUSES

i Sham or vexatious IP litigation

In 2015, CADE issued the decision in the leading case involving sham litigation in Brazil: the Eli Lilly case (Administrative Process No. 08012.011508/2007-91).
Based on US precedents, CADE established in this case parameters and tests to be applied in sham litigation cases:

- **PRE test**: Based on *Professional Real Estate Investors v Columbia Pictures* (US Supreme Court precedent), a baseless lawsuit under the PRE Test will be held unlawful if it has the potential to result in anticompetitive effects;
- **POSCO test**: Based on *USS-Posco v. Costa Building* (US 9th Circuit precedent), a series of lawsuits involving baseless and unreasonable claims against rivals aiming at increasing their costs will be held unlawful;
- **Fraud litigation**: Based on *California Transport v Trucking Unlimited* and *Walker Process Equipment v. Food Machinery and Chemical Corp*, a lawsuit or claim based on false information or misrepresentation will be held unlawful; and
- **Anticompetitive settlements**: Settlements in lawsuits aiming to affect competition may also be unlawful (i.e., reverse payments/pay-for-delay cases).

In the Administrative Process No. 08012.011508/2007-91, Eli Lilly was fined for allegedly having practised the following: (1) patent filing for a component it was aware could not be patented; (2) the attempt to broaden the initial scope of the patent filing after the Brazilian PTO’s negative decision; (3) contradictory claims before the Brazilian PTO and the courts; (4) a request for exclusive market rights after the five-year period since the drug commercialisation approval; and (5) repeated lawsuits before the Federal Courts of Rio de Janeiro and the Federal District.

Recently, CADE’s General Superintendency issued an opinion recommending that an investigation on sham litigation against another pharmaceutical company should be closed. The firm was accused of filling abusive lawsuits in order to protect the data package of a medicine. Applying the tests established in the *Eli Lilly* case, the General Superintendency found that the lawsuits did not constitute a sham litigation strategy under the PRE, POSCO and fraud litigation/misrepresentation tests, nor any kind of misuse of IP rights, stating that the firm merely presented to the courts a legitimate dispute of legal interpretation regarding the protection of data packages in Brazil.

### Misuse of the patent process

In principle, the mere obtainment or accumulation of IPRs is not in and of itself unlawful. Nevertheless, procuring an IPR at the Brazilian Patent and Trademarks Office may be held anticompetitive conduct if there is fraud or misleading representation and the enforcement of this IPR led to anticompetitive effects.15

It is possible to identify in CADE’s previous decisions some language referring to the possibility of a finding of unlawful conduct provided IPRs are accumulated but are not effectively explored. In these cases, referred to as ‘sleeping patents’, the obtainment of the IPR would allegedly serve merely to prevent the entry of new players and not as a way to reward incentives and foster further development. It is important to note, however, that

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14 See Administrative Process No. 08012.006377/2010-25 (*Pró-Genericos v. Lundbeck*). It should be noted that we represent Lundbeck in this case. Any opinions and views expressed here are our own and do not represent our client’s position in the case.

such practice has never been condemned in Brazil and only referred to as *dicta* in cases dealing with different practices (see Preliminary Investigation No. 08012.005727/2006-50 and Administrative Process No. 08012.002673/2007-51).

In the *Eli Lilly* case cited before, CADE found that the component under analysis was already in the public domain when the firm submitted its patent application. Even after the Brazilian PTO had repeatedly rejected the patent application, the company pursued judicial claims to discuss it. The key issue is that Eli Lilly was fully aware that the patent it was trying to file could not be granted because: (1) at the time the patent request was submitted, the Brazilian law did not allow patents over drugs in general; and (2) Eli Lilly did not try to use the TRIPS pipeline provisions at the appropriate time.

Furthermore, CADE understood that Eli Lilly deliberately modified the claims of its initial patent application after the INPI issued a decision denying the patent request, altering the scope of the applied patent. CADE’s General Superintendency found that this alteration on claims after the authority had already examined the merits of the filing could have anticompetitive effects because broader claims encompassing other inventive products that had not been initially covered were included.

Therefore, CADE is attentive to the fact that the misuse of patent rights may help constituting illegitimate monopoly.

### iii Anticompetitive settlements of IP disputes

Neither CADE nor the courts have reviewed patent settlements under an antitrust framework. Despite the lack of relevant precedents to be considered, it is possible to identify a few instances where settlements may be problematic.

The Brazilian legal system generally incentivises the settlement of disputes. Notwithstanding, it should be conceded that patent settlements might eventually violate the Brazilian Competition Law in certain circumstances. Clearly, a settlement between actual or potential competitors where there is no real dispute (the litigation is a ‘sham’) may be considered anticompetitive if it involves competitive variables. Similarly, if the settlement includes a provision that is outside the scope of the dispute and has anticompetitive effects (i.e., market division or output restriction), it is also likely that the settlement will be considered an antitrust violation.

Other hypotheses are certainly less clear and should be subject to a careful and tailored assessment. For instance, where the settlement generally represents a reasonable business decision based on the uncertainty of patent litigation, but also comprises provisions that potentially diminish or eliminate competition (i.e., an exclusive licensing arrangement), the settlement might be considered unlawful. Even more difficult situations may arise in settlements involving the entry of new players such as pay-for-delay or reverse settlements. These types of settlement have not been the subject of cases in Brazil yet, but may generate important discussions soon.

### VII OUTLOOK AND CONCLUSIONS

The past years have been particularly relevant for the analysis of the intersection of IP and antitrust. Investigations have become more sophisticated, and enforcers have been increasingly interested in learning and exploring this relevant area.

The case involving the enforcement of essential patents cited in Section IV is an important precedent and sets the parameters for future cases involving essential patents. It
was the first time that CADE issued a decision on this topic – before, there was a lot of uncertainty and it was difficult to predict how the agency would rule. With the decision, companies now have more clarity over the enforcement of essential patents in Brazil from an antitrust perspective.

Notwithstanding, it remains to be seen how CADE will treat cases involving either direct competitors or claims of *ex ante*, pre-standardisation deceptive conduct, where an exclusionary intent can be found, or cases where the implementer’s ‘holdout’ strategy is less clear than in TCL's case. Even in such closer cases, however, CADE will need to carefully balance the rights of essential patent holders and the needs of implementers to access those patents to practise the standard so as to guarantee that innovation will thrive and consumers will benefit.

Furthermore, the case described in Section II involving design rights over automobile spare parts is a landmark decision. Rejecting a more interventionist view that had been prevailing in staff reports, the final administrative decision from CADE’s Tribunal seems to strike an appropriate balance of IPRs and competition policy. Holding that the mere enforcement of lawfully obtained IPRs against infringers should not be subject to competition scrutiny, CADE acknowledged it was not entitled to review and reverse the IP policy. Therefore, the decision avoids a dangerous overreach of competition policy while also maintaining CADE’s ability to review conduct in opposition to, or not expressly permitted by, the IP statutes.

These two cases are a testament to CADE’s ability to deal with complex matters and appropriately balance the advantages of static competition with a well-defined IP Policy able to foster innovation. As CADE repeatedly proclaims its intent to increase the number of investigations over single-firm conducts, we may see a growing number of discussions in this same sphere.
Chapter 3

CHINA

Zhaoqi Cen

I INTRODUCTION

Stimulating innovation through protecting intellectual property rights (IPRs) and safeguarding competition through implementing antitrust law are both important policies for the development of a modern economy. Overall, both policies share common goals, namely to promote competition and innovation, improve economic efficiency and safeguard the interests of consumers and the public. However, the paths to achieve these goals are different. The protection of IPRs requires the protection of exclusive rights of IPR holders to encourage innovation, promote industrial upgrading and enhance consumer welfare and social efficiency. On the other hand, antitrust calls for a clear-cut objection against monopolistic behaviour to protect competition, including competition among different technologies, to promote technological progress and to protect consumer interests and social welfare.

Merely holding IPRs and legitimately exercising them would not violate antitrust law by themselves. However, the exercise of IPRs may, under certain circumstances, trump technological innovation and the fair competition environment, and may even result in unfavourable consequences for competition. It would not only defeat the basic purpose of the IPR system to encourage innovation, but also raise the concern of IPR abuse, which excludes and restrains competition.

As with many other jurisdictions, the interaction between antitrust and IPR has been noted and addressed by Chinese legislation. The Anti-Monopoly Law (AML) enacted in 2008, the main legislation regulating antitrust violations in China, also sets out broadly in Article 55 that ‘this Law is applicable to undertakings’ conduct that eliminates or restricts market competition by abusing their IPRs’. In other words, the rules set forth in the AML regarding reaching monopoly agreements, abuses of dominant market position and merger control also apply in the IP field. In practice, AML enforcement authorities promulgate related regulations and guidelines, and the Supreme People’s Court issues judicial interpretations, on specific issues in application of the AML. These regulations, guidelines and judicial interpretations constitute part of the antitrust law regime in China. This chapter focuses on the latest interdisciplinary developments of intellectual property (IP) law and antitrust law in China during 2017 and early 2018.
II YEAR IN REVIEW

i Consolidation of three antitrust enforcement agencies into one

On 17 March 2018, China’s National People’s Congress passed legislation to consolidate three existing antitrust law enforcement bodies into a new regulator under the State Council. This marked the most significant institutional reform since the AML came into force 10 years ago. Currently, the power to enforce the AML is shared by the National Development and Reform Commission (NDRC), the Ministry of Commerce of the People’s Republic of China (MOFCOM) and the State Administration for Industry and Commerce (SAIC). The NDRC is responsible for regulating pricing behaviour, and it shoulders the responsibility of investigating into and bringing enforcement actions against price-related violations of the AML. The MOFCOM is in charge of merger control, and the SAIC is responsible for other non-price-related violations of the AML. After the consolidation, the functions performed by these three agencies will be taken up by the State Administration for Market Regulation (SAMR), a newly established agency that also combines the SAIC, the General Administration of Quality Supervision Inspection and Quarantine (AQSIQ) and the China Food and Drug Administration (CFDA). It can be foreseen that the establishment of a unified AML enforcement agency will improve the efficiency and stability of AML enforcement, and resolve the inconsistency in the interpretation of the AML by different agencies, thereby further reducing administrative enforcement costs and compliance costs incurred by business entities. Meanwhile, an increasing number of antitrust investigations can be anticipated after the consolidation, because the SAMR will be equipped with more resources and staffed by more experienced officials.

ii Legislative development in IP and antitrust fields

Anti-Monopoly Law revision

In the past year, the AML was set to be amended for the first time in order to supplement the current law and to clarify certain areas that have caused confusions in enforcement. The main breakthrough in this revision is to establish competition policy as the foundation of AML and to legalise the fair competition review system, so as to curb the administrative monopoly behavior from its origin. Currently the amendments are still subject to additional research and discussion.

The MOFCOM’s ‘Measures for the Review of Concentrations of Undertakings’

In addition to the AML revision, another important development is the revised ‘Measures for the Review of Concentrations of Undertakings’ released by the MOFCOM for public comments (the Draft Measures). The Draft Measures provide in six chapters the criteria to determine the concentration of undertakings, methods to calculate the turnover, notification of concentration, review of concentration, etc. The Draft Measures specify that a business operator should notify the MOFCOM of concentration after an agreement is reached for this purpose but before parties start to perform. The party making such notification may offer proposals to the MOFCOM subjecting itself to a conditional approval for concentration. There are three categories of restrictive conditions: structural conditions involving divesting tangible assets and intangible assets such as intellectual property rights, behavioural conditions and comprehensive conditions. Once adopted, the new measures are expected to replace previous regulations concerning the review of concentration of undertakings and will be the main guidance on concentration of undertaking review.
The NDRC’s drug pricing guidelines

On 16 November 2017, the NDRC studied and formulated the Pricing Behaviour of Operators Dealing in Drugs and Active Pharmaceutical Ingredients in Short Supply (the Drug Pricing Guidelines) to further regulate the market pricing of drugs and active pharmaceutical ingredients in short supply in order to maintain market price order. These are the first pricing guidelines for this specific industry since the implementation of the AML. The Drug Pricing Guidelines point out the probable unlawful price risks to operators in the course of production and sales of drugs and active pharmaceutical ingredients in short supply, and provides instructions for the evaluation of the legitimacy of different pricing behaviours of operators. According to the Drug Pricing Guidelines, a dominant business operator will be punished for trading at an unfairly high or low price and for refusal to deal. Operators are also prohibited from forming any monopolistic agreements. The Drug Pricing Guidelines also provide that in the enforcement, the authority shall strictly follow the ‘prohibition + exemption’ principles when handling monopolistic price agreement cases. The operators who apply for the exemption under Article 15 of the AML shall prove that the agreements reached fall within the circumstances set forth in Article 15, Paragraph 1 of the AML. The NDRC routinely pays attention to drug prices, especially the high prices of patent drugs. After the publication of the Drug Pricing Guidelines, pharmaceutical companies will be further challenged by stricter scrutiny for excessive pricing and refusal to deal.

iii Major cases and investigations in 2017

IWNCOMM v. Sony

On 28 March 2018, the Beijing High People’s Court issued the final decision on the second instance case between Xi’an Xi Dian Jie Tong Radio Network Co (IWNCOMM) and Sony Mobile Communications (China) Co, Ltd (Sony). The decision rejected Sony’s appeal and upheld the judgment of the first instance made by Beijing Intellectual Property Court, which ordered Sony to immediately cease the infringement of IWNCOMM’s SEP found in 35 of Sony’s mobile handsets, and to pay damages of 8.6 million yuan and reasonable costs of 474,194 yuan.

Following the Beijing Intellectual Property Court’s adjudication, Sony appealed to the Beijing High People’s Court, which identified the following four issues in the second instance: (1) whether the relevant standards (GB15629.11-2003/XG1-2006) fully covered all the patent claims involved; (2) whether Sony’s actions infringed IWNCOMM’s patent rights involved in the case; (3) whether Sony’s defences were meritorious; and (4) Sony’s civil liability for the infringement. Beijing High People’s Court upheld the permanent injunction against Sony and the lower court’s calculation of damages. On the second instance, the Beijing High People’s Court held that although parts of Sony’s arguments stood, they did not substantially affect the verdict of the case.

This case is of significance regarding the manner in which SEP-related litigation is handled. Article 24 of the Supreme People’s Court’s 2016 Interpretation recognises injunctive relief in SEP litigation, and in IWNCOMM v. Sony, the Beijing High People’s Court held that a permanent injunction is available against an accused infringer if it is seriously at fault during negotiations.
**Hytera v. Motorola**

On 11 November 2017, Motorola Systems (China) Investment Co, Ltd, Motorola Systems (China) Co, Ltd, and Motorola Systems (China) Co, Ltd Beijing Branch (Motorola) were sued by China-based Hytera Communications Co, Ltd (Hytera) for abuse of dominant position in certain specific markets. There were three main points to be determined in this case, namely whether: (1) Motorola had a dominant position in the metro network communications market; (2) Motorola refused to open up its interoperability interface of the completed subway TETRA system with other product operators or provide other alternative solutions that had the same effect; and (3) Motorola restricted the metro company to deal only with Motorola or its designated suppliers. In its claim, Hytera petitioned for 60 million yuan in damages and 500,000 yuan for reasonable expenses.

Motorola is the world’s largest network communications systems provider. As the world’s second-largest and fastest-growing network communications company, Hytera is the most powerful challenger. Although this case is still pending, the final decision will definitely affect the chances for Chinese domestic subway communication equipment manufacturers to enter the relevant market, as well as the localisation of the corresponding relevant market products or accessories.

**Huawei v. Samsung**

On 11 January 2018, Shenzhen Intermediate People’s Court finally ruled in favour of Huawei against Samsung over two standard-essential patents (SEPs) owned by Huawei. The court held that Samsung deliberately delayed the negotiation with Huawei and was obviously in violation of the FRAND (fair, reasonable and non-discriminatory) principle regarding the SEP licence. The court ordered Samsung to immediately stop manufacturing and selling its infringing products and to pay a small amount of court fees.

The court considered two main issues in this case. The first issue was whether the two patents owned by Huawei were essential patents to the 4G standard, and the other issue was which party breached its FRAND obligation in the negotiation phase. As to the first issue, the court found that both patents (No. 201110269715.3 and No. 201010137731.2) owned by Huawei were essential to the 4G/LTE standard. Samsung used these two patents to manufacture and sell the corresponding 4G intelligent terminal products in China without Huawei’s permission, and thus infringed Huawei’s patent rights. For the second issue, the court found that Huawei acted in good faith to solve the cross-licence issue between the two parties. But Samsung maliciously delayed the negotiations and refused to arbitrate. Samsung’s conduct constituted a violation of the FRAND principle commonly accepted in SEP licensing. On the other hand, the court held that Huawei made no obvious breach of the FRAND principle as it made conscious efforts to resolve the conflict through negotiation and arbitration. Although the judgment may not be final for this case, it is significant for the equal protection of the IPRs and interests of IPR owners by providing further guidance for, and clarification on, SEP disputes.

**The NDRC fines two pharmaceutical companies 443,900 yuan for abuse of dominance**

On 28 July 2017, the NDRC fined two pharmaceutical companies, Zhejiang Second Pharma Co, Ltd and Tianjin Handewei Pharmaceutical Co, Ltd, for alleged abuse of dominance in relation to isoniazid active pharmaceutical ingredients (APIs). The two companies were fined a total of 443,900 yuan for charging unfairly high prices for APIs and refusal to deal with drug manufacturers. According to the NDRC, the two companies have resumed pricing
at normal levels and supplying to drug manufacturers. In recent years, the pharmaceutical industry has been under intense focus from China’s antitrust enforcement authorities. These two cases were of guiding significance for regulating pricing behaviour in the API market and for maintaining a well organised market price environment.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Exclusive transaction

The AML provides in general terms that restricting trading counterparties to trading only with the operator with dominant market position, or its designated operator, without justifiable reasons constitutes an abuse of dominant market position. Provisions on the Prohibition of the Abuse of Intellectual Property Rights to Eliminate or Restrict Competition released by the SAIC (SAIC Regulations) also provide in Article 8 that when exercising IPRs, undertakings with a dominant market position are prohibited from requiring trading counterparties to make transactions exclusively with themselves or with the undertakings designated by them without justifiable reasons if the transactions exclude or restrict competition.

According to Article 11 of the draft Anti-Monopoly Guidelines on the Abuse of Intellectual Property Rights (the IP Guidelines) released in early 2017, restricting undertakings from using or providing competitive technologies or products in licensing of IPRs may be considered infringement of the AML if it results in the exclusion of competition or has a restrictive effect on the relevant market. Article 17 of the IP Guidelines stipulates that forcing transaction counterparties to trade with third parties, or prohibiting them from doing so, or restricting the conditions for transaction counterparties to trade with third parties may also be considered an infringement of the AML if it causes a negative impact on competition.

Tying

The SAIC Regulations stipulate that when exercising IPRs, undertakings with a dominant market position are prohibited from tying that is inconsistent with trade practices or consumption habits, or ignores the product function and enables the extension of the undertaking’s dominant position in the tying product market to the tied product market. The extension of market dominance does not require that both tying and tied products have market dominance, but IP holders may utilise their dominance in the tying market to exclude or restrict competition in tied products.

Article 16 of the IP Guidelines is consistent with the SAIC Regulations, and it clearly states that a package of IPR licences may also be a form of tying. The factors generally considered in the analysis of tying involving other products shall also be considered in analysing whether tying involving IPRs constitutes an abuse of a dominant market position.

In the Qualcomm case, the NDRC determined that Qualcomm conducted tying of SEPs and non-SEPs. The NDRC held that non-SEPs and SEPs are different and that licensing them separately would not interfere with the application or value of them. Qualcomm’s method of ‘settling a single licence fee and licensing as a single portfolio’ constituted extension of its market dominance in the SEP market to the non-SEP market without justification.

2 Article 9 of the SAIC Regulations.
Restricting use of competing products or IPRs after expiry of the licence

According to the SAIC Regulations, when exercising IPRs, undertakings with a dominant market position are prohibited from restricting trading counterparties from utilising competing products or technologies upon the expiry of licensing agreements, even in the event of non-infringement of IPRs.³

Article 17 of the IP Guidelines also prohibits undertakings with a dominant market position from attaching to transactions conditions that restrict transaction counterparties from claiming over expired or invalid IPRs, and the factors generally considered in analysing the attachment of unreasonable conditions shall also be considered when analysing whether such behaviour by undertakings constitutes an abuse of a dominant market position.⁴

ii Refusals to license

To comply with the SAIC Regulations, when exercising IPRs, undertakings with a dominant market position are prohibited from refusing to license the IPRs if the IPRs constitute essential facilities for production and business activities.⁵ The SAIC Regulations also provide three factors to identify IPRs that might constitute essential facilities: the availability of a reasonable substitute, the adverse impact of refusal on competition or innovation, and unreasonable harm caused to IPR holders.

The IP Guidelines confirm in Article 15 that refusal to license IPRs is a way an undertaking exercises IPRs. However, if an undertaking that has a dominant market position unjustifiably refuses to license IPRs, especially when its IPRs constitute essential facilities of production and operating activities, such behaviour may constitute an abuse of a dominant market position to exclude or restrict competition. To make the determination, the following factors may be considered: (1) the commitments made by the undertaking as to the licensing of intellectual property rights; (2) whether it is necessary for other undertakings to obtain the licensing of the intellectual property rights for entry into the relevant market; (3) the impact of refusal to license intellectual property rights and degree thereof on innovation by the undertaking; (4) whether the refused party lacks willingness and capability to pay reasonable licence fees; and (5) whether the refusal to license intellectual property rights will damage the interests of consumers or the public.⁶

iii Unfair and discriminatory licensing

Unfairly high pricing

Generally speaking, according to Article 11 of the Provisions on Anti-Price Monopoly, to determine whether a price shall be deemed an ‘unfairly high price’, the following factors shall be considered: (1) whether the selling price of a commodity is remarkably higher than the same kind of commodity offered by other undertakings; (2) whether the increase in sale price of a commodity exceeds the normal range; (3) whether the increase in sale price of a commodity remarkably exceeds the increase of its costs; and (4) any other relevant factor to be considered.

³ Article 10.3 of the SAIC Regulations.
⁴ Article 17 of the IP Guidelines.
⁵ Article 7 of the SAIC Regulations.
⁶ Article 15 of the IP Guidelines.
However, it is difficult to apply the four-factor test to determine an unfairly high price. In practice, one of the possible approaches might be to compare the price in question with those that other undertakings charge to other trading counterparties under the same conditions. If the price in question is significantly higher than prices of other undertakings, it may be determined as unfairly high.

To give more clarification to this problem, Article 14 of the IP Guidelines provides that when analysing whether an undertaking has licensed IPRs at an unfairly high price, the calculation method for licensing fees, the contribution made by IPRs to the value of goods, the commitments made by the undertaking as to the licensing of IPRs and the record of previous licensing of IPRs need to be considered by enforcement agencies. With regard to SEPs, the overall licence fees borne by the products in line with the relevant standard and the impact on the normal development of related industries may also be considered.7

The Drug Pricing Guidelines give more explanation regarding the pharmaceutical industry. Article 8 provides that to identify an ‘unfairly high price’ and an ‘unfairly low price’ set by drugs operators, the following factors may be considered: (1) whether the sales price or purchase price is apparently higher or lower than the prices of other operators that sell or purchase the same drugs and active pharmaceutical ingredients in short supply in the same period; (2) in the condition of a stable market environment and no apparent influence on costs, whether the sales price or purchase price is increased or decreased beyond the normal range; (3) whether the increase in the sales price of drugs and active pharmaceutical ingredients in short supply is obviously higher than the growth in costs, or the decrease in the purchase price of drugs and active pharmaceutical ingredients in short supply is obviously higher than the costs of the transaction counterpart; and (4) whether there is an excessive price difference upon price comparison of the same regional market and in different time segments, or of different regional markets in the same time segment.

In Huawei v. InterDigital, the court compared the royalty rate InterDigital offered to Huawei with those InterDigital offered to other companies (Apple, Samsung, RIM, etc.) and found that the former was dramatically higher than the latter (the royalty rate for Huawei was 19 times the rate for Apple, and seven to nine times that for Samsung and RIM). The court ruled that the royalty rate for Huawei constituted an unfairly high price.

In the Qualcomm case, the NDRC determined that Qualcomm charged unfairly high royalties because it charged for expired patents, required royalty-free grant backs, tied SEPs and non-SEPs, and based its royalties on the net sales price of the entire device as opposed to a percentage of the price of a smaller component part.

### Differentiating treatment of trading counterparties with similar conditions

Article 18 of the IP Guidelines defines how, in transactions involving IPRs, undertakings with a dominant market position may impose, without justifiable reasons, different licensing conditions on transaction counterparties with substantially identical conditions, thus constituting discriminatory treatment. It also explains how to analyse such behaviour, including the transaction counterparties’ conditions, the terms of the licensing agreement and the discriminatory treatment.8

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7 Article 14 of the IP Guidelines.
8 Article 18 of the IP Guidelines.
Grant back
Notably, grant back is covered in the Chinese AML Guidelines for the first time. According to Article 8 of the IP Guidelines, grant back is where the licensee agrees to grant the original licensor a licence for any improvement based on the licensed IPRs or on new outcomes obtained through application of the licensed IPRs. If only the licensor or a third party designated by it is entitled to implement the improvement or new outcomes granted back by the licensee, the grant back is exclusive. Generally, there is a high probability that an exclusive grant-back arrangement will have the effect of excluding or restricting competition in the relevant market.

Similarly, if the licensor requires the licensee to transfer the above-mentioned improvement or new outcomes to the licensor or a third party designated by it, the same factors mentioned above shall be taken into account in the analysis of whether this behaviour has the effect of excluding or restricting competition.

Prohibiting challenges on the validity of IPRs
Prohibiting challenges on the validity of IPRs is also regulated in the IP Guidelines. Article 10 of the IP Guidelines provides that a 'no-challenge clause' refers to a clause in an agreement concerning the licensing of IPRs whereby the licensor requires the licensee not to raise challenges to the validity of the licensor's IPRs. The following factors may be considered in the analysis of the competition exclusion or restriction effect of a no-challenge clause on the relevant market: (1) whether the licensor requires all licensees not to challenge the validity of its IPRs; (2) whether the licensing of IPRs affected by the no-challenge clause is paid licensing; (3) whether the IPRs affected by the no-challenge clause may constitute a downstream market entry barrier; (4) whether the IPRs affected by the no-challenge clause obstruct the implementation of other competitive IPRs; (5) whether the licensing of IPRs affected by the no-challenge clause is exclusive licensing; and (6) whether the licensee may suffer material losses if it challenges the validity of the intellectual property rights of the licensor.9

Continuing to exercise IPRs whose protection period has expired or IPRs that are found to be invalid
According to the IP Guidelines, Article 17 prohibits undertakings with a dominant market position from attaching to transactions conditions that restrict transaction counterparties from claiming over expired or invalid IPRs. The enforcement practice is also consistent with this standpoint. In the Qualcomm case, the NDRC found that while patents would inevitably expire over time, because the list of patents included in the licence was not disclosed, the licensees were unable to assess the changes in fair market value of the licence at a given time. The NDRC held that it was unreasonable for Qualcomm to charge royalties for expired patents and that Qualcomm should give the licensees fair opportunities to negotiate to avoid paying royalties for expired patents.

Cross-licensing
The IP Guidelines define cross-licensing as the mutual licensing between undertakings of their own IPRs. Moreover, the following factors may be considered in the analysis of the
exclusionary or restrictive effect of cross-licensing on competition in the relevant market: (1) whether the cross-licensing is exclusive licensing; (2) whether the cross-licensing constitutes a barrier to entry into the relevant market for third parties; and (3) whether the cross-licensing excludes or restricts competition in the relevant downstream market.

In *Huawei v. InterDigital*, the courts noted that InterDigital required Huawei to license back all of its global patents on a royalty-free basis (as of 31 December 2010, Huawei owned 31,869 Chinese patents, 8,892 PCT international patent applications and 8,279 overseas patents). This appeared to be much harsher than a grant-back requirement, and the courts took the view that this was contrary to the FRAND principles.

iv Patent pooling
The SAIC Regulations define patent pooling in the context of China’s antitrust regime as ‘agreement-based arrangements under which two or more patentees jointly license their respective patents to third parties through an equity joint venture established specifically for this purpose, or by entrusting management to a particular member of the patent pool or an independent third party’.

The IP Guidelines hold the view that a patent pool can generally reduce transaction costs, improve licensing efficiency, and promote competition. However, a patent pool may also exclude or restrict competition. The IP Guidelines enumerate several factors that may be considered in the specific analysis of a patent pool, including the undertakings’ share in the relevant market and their control over the market; whether the patents in a patent pool involve substitutable technologies; whether members of the pool are restricted from independently licensing patents or researching and developing technologies out of the pool; whether undertakings exchange prices, output and other information on goods through the pool; whether undertakings reject substitutable technologies through the pool, to prevent other undertakings from entering the relevant market and so on.

IV STANDARD-ESSENTIAL PATENTS

i Dominance
The SAIC Regulations confirm that determination of a dominant market position shall follow the rules in the AML, and they specifically clarify that undertakings would not be presumed to have a dominant market position in the relevant market merely because of the ownership of IPRs.

In combination with the characteristics of IPR, the IP Guidelines specify that the following factors may be considered: (1) the possibility of transaction counterparties switching to alternative intellectual property rights or goods and the switching costs; (2) the dependency of the downstream market on the products provided by applying intellectual property rights; and (3) the capability of the transaction counterparty to restrict and balance the undertaking.

To identify whether an undertaking that owns a SEP has a dominant market position, the following factors may be further considered: (1) the market value and the scope and degree of application of the standard; (2) whether there exists a substitutable standard, including the possibility to use a substitutable standard and the switching cost; (3) the

10 Article 12 of the SAIC Regulations.
dependency of the industry on the relevant standard; (4) the evolution and compatibility of the relevant standard; and (5) the possibility of substitution of the related technology that has been incorporated into the standard.

In the Qualcomm case, the NDRC found that Qualcomm had dominant market positions in a set of separate relevant product markets for the licensing of each wireless SEP held by it. When determining market position, the NDRC mainly focused on factors including Qualcomm’s market share in each separate wireless SEP licence market, Qualcomm’s control over the relevant market, downstream customers’ reliance on Qualcomm’s technology and barriers to enter the relevant market.

ii Injunctions

The issue of whether holders of SEPs may seek injunctions has been heavily discussed in recent years. According to Article 24 of the Interpretations of the Supreme People’s Court on Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II) (the Interpretation), as to those patents that have been disclosed as essential for the implementation of recommended national, industrial or local standards, the court shall not, in general, uphold injunctions sought by holders of such patents encumbered with FRAND commitments when: (1) the patentee intentionally violated the FRAND obligations when negotiating with the accused infringer for licensing terms such that no agreement was reached; and (2) the accused infringer was patently not at fault during the negotiations.

Guidelines of the High People’s Court of Beijing Municipality for Judging Patent Infringements (the Patent Infringement Guidelines) released on 20 April 2017 further elaborate on the point that where there is no evidence that the patentee wilfully violates its obligation for licensing on FRAND terms, where the accused party has no apparent fault in negotiation of licence, if the accused party provides the royalty claimed in a timely manner or a guarantee that is not less than its alleged royalty, the court should generally refuse the patentee’s request for ceasing infringement. Where the patentee has not fulfilled its obligation for licensing on FRAND terms, and the accused party has serious fault in the negotiation, a people’s court shall determine whether the patentee’s request for ceasing infringement of a standard-essential patent should be supported, after analysing the degree of fault between the parties and assessment of which party is primarily responsible for the breakdown of the negotiation.

In the IWNCOMM v. Sony case, the Beijing High People’s Court followed the Patent Infringement Guidelines and granted IWNCOMM an injunction against Sony on the ground that Sony had wilfully delayed the negotiation for approximately six years. Specifically, the court reasoned as follows:

A SEPs holder who has made a FRAND commitment shall perform relevant obligations under the statement, and an infringer who requests a patentee to grant permission on a FRAND basis shall also negotiate in good faith. When determining which party is responsible for the deadlock of the negotiations, the court shall take into account the negotiation process and substantive licensing conditions. An injunction request should be denied where a SEPs owner intentionally violates FRAND obligations that result in the breakdown of the negotiation, but not the alleged infringer. Conversely, when the patentee acts in good faith and the accused infringer has apparent fault in the negotiation, the injunction claim of the patentee should generally be supported. If both parties have a certain degree of fault, the court should assess which party bears the main responsibility, and should then determine whether to grant injunctive relief.
In *Huawei v. Samsung*, the court held that Huawei and Samsung had been negotiating for over six years since July 2011. Huawei proposed its offer under the FRAND principle and did not have apparent fault in the negotiation process. But Samsung committed obvious violations of its FRAND obligations in both procedure and substance. Therefore, the court elected to grant a SEP injunction against Samsung’s future infringement.

However, it should also be noted that abuse of injunctions may constitute an abuse of dominant market position and a violation of the AML. The IP Guidelines state that

> injunctive reliefs are remedies to which the standard-essential patent owners are entitled according to law to safeguard their legitimate rights. However, if the standard essential patent owners of a dominant position apply for injunctive reliefs for the purpose of forcing the licensee to accept unfairly high license fee or other unreasonable licensing conditions, it may eliminate or restrict competition.

Article 28 of the seventh draft of Anti-monopoly Enforcement Guidelines on Abuse of Intellectual Property Rights released by the SAIC (the SAIC Draft Guidelines) also provides that ‘The following acts carried out in the process of standards setting and implementation by business operators with dominant market position will eliminate or restrict competition: . . . (4) After their patent becomes an essential patent for a standard, force the licensees to accept various unreasonable terms raised by them by abusing injunctive relief or right of action’.

In *Huawei v. IDC*, the court held that in the negotiation process, IDC initiated a suit and sought injunction against Huawei in the United States, which did not constitute refusal to deal in nature, but it constituted a measure aimed to compel Huawei to accept excessive pricing.

### Licensing under FRAND terms

The Patent Infringement Guidelines for the first time provide comprehensive guidance for the interpretation of the FRAND obligations in Article 152 and Article 153. In the following scenarios, the patentee may be considered in voluntary breach of the FRAND obligations if the patentee: (1) fails to notify the infringer of the infringement of the patent right in writing, and fails to specify the scope and ways of infringement; (2) fails to provide the patent information or provide specific licensing conditions in writing in accordance with business practices and trading practice, after the accused infringer has consented to negotiations; (3) fails to offer a reply period in accordance with business practice and trade practice; (4) obstructs or interrupts the licensing negotiation without reasonable justification; and (5) proposes unreasonable licensing conditions in the course of the negotiation, which results in the failure to reach a patent licensing agreement and other conditions. If any of the following acts is committed, it may be found that the accused infringer has a clear fault in the necessary patent licensing consultation process: (1) failing to diligently respond within reasonable time after receiving written notification of infringement from the patentee; (2) failing to diligently respond within reasonable time on whether to accept licence conditions of the patentee; or refusing to accept specific conditions proposed by the patentee but failing to propose new conditions, after receiving specific conditions of licence from the patentee; (3) obstructing, delaying or refusing to participate in the licence negotiation without adequate circumstances.
reasons; (4) proposing an apparently unreasonable condition during negotiation that results in failure to reach a licence agreement; and (5) the accused infringer has any other serious faults in the negotiation.

In *Huawei v. Samsung*, the court found that Samsung employed delay tactics in the cross-licence negotiation and violated its FRAND obligations both in procedure and in substance. From the procedural perspective, Samsung: (1) insisted on bundling together both the SEPs and non-SEPs, which delayed the procedures; (2) did not respond to claim charts provided by Huawei in a timely way and thus delayed the technical discussion; (3) was passive in licence offering and delayed counter offer; (4) rejected Huawei’s proposal to submit the licensing dispute to a natural arbitration without justified reasons; and (5) deliberately postponed the court-organised mediation by not submitting a substantial solution proposal. From the substantive perspective, the rate proposed by Samsung was not reasonable and was in violation of the FRAND principles.

iv Anticompetitive or exclusionary royalties

In the *Qualcomm* case, the issue of whether it was appropriate for Qualcomm to charge royalties based on the net sale price of whole devices was discussed. The NDRC mentioned in its decision that ‘[Qualcomm] has insisted on using a relatively high royalty rate, at the same time that it has charged royalty on the basis of entire devices in excess of the coverage of its wireless SEPs, which is manifestly unfair and has resulted in excessive royalties’. It seems that the NDRC did not conclude whether it was appropriate for Qualcomm to use the net sale price of whole devices as the royalty base, but only regarded the royalty base as one of the factors in determining Qualcomm’s unfairly high pricing.

In *Huawei v. Samsung*, the court reasoned that the industry’s reasonable profit factor should be considered in determining whether the licensing fee of SEPs is in line with the FRAND principle. The court reviewed a large number of documents and held that Huawei’s offer was based on its own patent strength, and would not result in cumulative royalty rates exceeding industry-recognised royalty rate levels for 3G and 4G SEPs, and Huawei still left some room for further negotiation. Therefore, the court held that the royalty rate proposed by Huawei complied with its FRAND obligations.

V INTELLECTUAL PROPERTY AND MERGERS

Mergers involving transfers of IPRs may enhance the market control of undertakings and make it more difficult for other undertakings to enter into the relevant markets. Therefore, the MOFCOM scrutinises the above effect of the transfer of IPRs in its merger review. The IP Guidelines stipulate in Chapter Four that the concentration of undertakings dealing with IPRs has a unique character; this unique character is mainly reflected in aspects such as the circumstances that constitute the concentration of undertakings, examination considerations and additional restrictive conditions. Article 19 lists three considerations in analysing whether undertakings obtain control over other undertakings or whether undertakings impose a decisive impact on other undertakings by the transfer and exclusive licensing of intellectual property rights: (1) whether the intellectual property rights constitute independent business; (2) whether the intellectual property rights produce turnover that can be calculated independently in the previous fiscal year; and (3) the duration of the exclusive licensing of intellectual property rights. Articles 22 to 24 give a specific interpretation of restrictive conditions involving IPRs, which includes structural conditions, behavioural
conditions and comprehensive conditions. Undertakings may propose restrictive conditions to divest IPRs or business involving IPRs. Undertakings generally need to ensure that the licensees of IPRs have the necessary resources and capabilities, and that they are willing to participate in market competition by applying the stripped IPRs or engaging in the business involved. The stripping should be made in an effective, feasible and timely manner, to avoid the competition in the relevant market being affected. Behavioural conditions in relation to IPRs are determined depending on individual cases. Suggestions on restrictive conditions may involve the following content: (1) the licensing of IPRs – the licensing usually is exclusive, and does not include the use area or geographic restrictions; (2) keeping independent operation of intellectual property rights-related business – the related business should have the condition of effective competition in a certain period; (3) fulfilling the FRAND obligations – undertakings usually ensure that they fulfil the obligations through specific arrangements; and (4) charge reasonable licence fees – undertakings shall generally specify in detail the calculation method and payment terms of licence fees, as well as fair negotiation conditions and opportunities and other matters. In addition, undertakings may combine structural conditions and behavioural conditions, and put forward suggestions on comprehensive restrictive conditions involving IPRs.

Furthermore, the MOFCOM issued the Provisions of the Ministry of Commerce on Imposing Additional Restrictive Conditions on the Concentration of Business Operators on 5 January 2015. According to this regulation, MOFCOM can impose the following additional restrictive conditions on mergers to alleviate the adverse impact of the transfer of IPRs on competition: (1) structural conditions requiring the divestiture of IPRs; (2) conditions requiring undertakings to license key technologies (including patents, proprietary technologies or other IPRs); and (3) comprehensive conditions that combine (1) and (2).

In the Nokia/Alcatel case, the MOFCOM approved the acquisition of Alcatel by Nokia with the condition that Nokia honoured the following commitments under supervision of the MOFCOM: (1) Nokia shall not seek injunctions on SEPs unless it has provided licensing conditions conforming to the FRAND principles but the potential licensee has neither entered into the licensing agreement conforming to the FRAND principles in good faith nor complied with the licensing agreement; (2) the licensees are entitled to notification of Nokia’s SEP transfers to third parties, as well as negotiation and renegotiation with Nokia on royalty rates during or after the transfers; and (3) when Nokia transfers its SEPs to a new owner in the future, Nokia shall make the transfer on the condition that the new owner agrees to be subject itself to the FRAND principles.12

VI OTHER ABUSES

With regard to sham or vexatious IP litigation, the SAIC Draft Guidelines mention several unjustified transaction conditions for transactions related to IPRs held by a dominant undertaking, including conditions: (1) requiring transaction counterparties to offer exclusive grant back; (2) prohibiting transaction counterparties from challenging the validity of their

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intellectual property rights, or from lodging proceedings for infringement of intellectual property rights against their undertakings; (3) restricting transaction counterparties from using competitive technologies or products; (4) claiming rights over expired or invalid intellectual property rights; (5) requiring transaction counterparties to provide cross-licensing without paying reasonable consideration; and (6) forcing or prohibiting transaction trade between counterparties and third parties, or restricting the conditions for transaction counterparties to trade with third parties. The factors generally considered in analysing the attachment of other unreasonable conditions shall also be considered when analysing whether the above behaviour of undertakings constitutes abuse of a dominant market position.

Regarding anticompetitive settlements of IPR disputes, China’s antitrust enforcement authorities, learning from EU and US experience, have paid attention to the ‘pay-for-delay’ agreements between pharmaceutical companies whereby manufacturers of brand-name drugs might buy off or settle with manufacturers of generics so that the former can continue to enjoy monopoly pricing after their patents have expired. Such conduct may be regarded as reaching horizontal monopoly agreements that ‘split the market’ or ‘restrain development of new products’ under the AML.13

VII OUTLOOK AND CONCLUSIONS

Overall, the interplay of the AML and IPR is still at its early stage and has long way to go. In recent years, the AML enforcement agencies have been paying closer attention to enterprises’ abusive behaviour in relation to IPR. With the amendment of the AML and formal release of these relevant guidelines, many issues of the AML in terms of IPR are expected to gain greater clarity and certainty, and IPR-abusive behaviour will be subject to more stringent regulation. Predictably, we may see a better balance between promoting domestic innovation and protecting IPR holders’ interests.

13 Article 13.2 and 13.4 of the AML.
I \hspace{1cm} \textbf{INTRODUCTION}

The Organic Act for Regulation and Control of Market Power (LORCPM) is the main piece of legislation dealing with the protection and promotion of competition in Ecuador. The LORCPM prohibits abuse of dominant position, anticompetitive agreements and unfair practices. On the other hand, since December 2016, intellectual property (IP) has been regulated at a national level by a new piece of legislation, the Organic Code for the Social Economy of Knowledge, Creativity and Innovation (the IP Code), which replaced the Intellectual Property Act of 2006. At a regional level, Decision 486 of the Andean Community (Decision 486) establishes the legal framework for IP in the Andean Community (Bolivia, Colombia, Ecuador and Peru). The LORCPM makes some provision regarding the interplay between competition law and intellectual property law, as do, to a lesser degree, the IP Code and Decision 486.

First, the LORCPM contains specific provisions regarding the abuse of intellectual property rights (IPRs) as an abuse of dominant position. In addition, this Act also refers to cases where the use of IPR may be considered an unfair practice, specifically when it affects economic efficiency, consumers, general welfare or competition. Matters relating only to rights that do not affect economic efficiency, consumers, general welfare or competition fall exclusively under IP law and are not subject to competition law.

From an IP perspective, Decision 486 of the Andean Community contains several provisions referring to unfair practices related to IP, which mainly revolve around acts of confusion, misappropriation of trade secrets and false statements regarding the quality or characteristics of products. In addition, the IP Code contains some provisions regarding the grant of compulsory licences as a remedy for anticompetitive practices and as a reminder that the exercise of IPRs must not unlawfully restrict competition.

In general terms, the exclusivity granted by IP is commonly assumed as a legal monopoly granted over a set period in favour of the rights holder. It is one of the few legal monopolies permitted by competition law.

II \hspace{1cm} \textbf{YEAR IN REVIEW}

The Superintendency of Market Power Control (SCPM) has been the Ecuadorian competition authority since the entry into force of the LORCPM in October 2011. However,
the appointment of the head of the SCPM in September 2012 marked the beginning of its activities as the enforcing body for competition law in Ecuador. Despite budget cuts in the past year, the SCPM continued to have a significant turnover in personnel in both the prosecution units and the adjudicating posts. Despite this, given that the SCPM is relatively new and the proceedings are lengthy, there have not been major advances in case law. In consequence, doctrine and international case law continued to be used as a reference by both by the authority and private parties, to help better understand the interplay between IP and antitrust.

Most of the antitrust cases involving IP refer to unfair competition and many of them are dismissed by the SCPM as cases exclusively concerned with IP law. A reduced amount of cases involving IP are handled as abuses of dominant position. To the best of our knowledge, there have not been any anticompetitive-agreement cases involving IP. Although there have not been any high-profile cases dealing with the intersection of competition law and IP rights, the SCPM has been very active in several sectors where IP is very relevant, specifically in the pharmaceutical sector. The outcome of these investigations will allow us to assess the position of the SCPM in regard to IP rights and competition law.

As mentioned above, in December 2016 the IP Code was enacted (commonly known as Código Ingenios – the Ingenuity Code). The IP Code significantly changed the legislation regarding IP, with a view to promoting wider dissemination of IP (although perhaps at the expense of reducing protection for IP owners). The IP Code also seeks to promote competition by promoting cross-licensing, compulsory licensing and other measures that would limit exclusionary enforcement of IP.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

The LORCPM does not specifically refer to anticompetitive restraints regarding the licensing of IP rights. However, it is possible for the general provisions of the LORCPM to be applied to cases regarding the licensing of IP rights. Any limitation imposed by a licensing agreement could be considered an anticompetitive restraint either as an abuse of dominant position or an anticompetitive agreement.

It is important to take into consideration that the simple exercise of an IP right is far from being an infringement of the LORCPM; a test must be applied to determine if the exercise of this right produces an anticompetitive effect, such as facilitating price fixing (an anticompetitive practice per se), foreclosing access to an important input, reducing output or dividing the market among undertakings that would otherwise have competed. The relevant test is therefore if the restraints in a licensing agreement would be anticompetitive or affect the general welfare or that of consumers.

ii Refusals to license

The exercise, licensing or transfer of IP or even a refusal to license is not treated differently by the LORCPM from similar non-IP related conducts. Either as an abuse of dominant position or as an anticompetitive agreement, refusals to license could be considered anticompetitive when deemed unjustifiable in accordance to the LORCPM’s requirements.

Under the LORCPM, refusals to license could be considered under the broader category of refusals to deal or supply. Either as an abuse of dominant position or as an anticompetitive agreement, refusals to deal or supply are considered an infringement to the LORCPM if they
are deemed unjustifiable from a competition perspective. To date there has not been a case where the limits between justifiable and unjustifiable refusals to deal or supply have been established, although such a violation has been alleged (regarding precisely IP rights), but the allegation was considered baseless as the IP owner did offer a licence on fair, reasonable and non-discriminatory terms, whereas the claimant insisted on its own terms.

Refusals to license could also be construed under the essential facility doctrine. In this regard, the LORCPM in general prohibits the unjustifiable denial of access to an essential facility as an abuse of dominant position. In these cases, the SCPM could consider an intellectual property right as ‘essential’ facility if it considers that this is an indispensable and irreplaceable condition to compete in a market. In this case, the authority could determine that the holder must share these rights with its competitors.

In conclusion, it is important to take into consideration that not allowing others the use of an IP right is a legitimate exercise of those rights. Only in specific situations could unjustified refusals to license be deemed as a violation of competition law.

IP law seeks to protect innovation, recognising certain rights to its creators, and rewarding this effort with the right to commercially exclusively exploit their product. On the other hand, competition law prohibits an unjustified refusal to sell by companies with a dominant position in a relevant market, to enable access to the same relevant market to competitors.

iii Unfair and discriminatory licensing

Just like refusals to license, unfair and discriminatory licensing are not specifically mentioned under the LORCPM or other regulation.

Nevertheless, the general provisions of the LORCPM could be used to assess any unfair (i.e., exploitative) and discriminatory licensing allegation. Unfair and discriminatory licensing could be analysed under the provisions prohibiting unjustifiable discriminatory treatment to others. Article 9, in regard to abuse of dominant position, and Article 11, regarding anticompetitive agreements, of the LORCPM prohibit unjustifiable discrimination when it puts third parties in equivalent transactions in an unequal position downstream that would result in a disadvantage.

iv Patent pooling

Patent pooling is not a concept that is described either by the Ecuadorian competition or IP laws. However, the general provisions of competition law would also apply to this type of conduct. Given that patent pooling requires cross-licensing between two or more undertakings the main focus would be under Article 11 of the LORCPM as an anticompetitive agreement. Nevertheless, patent pooling could also fall under Article 9 of the LORCPM as an abuse of dominant position.

Under Article 11 of the LORCPM patent pooling could be considered anticompetitive if it excludes third parties that in consequence are also excluded from a given market or markets. There are several provisions in Article 11 that could be used to challenge patent pooling; for example, refusals to deal if a third party is unjustifiable excluded from the benefits of the patent pool, the limitation of technological development, unjustified discrimination, etc.

Although less evident, under Article 9, patent pooling could also be considered as an abuse of dominant position, especially if each individual patent grants a monopoly in a given market to its holder. This Article could also be used to create a case of collective dominance. In this Article, there are several provisions that could be used to challenge patent pooling;
for example, refusals to deal, unjustified disturbance of technological development, or if conditions imposed on non-participants are deemed exploitative (unfortunately there is no standard or guideline as to what may be exploitative).

v Software licensing

Ecuadorian competition law does not provide any specific provisions regarding antitrust issues arising from software licensing. There are some specific issues to be considered, as usually software licensors seek to exclude third parties not licensed from offering maintenance of their software – thus ‘tying’ the licensing of the software with maintenance services.

These issues may be analysed under the general provisions of the antitrust legislation for tying, bundling, or exclusionary practices – sale of the software licence and the maintenance services separately (as well as bundled together), and allowing others to offer maintenance service as well, would prevent a finding that the licensing breaches the antitrust legislation.

vi Trademark licensing

Like IP rights licensing in general, trademark licensing is not mentioned in the LORCPM. Therefore, trademark licensing that is designed and enforced primarily to restrict competition, such as territorial division, must be assessed under the general provisions of the LORCPM that prevent market division or segmentation that restricts competition and any action that is exclusionary.

On the other hand, unfair competition provisions could be relevant to trademark licensing in cases of unlawful use of the trademark that has been licensed or any ‘piracy’ of trademarks (acts of confusion, imitation, taking advantage of other party’s reputation.

IV STANDARD-ESSENTIAL PATENTS

In general terms, all actions to obtain an increased revenue or advantage by one undertaking that is dominant in a relevant market, whether they involve an IP right or not, could result in liability for abuse of dominance under the LORCPM.

In particular, LORCPM addresses the misuse or abuse of intellectual property rights. There is no legal or statutory reference specific to standard-essential patents (SEPs); the main national standard-setting organisation (INEN) is a public agency that does take into account the recommendations of the industry, and, therefore, may decline to include in a standard a patent held by one undertaking that would be detrimental to others, although there is no requirement or precedent for demanding licensing of SEPs by INEN. These standards are voluntary unless referenced in mandatory technical regulations.

i Dominance

Owning an SEP does not automatically result in dominance in the relevant market pursuant to the law, statutes or (limited) case law in Ecuador. However, it could be alleged that the owner of the SEP is in the position to impose entry barriers and to limit access to technology, and that there are no acceptable substitutes (precisely because of the fact that it is an SEP), which are some of the criteria used to determine dominance.
ii Injunctions

The owner of an SEP may seek injunctive relief, and once infringement is proven, it should ordinarily be granted unless there is an overriding public interest; an obligation to license under fair, reasonable and non-discriminatory (FRAND) terms is not a viable defence at this stage.

Any potential violation of antitrust provisions in the LORCPM should be brought in a separate claim that would be initially adjudicated administratively by the SCPM, whose decision is subject to judicial review.

Unfortunately, there is no established policy or concurring precedents to determine whether seeking an injunction by the owner of an SEP would incur a violation of antitrust law.

iii Licensing under FRAND terms

Licensing of an SEP under FRAND terms is not mandatory nor ruled out by Ecuadorian law. Private standard-setting organisations may contractually demand licensing under FRAND terms, although an agreement to regulate quality, when not pursuant to a national or international standard, may also be a violation of antitrust regulations (Article 11.10 of the LORCPM).

However, unjustified refusal to deal (i.e., to license an IP right), demanding exploitative prices (i.e., outsized royalties) or establishing different conditions for similar considerations (i.e., discriminating) are violations of antitrust provisions pursuant to the LORCPM, and would apply to the owner of the SEP if deemed to be dominant in the relevant market, or if it is the result of an agreement with other undertakings.

iv Anticompetitive or exclusionary royalties

There are general provisions that prohibit ‘exploitative prices’, ‘exploitative practices’, ‘exclusionary practices’, and the abuse of IP rights that may be invoked against anticompetitive or exclusionary royalties regarding SEPs (or any IP right), but little guidance as to how and when a price (i.e., royalty) may be deemed exploitative, or a ‘safe harbour’ or threshold.

V INTELLECTUAL PROPERTY AND MERGERS

In accordance with the provisions of the LORCPM, the analysis of a merger should not change in cases in which IP rights are involved. The competition authority applies the same criteria to all merger cases. The elements that must be taken into consideration are the market power or dominance of the parties involved, the relevant market structure, the effect of the merger in competition in the relevant market (improvement in production or commercialisation of products, technological or economic advancement, enhanced competition in the international market, higher well-being of consumers, the positive effects outweigh the negative, etc.).

i Transfer of IP rights constituting a merger

Ecuadorian law requires certain ‘economic concentration operations’ (defined as the change in control of one or more economic agents, such as, among others, the acquisition of the assets) to obtain pre-merger approval.

In essence, IP rights are considered an asset and treated no differently from other tangible assets, so if one of the criteria required for approval is met, the transfer of IP rights would
indeed be deemed a ‘merger’ and need to be notified and obtain an approval. The criteria are: (1) when the combination of the market share of the parties involved reaches or exceeds 30 per cent of the relevant market; or (2) when the total turnover of the parties involved in the merger surpasses US$77.2 million (unless in the financial or insurance industries, where the threshold is US$1.25 billion or US$82.6 million respectively).

ii Remedies involving divestitures of intellectual property
The LORCPM does not contemplate remedies that are specific to IP matters. The only provisions regarding remedies are applicable to all cases in which competition has been affected, including those involving IP rights.

Obviously, the remedies may include an obligation to divest, assign or license IP rights, as the SCPM has ample authority to define remedies. Last year, in a much discussed case regarding an international merger in the beer market, the SCPM ordered the divestiture of several beer trademarks as a condition for its authorisation of a merger notification.

VI OTHER ABUSES

i Sham or vexatious IP litigation
Vexatious litigation regarding IP rights can be considered a violation of the LORCPM both as an abuse of IP rights (Article 9.17) or the abuse of legal proceedings that limit the access or permanence in the market of competitors (Article 9.18), if the claimant enjoys dominance (‘market power’) in the relevant market.

Furthermore, sham or vexatious IP litigation could also be considered an unfair practice that also violates antitrust law because it constitutes an abuse of the legal or administrative proceedings to prevail in the market (Article 27.9 of the LORCPM).

ii Misuse of the patent process
Ecuadorian competition legislation does not have a specific provision regarding the misuse of the patent process, and case law is very limited because of the relatively recent enactment of antitrust legislation and the significant time for the proceedings to be adjudicated administratively (and then for judicial appeals to work their way through the system).

However, misuse of the patent system could clearly be construed as abuse of an IP right (Article 9.17 of the LORCPM), abuse of the legal proceedings (Article 9.18) if the abuser has dominance (market power), and if not, it could be framed as an unfair practice because of violation of rules or abuse of legal proceedings (Article 27.9).

iii Anticompetitive settlements of IP disputes
There are no special provisions regarding settlement agreements terminating an IP infringement dispute. Consequently, any settlement agreement would be reviewed under the general provisions of the LORCPM, especially if the IP owner has dominance in the relevant market.

Any settlement agreement of IP disputes that limits market entry (i.e., generic producers in the pharmaceutical sector) could violate the LORCPM as it may be deemed to constitute incitement or persuasion to refuse selling or delivering goods (Article 9.10), the conditioning of acts or agreements to acceptance of terms that according to their nature or commercial use are not related thereto (Article 9.13), an exclusionary practice (Article 9.15), abuse of an
IP right (Article 9.17), unjustified implementation of legal actions that result in restricting access to the market of actual or potential competitors (Article 9.18), or finally preventing or impairing market access to actual or potential competitors for reasons other than economic efficiency (Article 9.22).

Furthermore, even if the owner of IP rights does not enjoy dominance, the settlement agreement could breach the LORCPM if it imposes entry barriers (Article 11.18) or prevents or impairs market access to actual or potential competitors for reasons other than economic efficiency (Article 11.20).

VII OUTLOOK AND CONCLUSIONS

More than six years have passed since the LORCPM was enacted in late 2011 as the first antitrust legislation in Ecuador. Although five years is still a relatively short period for new legislation to take roots in a country’s legal system, competition law is slowly being incorporated in all aspects of corporate activity. Unfortunately, despite five years of existence in the country, there is still little guidance or case law on the related policies, standards or enforcement priorities. We expect this to change in the years to come, as precedents are set both by the authority and through judicial review.

The promotion and protection of generic drugs will continue to be an important focus of the SCPM, as it has continued to stress the importance of generic drugs and has warned patent or branded drug owners to refrain from using their IP rights to stop or delay the entry of generic drugs on to the market.

There are several ongoing investigations taking place, some of them touching on IP issues. If the SCPM were to find any evidence or indications of competition law infringements, then it would need to establish how the antitrust and IP laws and statutes need to be combined, and which provisions should prevail in specific cases.

The enactment of a new IP law may also affect the current understanding of how competition and IP statutes can coexist in a way that promotes competition while providing incentives for innovation.
Chapter 5

EUROPEAN UNION

Thomas Vinje

I INTRODUCTION

According to the European Commission (EC), ‘[t]he fact that intellectual property laws grant exclusive rights of exploitation does not imply that intellectual property rights are immune from competition law intervention . . . . Nor does it imply that there is an inherent conflict between intellectual property rights and the [EU] competition rules. Indeed, both bodies of law share the same basic objective of promoting consumer welfare and efficient allocation of resources.’ This reflects the current global consensus that the overall goals of antitrust rules and intellectual property rights (IPRs) are consistent and that the two bodies of law are generally complementary. Nevertheless, circumstances do arise where exercises of IPRs conflict with antitrust laws and antitrust is deemed to prevail.

The EU competition rules on anticompetitive agreements, abuse of dominant position and merger control may be relevant to conduct involving IPRs. The most fundamental EU rules on competition are found in the Treaty on the Functioning of the European Union (TFEU), but secondary EU legislation and EC guidelines are also highly relevant.

Article 101 TFEU prohibits agreements and concerted practices that ‘have as their object or effect the prevention, restriction or distortion of competition’. Several pieces of EU secondary legislation and EC guidelines must be taken into account in applying Article 101 TFEU to IPR-related agreements. They include:

- Commission Regulation (EU) No. 316/2014 on the application of Article 101(3) of the TFEU to categories of technology transfer agreements (the Technology Transfer Block Exemption Regulation or TTBER);
- the Technology Transfer Guidelines;
- Commission Regulation (EU) No. 1217/2010 on the application of Article 101(3) of the TFEU to certain categories of research and development agreements (the R&D Block Exemption Regulation); and
- EC Guidelines on the applicability of Article 101 of the TFEU to horizontal co-operation agreements, 2011 (the Horizontal Co-operation Guidelines).

1 Thomas Vinje is a partner at Clifford Chance LLP. Special thanks go to Ashwin van Rooijen and Axelle D’heygere for their valuable assistance in preparing this chapter.

2 EC Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements 2014; paragraph 7.

3 Article 101 TFEU.
Article 102 TFEU prohibits the abuse of a dominant position. The EC's Guidance on its enforcement priorities in applying Article 102 TFEU to abusive exclusionary conduct by dominant undertakings (the Guidance in applying Article 102 TFEU) addresses conduct involving IPRs, in particular in relation to refusals to license IPRs.

The basic regulation on EU merger control is Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings (the EU Merger Regulation). Under the EU Merger Regulation, the acquisition of IPRs may constitute a concentration triggering EU merger control. Full-function joint ventures to which intellectual property (and potentially other) assets are contributed may similarly require notification pursuant to the EU Merger Regulation. To the extent the EC identifies competition concerns regarding a concentration, the parties may seek to offer relevant remedies, including divestiture or licensing of IPRs.

II YEAR IN REVIEW

i Decision against Google

On 27 June 2017, the EC found that Google breached Article 102 TFEU in the market for general internet searches across the EEA by providing an illegal advantage to its own comparison shopping service in its search results, and fined Google €2.42 billion. Google was found to have abused its dominant position by placing its own comparison shopping service in prominent places within its search results, while demoting rival services to less visible positions. In the press release announcing its findings, the EC described its decision as a precedent that ‘establishes a framework for the assessment of the legality of this type of conduct’. Google and its parent company, Alphabet, lodged an appeal against the decision before the European General Court (GC) on 11 September 2017.

The decision is significant as the fine imposed by the EC is the highest it has ever levied in antitrust history. The EC is conducting two further investigations into Google's practices and has come to the preliminary conclusion that Google abused its dominant position in both cases. Its final decisions are currently pending. The EC is also investigating whether Google's copying (i.e., 'scraping') of original content (such as user reviews) from competing services (e.g., Yelp or TripAdvisior) can amount to abusive conduct under Article 102 TFEU.

ii Standard-essential patents

In recent years, the EC has looked into several competition cases involving alleged abuses of dominant positions by holders of standard-essential patents (SEPs). Originating from the 'patent wars', the EC's decisions in the Motorola and Samsung cases were major steps towards bringing legal certainty to SEP owners and implementers. To date, the Court of Justice of the European Union (CJEU) ruling in Huawei Technologies Co Ltd v. ZTE Corp is the only ruling by the CJEU dealing directly with the application of Article 102 TFEU to the exercise of SEPs, as described in Section IV. While recourse to injunctions is generally considered

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4 Case AT.39740 Google Search (Shopping) [2017].
6 Case AT. 40411 (AdSense) and Case AT.40099 (Android).
8 Case C-170/13 Huawei Technologies [2015].
to be a legitimate remedy for patent infringements, seeking injunctions for infringement of SEPs may be considered contrary to Article 102 TFEU where a potential licensee is willing to negotiate a licence on fair, reasonable and non-discriminatory (FRAND) terms.

On 29 November 2017, the EC published a Communication entitled ‘Setting out the EU approach to Standard Essential Patents’.9 The Communication attempts to tackle three main problems regarding SEPs: (1) opaque information about SEP exposure; (2) unclear valuation of the patented technologies reading on standards and the definition of FRAND; and (3) risks of uncertainty in the enforcement framework post-Huawei. In order to increase transparency on SEP exposure, the EC recommends that the quality and accessibility of information on standard-developing organisations’ databases should be improved and that a new information tool should be developed and used during licensing negotiations. To manage diverging interpretations of FRAND, the EC sets out key signposts on the FRAND concept based on public consultation, an analysis of best practices, studies and national case law. The EC also provides guidance to clarify the circumstances in which a licensee can be considered willing to enter into a licence on FRAND terms post-Huawei, as described in Section IV.

iii  E-commerce sector inquiry
Cross-border access to digital goods and services for consumers and businesses constitutes another area in which the intersection of competition law and IPRs is likely to trigger debate. On 6 May 2015, the EC adopted its Digital Single Market Strategy. In conjunction with this strategy, DG Competition launched its e-commerce sector inquiry, which aims to investigate to what extent measures restricting cross-border e-commerce are prevalent in the industry.

In particular, the EC has identified the practice of geo-blocking, defined by the EC as ‘commercial practices whereby online providers prevent users from accessing and purchasing consumer goods/digital content services offered on their website based on the location of the user in a Member State different from that of the provider’,10 as a potential barrier to trade and as a potential violation of Article 101 TFEU.11 Online providers may sometimes rely on IPRs to restrict cross-border sales, and hence IPRs are relevant to the e-commerce sector inquiry.

On 10 May 2017, the EC published its final report to the Council and the European Parliament setting out the main findings and conclusions from the sector inquiry in relation to the development of e-commerce for consumer goods and e-commerce in digital content.12 The report confirms that the growth of e-commerce has resulted in the emergence and evolution of certain business practices that raise competition concerns.

In particular, in relation to e-commerce in various consumer goods, manufacturers are increasingly using selective distribution systems and contractual restrictions to better control product distribution. On 6 December 2017, the CJEU delivered its judgment in the case of Coty Germany GmbH v. Parfumerie Akzente GmbH.13 Coty, a supplier of luxury

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9  ‘Setting out the EU approach to Standard Essential Patents’ is available at https://ec.europa.eu/docsroom/documents/26583.
10  Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition; paragraph 32.
11  Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition; paragraph 49.
13  Case C-230/16 Coty Germany GmbH v. Parfumerie Akzente GmbH [2017].
perfumes in Germany, had imposed restrictions on its retailers that prevented them from selling Coty’s products online, through third-party platforms such as Amazon and eBay. The Higher Regional Court of Frankfurt am Main asked the CJEU to clarify whether such an agreement contravened Article 101. The CJEU ruled that selective distribution systems that prohibit authorised distributors from using third-party platforms to sell luxury goods online do not contravene Article 101 if: (1) they have the objective of preserving the luxury image of such goods; (2) retailers are selected on the basis of objective criteria of a qualitative nature that are determined uniformly for all potential resellers and applied in a non-discriminatory manner; and (3) the criteria established do not go beyond what is necessary to preserve the luxury image of the product sold.

On 4 April 2018, the EC published a Competition Policy Brief that considers the impact of Coty on marketplace bans. In this paper, the EC states that Coty provides more clarity and legal certainty to market participants by confirming previous case law and establishing a clear legal framework for assessing marketplace bans under Article 101.

In practice, the question of whether a marketplace restriction or ban contravenes Article 101 will only arise where the market share held by a supplier exceeds 30 per cent of the relevant market in which it sells the relevant goods or the market share held by a distributor exceeds 30 per cent of the relevant market in which it purchases such goods. Where neither of these market shares exceed 30 per cent, marketplace bans are block-exempted under Article 3 of the Commission Regulation (EU) No. 330/2010 (the Vertical Restraints Block Exemption (VRBE)).

Other contractual restrictions that might raise competition concerns, according to the Commission’s final report, relate to resale pricing restrictions, restrictions on selling on online marketplaces, and territorial restrictions and geo-blocking. The report contends that geo-blocking is widespread throughout the EU and is implemented by way of restrictive agreements between suppliers and distributors rather than as a result of unilateral business decisions not to sell abroad.

In relation to e-commerce in digital content, the EC has found that the availability of licences from the holders of copyright in content is essential for digital content providers and a key determinant of competition. Certain licensing practices, including bundling, geo-blocking, long duration, and payment structures have been identified as making it more difficult for new online business models and services to emerge. Such restrictive business practices may infringe EU competition rules.

The EC does not consider that the findings of the sector inquiry necessitate an early review of the VBRE on the application of Article 101(3) of the TFEU to categories of vertical agreements and concerted practices, which expires in 2022. The EC intends to use the findings to target enforcement of EU competition law at the most widespread potentially infringing business practices that have emerged or evolved as a result of the growth of e-commerce.

iv Restrictions affecting cross-border provision of pay TV services

In July 2015, the EC issued a statement of objections (SO) to Sky UK and six Hollywood studios alleging violation of the EU competition rules in relation to each studio’s licensing agreement with Sky UK for exhibition of its audiovisual content on Sky’s pay-TV services. US film studios typically license audiovisual content, such as films, to a single pay-TV

broadcaster in each Member State. In the SO, the EC took the preliminary view that each of the six studios bilaterally agreed with Sky UK to contractual restrictions that prevent Sky UK from allowing EU consumers located in other Member States to access pay-TV series via satellite or online. To address the EC’s concerns, Paramount, one of the six Hollywood studios, proposed the following commitments in April 2016: (1) when licensing its film output for pay-TV to a broadcaster in the EEA, Paramount will not enforce passive sales restrictions in existing or future pay-TV licence agreements; and (2) Paramount will not seek to bring an action before a court or tribunal for the violation of this clause in an existing licensing agreement.15

On 26 July 2016, the EC published its decision accepting Paramount Pictures’ proposed commitments, which will last for five years.16 The decision confirmed the EC’s view that these clauses infringe EU competition law by prohibiting cross-border passive sales (i.e., the sales of services from one Member State into another in response to demands from customers not solicited by the seller). According to the EC, the restrictions have the effect of granting ‘absolute territorial exclusivity’ to Sky UK and eliminating cross-border competition between pay-TV broadcasters. Groupe Canal+, a French pay-TV broadcaster that entered into a licence agreement with Paramount, has appealed the decision before the GC.17 The judgment of the GC is still pending.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Article 101(1) TFEU prohibits anticompetitive restraints in agreements between undertakings – including in licensing agreements – unless they are justified under Article 101(3) TFEU. Depending on the relationship between the parties and subject matter of the agreement, licensing agreements may be governed by a variety of EU regulations and EC guidelines in addition to the TFEU itself. These include the EC’s Horizontal Cooperation Guidelines, the TTBER and the related TTBER Guidelines, the R&D Block Exemption Regulation, the Vertical Block Exemption Regulation and related Guidelines, and the EC’s Subcontracting Notice. Each of these instruments applies the principles contained in Article 101 TFEU to a particular type of agreement.

Many restraints qualified as anticompetitive by these instruments – such as restrictions on a buyer’s freedom to determine its own resale price, or provisions restricting to whom or into which EEA territory the buyer may sell under a vertical agreement – are not specific (but apply equally) to agreements containing licences to IPRs. However, EU competition law also provides for rules on restraints specific to agreements dealing with IPRs, such as technology transfer agreements, research and development agreements, and specialisation agreements. Compared to vertical or horizontal agreements that are not intellectual property agreements, the above instruments generally provide IPR holders with additional leeway to impose certain restraints on licensees to preserve incentives to innovate. At the same time, restrictions on a licensee’s ability independently to engage in research and development are generally considered anticompetitive.

It is beyond the scope of this chapter to provide an exhaustive overview of which restraints are and which are not considered anticompetitive in licence agreements, and most of the relevant rules have not changed in recent years. However, a number of rules specific to licensing agreements are worth highlighting here. First, we discuss territorial restrictions in copyright licences. Second, we discuss two changes introduced by the 2014 adoption of a new TTBER – both of which limit the scope of restraints that licensors could previously impose on licensees under the old TTBER.

**Territorial restrictions and exhaustion**

Some IPRs, such as copyright, are inherently national in scope as – notwithstanding a substantial degree of uniformity resulting from international treaties and harmonisation through EU Directives – they remain nationally defined rights. Right holders are, therefore, normally permitted to license their relevant rights on a national basis, and to prohibit licensees from marketing the licensed subject matter outside the licensed territory. However, the CJEU has adopted a strict approach to any restraints going beyond limitations based purely on the geographical scope of the underlying IPR. Thus, in its Premier League judgment, the CJEU ruled on a preliminary reference from a UK court in relation (inter alia) to contractual restrictions contained in licences granted by the United Kingdom’s Premier League, which holds copyrights in broadcasts of relevant UK football matches. The Premier League had not only territorially limited the scope of its licences, but had also prohibited its licensees from selling decoder cards – which could be used to access the licensee’s broadcasts from anywhere in the EEA – outside the licensed territory. The CJEU held that the latter restriction on sales of decoder cards amounted to a restriction by object pursuant to Article 101 TFEU.

The exhaustion doctrine limits right holders’ ability to control circulation of a good incorporating their intellectual property after the first sale of each copy within the EEA: once a product incorporating the right holder’s IPR has first been sold in the EEA with the right holder’s consent, the right to authorise distribution of that product is exhausted, such that the right holder may not prevent the subsequent resale of that product into another Member State (parallel import). Insofar as copyright law is concerned, the exhaustion doctrine was long believed to apply only to physical products incorporating copyrights, such as books and DVDs. In Oracle/UsedSoft, however, the CJEU extended the scope of the exhaustion doctrine to cover software distributed in digital form.

**Grant-back obligations**

Unlike the old TTBER, the new TTBER no longer exempts exclusive ‘grant-back’ obligations, pursuant to which a licensee is required to license or grant back to the licensor on an exclusive basis any technology derived from or improving on that of the licensor. Whereas the old regime exempted exclusive grant-back obligations in limited circumstances, namely where they pertained only to ‘non-severable’ technology, or technology that necessarily infringes on the licensor’s IPRs, exclusive grant-back obligations are now excluded entirely from the scope of the TTBER. While exclusive grant-back obligations are not considered hardcore restrictions, their compatibility with competition law will need to be assessed on an individual basis. Licensors may alternatively negotiate a grant-back provision on a non-exclusive basis.

**No-challenge clauses**

The new TTBER furthermore provides for a stricter regime on clauses limiting the licensee’s ability to challenge validity of the licensor’s IPRs. The old TTBER did not exempt clauses
prohibiting validity challenges, but did exempt clauses providing for termination of the licence agreement upon the licensee challenging validity. The new TTBER no longer exempts such ‘termination on challenge’ clauses unless the licence agreement is an exclusive one; thus, clauses limiting a non-exclusive licensee’s ability to challenge the validity of the licensor’s IPRs will need to be assessed on a case-by-case basis.

ii Refusals to license

The law on refusals to license IPRs by dominant companies has been established in a series of judgments by the CJEU, and most recently, the GC. In short, refusals to license will be deemed lawful in most circumstances. However, a refusal to license may be found to constitute an abuse of a dominant position under Article 102 TFEU in certain ‘exceptional’ circumstances – in particular where, without an objective justification, a dominant firm refuses a licence relating to an IPR that proves indispensable for rivals seeking to innovate or introduce new products such that the refusal risks eliminating effective competition in the same or an adjacent market. The case law applies both to outright refusals to license and to constructive refusals to license (i.e., licensing on terms that are prohibitive for rivals effectively to gain access to the licensed subject matter).

In Microsoft, the GC upheld a 2004 EC decision finding that Microsoft had abusively refused to license to rival developers of workgroup (or network) server operating systems the interoperability information required for such operating systems to interoperate (or communicate) with Microsoft’s dominant Windows client PC operating system found on more than 90 per cent of PCs. Microsoft claimed that its interoperability information was protected by IPRs. The GC (and the EC) did not assess this claim but carried out their analysis on the basis that Microsoft’s IPRs were presumptively valid and that unlicensed implementations of the interoperability information would infringe those rights.

Evidence assessed by the EC and the GC demonstrated that Windows’ interoperability information was indispensable for rival developers of workgroup server operating systems to compete with Microsoft, and that there were no viable alternatives for this information. Upholding the EC’s decision, the GC found that denying competing workgroup server operating system developers access to the interoperability information risked eliminating effective competition in the workgroup server operating system market, and indeed some rivals had already been marginalised. Moreover, Microsoft’s refusal to license thereby prevented the emergence of innovative competing products that these rivals sought to introduce.

The GC rejected Microsoft’s claim that its refusal to license was objectively justified. First, the GC found that it was industry practice for companies not in a dominant position to license the type of interoperability information that Microsoft refused to license. Second, the GC found that Microsoft itself had in fact licensed its own interoperability information before it came to occupy a dominant position.

Nonetheless, the GC’s judgment appeared to leave some leeway for dominant firms to demonstrate that a refusal to license is objectively justified, in particular by showing that imposing a duty to license would undermine the firm’s incentives to innovate. It is not entirely clear what type of evidence the dominant firm would need to put forward in this regard. The GC dismissed Microsoft’s (mostly unsubstantiated) argument that its incentives to innovate would be diminished merely because the subject matter to which rivals sought access was protected by IPRs.
iii Unfair and discriminatory licensing

Certain licensing terms imposed by dominant firms may be deemed unfair or discriminatory and as such could be held abusive under Article 102(a) TFEU. A number of cases have in particular dealt with alleged excessive pricing by dominant right holders. Nonetheless, excessive pricing cases remain relatively rare due in part to the difficulty of establishing an appropriate counterfactual royalty in a but-for competitive market. *Luazeau* is a 1989 CJEU judgment finding that a French copyright collecting society charged excessive licensing fees compared to the fees charged by collecting societies in other Member States. More recently, the EC pursued Standard & Poor’s for alleged excessive royalties for securities identification numbers; however, in that case, the EC also preliminarily rejected Standard & Poor’s claims of copyright protection of these numbers. In 2007, the EC opened an investigation into a complaint by rivals alleging that Qualcomm charged excessive royalty fees for a portfolio of patents, including SEPs, pertaining to telecommunications technology and standards. The EC ultimately closed its investigation without a finding of infringement after the rivals settled with Qualcomm in parallel US patent litigation proceedings. In the pharmaceutical industry, several national competition authorities have applied national and EU competition law to alleged excessive pricing conduct by originator pharmaceutical companies, in particular following significant price increases. The EC, however, has not yet pursued similar claims.

Discriminatory licensing practices may be found where a dominant licensor unjustifiably applies different terms to equal circumstances. Thus, for example, a dominant trademark licensor was found to have committed an abuse by charging licensees a higher licensing fee when they sourced their trademark-bearing products from a rival of the dominant company rather than from the dominant company itself. However, the reverse also applies: it may be abusive for a dominant right holder to apply equal terms to different circumstances. For example, charging royalties on all of a licensee’s products regardless of whether or not the products actually implement the dominant licensor’s IPRs can constitute an abuse.

iv Patent pooling

A patent pool is a combination of complementary patents from multiple right holders licensed to third parties. Pooling patents and making them available under a single licence can significantly reduce transaction costs, while the licence fee for the pool may well be lower than what a licensee would cumulatively pay by having to negotiate licences with each of the right holders having contributed to the pool. Patent pools are governed principally by the TTBER and accompanying guidelines. Unlike the old TTBER and guidelines, the guidelines accompanying the new TTBER provide for an explicit safe harbour exempting certain patent pool arrangements from antitrust scrutiny irrespective of the parties’ market shares. The safe harbour applies to patent pools that, *inter alia*, pool only essential technologies and ensure that technologies that later prove non-essential are removed from the pool. Essential technologies are technologies that are necessary (as opposed to merely optional) to implement the technology to which the pool pertains, and for which no substitutes exist inside the pool. Furthermore, the patent pooling arrangement must provide for FRAND licensing terms, leave contributors free to license their technologies independently and preserve their freedom to develop competing technologies, leave parties free to challenge validity and infringement, and safeguard against the exchange of strategic information between contributors. Patent pools that do not meet the criteria of the safe harbour must be assessed individually based on the factors set out in the TTBER Guidelines.
v Software licensing
Software may be protected by different IPRs, including patents and trade secret rights; however, the most common form of intellectual property protection for software is copyright law, and many software licences, therefore, take the form of a copyright licence. While copyright laws within the EU are principally governed by national legislation, the EU Software Directive has harmonised many aspects of copyright law as applied to software across Member States. Among other things, the Software Directive prescribes mandatory copyright exceptions pursuant to which licensees can reverse engineer (through ‘decompilation’) a computer program in the interest of establishing interoperability. These exceptions were adopted in large part because of competition concerns that could arise were right holders able to prevent rivals from interoperating with their computer programs or from interoperating with other programs in the same way as the reverse-engineered program does (see Section III.ii).

Software licences between undertakings may be subject to Article 101 TFEU, in which case the above-mentioned rules on anticompetitive restraints would generally apply. The TTBER covers a subset of software licences, namely those agreements pursuant to which software is licensed to enable the licensee to produce goods or services, including through incorporation of the software into contract products. The TTBER exempts covered licence agreements from antitrust scrutiny provided that (1) the parties’ market shares do not exceed the market share thresholds in the TTBER and (2) the agreement does not contain any hardcore restrictions as defined in the TTBER.

The vast majority of software licences, however – including notably distribution licences and end-user licence agreements in contexts other than production – are not covered by the TTBER. Indeed, the TTBER does not apply to agreements ‘the purpose of which is the mere reproduction and distribution of software copyright protected products as such agreements do not concern the licensing of a technology to produce but are more akin to distribution agreements’. Such agreements are governed instead by the Vertical Block Exemption Regulation and the accompanying Guidelines on Vertical Restraints.

vi Trademark licensing
Competition issues in trademark licensing arise frequently because of the natural desire of licensors to control the exploitation of their marks by third parties and ensure such use does not conflict with the licensor’s own business. Thus, trademark licence terms must be carefully drafted so as not to risk contravening Article 101 TFEU.

The following provisions are examples of terms that may occur in trademark licences and that may raise competition concerns in the EEA:

a restricting a licensee who is licensed for only part of the EEA from supplying in response to unsolicited orders from EEA territories that are outside the licence territory, as opposed to merely restricting active marketing elsewhere in the EEA. While restrictions on passive sales are unlawful whether or not the agreement authorises use of a trademark, passive sales restrictions are particularly likely to be found in agreements containing trademark licences;

18 Technology Transfer Guidelines: paragraph 63.
19 See recital 7 to the TTBER.
absolute restrictions on the licensee’s ability to challenge the validity of the licensed rights. In the case of an exclusive licence only, the risk can be reduced by changing a no-challenge restriction to a right for the licensor to terminate if a challenge is made; and

where a licensor and a licensee are competitors in the relevant market, information-sharing provisions that may be included in trademark licences in the context of the licensor’s exercise of quality control. This will require detailed analysis. Completely separating the team that manages the licence relationship from the licensor’s own product team may be a partial solution.

Coexistence agreements, which could be considered as a type of licensing agreement, are agreements between unrelated owners of similar brands regulating each party’s use and registration of its marks in a manner that the parties consider will avoid confusion. Although coexistence agreements are relatively common, early case law on enforceability of such agreements\(^\text{20}\) indicates there could be concerns if it is not likely that either party could have effectively enforced its rights against the other, or if the agreed restrictions far outweigh the scope of the parties’ rights, such that the restrictions imposed are not balanced out by the benefits of avoiding conflict and confusion.

Coexistence agreements can often be without limit of time. Accordingly, restrictions on challenging rights require careful consideration, especially with respect to challenges to rights based on non-use. Additionally, consider building in procedures for periodical review of the scope of the restrictions, in light of changing market circumstances.

**IV STANDARD-ESSENTIAL PATENTS**

An SEP is a patent that has been declared essential for implementing a technical standard adopted by a standard-setting organisation (SSO). SSOs generally require members in good faith to disclose patents that are or may be essential to the standard under development. To the extent a member has disclosed ownership of SEPs, the SSO will generally request the patent holder to commit to license these SEPs on FRAND terms before adopting a standard reading on such SEPs. The EC's Horizontal Guidelines explain FRAND commitments as a means of ensuring that IPR holders do not hinder the implementation of a standard ‘by refusing to license or by requesting unfair or unreasonable fees (in other words excessive fees) after the industry has been locked-in to the standard or by charging discriminatory royalty fees’.\(^\text{21}\) In other words, the FRAND commitment aims to offset potential anticompetitive effects of standardisation agreements, which are the result of a decision-making process among competitors to choose one technology over others. This type of agreement between competitors would generally not be tolerated under EU competition law, but the EC guidance recognises an exception where, among other criteria, FRAND commitments are required for essential IPRs to be incorporated into the standard.\(^\text{22}\)


\(^{22}\) Id., Section 7.
Moreover, it is commonly accepted that standards are beneficial for the economy, facilitating interoperability and cross-border trade and fostering innovation;\textsuperscript{23} standard-setting allows for a common technological specification to be established, enabling multiple devices and systems to be compatible regardless of manufacturer or the platform on which those devices or systems are being used. However, uncertainty as to how to apply EU competition law to the exercise of SEPs had led to a fierce debate in Europe.

Enforcement in the EU has centred on the issue of whether and in which circumstances seeking an injunction for an SEP against an alleged patent infringer constitutes an abuse of dominant position pursuant to Article 102 TFEU. The EC has considered this issue in its fully reasoned Article 7 infringement decision in the Motorola case, and made preliminary findings on this issue in its Samsung Article 9 commitments decision. The issue is also the subject of the CJEU’s judgment in Huawei Technologies Co Ltd v. ZTE Corp, now the leading EU precedent on this subject.\textsuperscript{24} The EC decisions and the CJEU ruling in Huawei have shed light on the theory of ‘patent hold-up’ through the threat or enforcement of injunctions. Other EU enforcement has sought to address questions as to how EU competition rules on excessive pricing and patent ambush apply to the SEP context (see Sections IV.iii and IV.iv). However, this body of cases by no means lays all questions to rest as to when exclusion on the basis of SEPs raises competition concerns.

\textbf{i Market definition and dominance}

The conduct of an SEP holder will only be found to infringe Article 102 TFEU if the SEP holder enjoys a dominant position on the relevant market. EU competition guidance relating to SEPs has cautioned that a dominant position must not be presumed.\textsuperscript{25} In practice, however, the EC’s approach to assessing dominance in SEP cases indicates that SEP holders will generally be found dominant where the SEP relates to widely used standards.

The approach to market definition taken by the EC is that each SEP is deemed a relevant market. In Google/MMI,\textsuperscript{26} the EC held that because each SEP needs to be implemented to comply with a standard and, therefore, cannot be circumvented or substituted, each SEP constitutes a separate relevant technology market on its own.\textsuperscript{27} In the EC’s view, the lack of substitutability between SEPs reading on the same standard and thus the narrow market definition is warranted in particular where the standard on which the SEP reads cannot be substituted by other standards.\textsuperscript{28}

This approach to market definition leads to each SEP holder having a 100 per cent market share on a narrowly defined market. Therefore, SEP holders face the challenge of

\begin{itemize}
  \item \textsuperscript{24} Case C-170/13 Huawei Technologies [2015].
  \item \textsuperscript{25} The EC’s Horizontal Guidelines note that ‘there is no presumption that holding or exercising IPR essential to a standard equates to the possession or exercise of market power’, paragraph 269.
  \item \textsuperscript{26} Case COMP/M.6381 – Google/MMI is an EC merger decision in which the EC cleared the merger but made broad \textit{obiter dicta} about the possibility that SEPs confer dominance and about the potential competition concerns raised by the exercise of SEPs.
  \item \textsuperscript{27} Case COMP/M.6381 – Google/MMI, paragraph 54.
  \item \textsuperscript{28} In Motorola, the EC found that the GPRS standard, to which Motorola’s patent was essential, could not be substituted by any other mobile standards, and, given that GPRS is the most basic technology in use in mobile networks, on top of which 3G and 4G operate – GPRS (also referred to as 2G) backwards
\end{itemize}
demonstrating that they face competitive constraints that prevent them from exercising market power notwithstanding their 100 per cent market share. The EC did not accept Motorola’s argument that its market power was constrained by the countervailing buyer power of Apple – the potential licensee in that case – by virtue of Apple’s own portfolio of SEPs and non-SEPs. Rather, the EC took the view that it was impossible for Apple to find an alternative supplier of that particular essential technology, if Apple were to comply with the standard on which Motorola’s patent reads.

Thus, although EC Guidance states that there is no presumption of dominance for SEP holders, in practice SEP holders with patents reading on widely used standards – for which alternatives are limited or non-existent – will likely face a finding of dominance.

ii Injunctions

The CJEU judgment in Huawei is the leading EU case setting out the circumstances in which the seeking and enforcing of injunctions for FRAND-encumbered SEPs against an alleged infringer will be deemed contrary to Article 102 TFEU. The judgment was handed down following a request for a preliminary ruling from the Landgericht Düsseldorf in the course of a national dispute between Huawei Technologies Co Ltd (Huawei) and ZTE Corp, together with ZTE Corp’s German subsidiary (ZTE). The Landgericht Düsseldorf sought guidance from the CJEU as to whether and in what circumstances a dominant SEP holder infringes Article 102 TFEU by seeking an injunction against a potential licensee.

The CJEU held that it is in principle possible for an SEP holder to infringe Article 102 TFEU by seeking an injunction for FRAND-encumbered SEPs. In reaching this initial conclusion, the CJEU considered the balance between ‘maintaining free competition’ pursuant to Article 102 TFEU and protecting the fundamental rights to property (including intellectual property) and access to effective judicial remedy, guaranteed by Article 17(2) and Article 47 of the Charter of Fundamental Rights of the EU. The CJEU noted that patent implementers require licences and that the act of seeking injunctive relief, as a manifestation of the right to exclude by opposing infringement, falls within the scope of IP rights. However, referring to well established case law, the CJEU noted that the exercise of exclusive IP rights has been found to involve abusive conduct in exceptional circumstances. The CJEU thus considered that the standard setting context, which renders SEPs indispensable, and the

29 Huawei held patents essential to the long-term evolution (LTE) wireless communication standard and had given a FRAND commitment in connection with these SEPs. ZTE’s products implemented the LTE standard on which Huawei’s SEP read, and the parties had sought to negotiate a licence agreement on FRAND terms. After the breakdown of the negotiations, Huawei brought an infringement action before the Landgericht Düsseldorf seeking to obtain an injunction, the recall of ZTE products implementing Huawei’s SEPs and an assessment of damages. ZTE raised in defence that the action for an injunction and for the recall of ZTE products infringed Article 102 TFEU.

30 Footnote 4, paragraphs 53 and 54.

31 Id., paragraph 42 et seq.

32 See, e.g., case C-170/13 Huawei Technologies [2015], paragraphs 58 and 59.

irrevocable FRAND commitment as a condition on which the patent holder’s patent became incorporated into the standard, qualified as exceptional circumstances within the meaning of the established case law.34 Moreover, the CJEU found that the FRAND commitment created legitimate expectations by third parties that a licence would be available to them, which made a refusal to license and (by extension) the seeking of an injunction a potential abuse of a dominant position.35

Having established that seeking an injunction for SEPs could in principle infringe Article 102 TFEU, the CJEU went on to define the circumstances in which an injunction for SEPs would be permissible, and in doing so sought to balance two opposing interests: (1) that of potential licensee with the legitimate expectation created by the FRAND commitment that the SEP holder would provide a licence, against (2) that of the SEP holder to obtain FRAND remuneration for the use the SEP holder’s patents.36 The Court held that an SEP holder does not abuse its dominant position by seeking injunctive relief as long as the following conditions have been complied with:

a the SEP-holder must provide notice to the alleged infringer, ‘specifying the way in which [the SEP] has been infringed’;37

b the alleged infringer must be willing to conclude a FRAND licence and a written FRAND offer (specifying the royalty and royalty calculation method) must be forthcoming from the SEP holder;38

c the alleged infringer must ‘respond to [the SEP holder’s offer], in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics’.39 When the alleged infringer is using the teachings of the SEP prior to concluding an agreement, it should, ‘from the point at which its counter-offer is rejected, provide appropriate security, in accordance with recognised commercial practices in the field, for example, by providing a bank guarantee or by placing the amounts necessary on deposit’;40 and

d lastly, the Court held that ‘an alleged infringer cannot be criticised either for challenging, in parallel to the negotiations relating to the grant of licences, the validity of those patents and/or the essential nature of those patents to the standard in which they are included and/or their actual use, or for reserving the right to do so in the future’.41

The CJEU furthermore held that the parties may agree to a third-party FRAND determination in the event of lack of agreement on licence terms following initial offer and counter-offer.42

The CJEU judgment provides a procedural framework for SEP holders to follow, which builds on a theory of harm and general approach similar to that in the EC’s decisions in Samsung and Motorola. Although the reasoning of the CJEU ruling is not explicitly framed in terms of the willingness of the potential licensee – which, for example, was more central to

34 Footnote 4, paragraphs 50–52. See also, AG Wathelet’s Opinion, paragraph 70 et seq.
35 Id., paragraphs 53 and 54.
36 Id., paragraphs 54–55.
37 Id., paragraph 61.
38 Id., paragraph 63.
39 Id., paragraph 65.
40 Id., paragraph 67.
41 Id., paragraph 69.
42 Id., paragraph 68.
the reasoning in the EC *Motorola* decision, where the lack of willingness of Apple was raised as an objective justification for Motorola’s conduct43 – the CJEU judgment imposes a number of requirements on the potential licensee as well as on the SEP holder, recognising that the conduct of the potential licensee has a direct bearing on the outcome of the competition assessment of the SEP holder’s conduct.

As noted above, on 29 November 2017, the EC published a Communication entitled ‘Setting out the EU approach to Standard Essential Patents’.44 In this Communication, the EC provides additional guidance in the form of behavioural criteria used to assess whether an SEP licensee can be considered willing to enter into a licence on FRAND terms. The guidance, which is derived from national courts’ application of *Huawei*, states that:

*a* an SEP licensee must receive ‘sufficiently detailed and relevant information to determine the relevance’ of an SEP portfolio and compliance with FRAND in order to assess a FRAND offer. This includes clear explanations regarding the portfolio patents’ essentiality for a standard, the allegedly infringing products of the SEP implementer, the proposed royalty calculation and the non-discrimination element of FRAND;

*b* counter-offers should be concrete and specific. They should also contain ‘information on the exact use of the standard in the specific product’; and

*c* there is a probable trade-off between the time considered as reasonable for responding to an offer and the detail and quality of the information provided in an SEP holder’s initial offer.

While the guidance provided helpful clarifications, there remains substantial uncertainty around the definition of FRAND. Some of the questions left unanswered include whether an SEP holder can refuse to license to certain levels in the value chain (e.g., refuse to license to component makers while licensing only makers of finished products) and whether an SEP holder can charge a royalty based on the full value of a finished end product, even if the SEP holder’s patent pertains only to a single component incorporated in that end product.

### iii Patent ambush

A patent ambush occurs when an SEP holder deliberately hides the fact that it holds essential IPRs and starts asserting these essential IPRs only after the standard has been agreed upon. Since other undertakings are ‘locked in’ to use the standard once it is adopted, the patent holder will be able to extract higher royalties than would otherwise have been possible, allowing it to gain market power *ex post*. This behaviour falls foul of the EC’s Horizontal Guidelines, which require ‘good faith disclosure’ of IPRs that might be essential for the implementation of a standard under development.45

Thus far, there have not been any prohibition decisions in which the EC conclusively found patent ambush to amount to an abuse of dominance. However, the commitment decision in *Rambus* suggests that such behaviour could constitute an abuse.46 The EC posited that Rambus’ deliberate and strategic failure to disclose its SEPs undermined the confidence in the standard-setting process and, more importantly, resulted in supra-competitive royalties

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44 ‘Setting out the EU approach to Standard Essential Patents’ is available at https://ec.europa.eu/docsroom/documents/26583.
45 Horizontal Guidelines paragraph 286.
46 Case COMP/38.636 *Rambus*. 

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(i.e., royalties at a level that Rambus would not have been able to charge in the absence of its deceptive conduct). Therefore, the EC preliminary construed the patent ambush as excessive pricing in violation of Article 102 TFEU. Accordingly, the EC’s theory of harm did not include any reference to the exclusionary object or effect of Rambus’ conduct. The EC did not establish that Rambus had indeed abused a dominant position but instead made legally binding commitments offered by Rambus pursuant to which it offered to negotiate five-year licences and introduced a maximum royalty rate.

The EC did not establish that Rambus had indeed abused a dominant position but instead made legally binding commitments offered by Rambus pursuant to which it offered to negotiate five-year licences and introduced a maximum royalty rate.

To minimise the risk of patent ambush, the European SSOs – in collaboration with the EC – have all adopted IPR policies that impose, inter alia, an obligation on SEP holders to disclose their SEPs.

iv Excessive pricing of SEPs

An SEP holder may also engage in abusive conduct by licensing its essential patents on supra-FRAND terms. Such excessive pricing amounts to a breach of the SEP holder’s FRAND commitment and could be considered an abuse of dominance under Article 102 TFEU.

However, by closing its investigation in Qualcomm, the EC passed upon the only opportunity thus far to decide whether ‘mere’ supra-FRAND pricing of SEPs can constitute an abuse of dominance. Instead, it noted that the case had raised ‘complex’ issues and that regulators should be ‘careful about overturning commercial agreements’.

Qualcomm demonstrates the difficulty of pursuing supra-FRAND pricing as a purely exploitative abuse. Indeed, despite the EC’s Horizontal Guidelines providing some guidance on potential methods of determining FRAND royalties for SEPs, it remains difficult to establish what constitutes a FRAND rate, in particular if one accepts that not all technologies covered by SEPs contribute the same added value to a given standard. Further clarification cannot be found in the EC’s decisions. Therefore, it remains an open question as to how the EC would determine that royalties actually charged were significantly above FRAND.

Nevertheless, charging a supra-FRAND price for an SEP licence could possibly be regarded as an exclusionary abuse under Article 102 TFEU, in the form of a constructive refusal to license. By requiring potential licensees to pay excessive royalty fees under the threat of an injunction, SEP holders could prevent effective access to the adopted standard. Therefore, the threat or act of seeking injunctions has been considered by the EC as having

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47 Under EU competition law, a dominant undertaking that imposes excessive prices infringes Article 102 TFEU.
48 Case COMP/38.636 Rambus, paragraph 71.
49 For example, the European Telecommunications Standardisation Institute (ETSI) changed its standard-setting rules to strengthen the requirement for early disclosure of essential IPRs, after the EC had expressed concerns that these rules did not sufficiently protect against the risk of patent ambush (Press Release 12 December 2005, IP/05/1565, http://europa.eu/rapid/press-release_IP-05-1565_en.htm?locale=en).
52 Horizontal Guidelines paragraphs 289–290.
53 Horizontal Guidelines paragraphs 269 and 287.
the potential to anticompetitively exclude, as well as exploit (through eliciting supra-FRAND royalty rates) potential licensees. However, at this point, it is not clear how the EC would deal with a pure excessive pricing complaint relating to SEPs.

V INTELLECTUAL PROPERTY AND MERGERS

Under the EU Merger Regulation, the EC assesses whether a notified concentration would lead to a significant impediment to effective competition, including through creating or strengthening a dominant position in the EEA.

Pursuant to Article 3(1) of the EU Merger Regulation, a concentration arises ‘where a change of control on a lasting basis results from: (a) the merger of two or more previously independent undertakings or parts of undertakings, or (b) the acquisition, by one or more persons already controlling at least one undertaking, or by one or more undertakings . . . of direct or indirect control of the whole or parts of one or more other undertakings’.

Below we focus on: (1) when the change of control of intellectual property assets, such as patents, know-how, trademarks and copyrights may trigger or contribute to triggering EU merger control; and (2) when the parties may be required to modify a proposed transaction and in particular when IPRs may be subject to divestment or licensing by the parties for the transaction to be cleared.

i Transfer of IP rights constituting a merger

The acquisition of intangible assets such as brands, patents or copyrights may be considered a concentration within the meaning of the EU Merger Regulation if the assets constitute a business with a market turnover. In the case of a transfer of licences for brands, patents or copyrights, without additional assets, such licences are exclusive ‘at least in a certain territory’ and transfer the turnover-generating activity. Furthermore, the granting of licences and the transfer of licences must be effected on a lasting basis (i.e., it must be capable of resulting in a structural change in the market). However, ‘lasting’ need not mean the transfer is permanent or of indefinite duration.

The EC confirmed this approach in Microsoft/Yahoo! Search Business by finding that Microsoft’s proposed acquisition of a 10-year exclusive licence to Yahoo’s core search technologies amounted, together with the transfer of employees and customers to Microsoft, to the acquisition of the whole or a part of a business to which market turnover can be attributed.

55 EU Merger Regulation, Article 2(2).
56 EU Merger Regulation, Article 3(1). In this chapter, the term ‘merger’ will be construed broadly to encompass any concentration falling within the EU Merger Regulation.
58 Case No. COMP/M.5727 – Microsoft/Yahoo! Search Business, decision of 18 February 2010, paragraphs 5 and 14–19. Similarly, in a decision falling within the scope of the previously applicable Council Regulation (EEC) No. 4064/89 of 21 December 1989 on the control of concentrations between undertakings, the EC found that the acquisition of assets, including a reputable brand name, constituted a concentration within the meaning of the applicable Regulation: see case No. IV/M.890 – Blokker/Toys ‘R’ Us (II), decision of 26 June 1997, paragraphs 12–16.
The transfer of IPRs may also amount to a concentration in the case of the creation of a full-function joint venture that performs, on a lasting basis, ‘all the functions of an autonomous economic entity’. In such circumstances, the joint venture must have sufficient resources, including intangible assets such as IPRs, to operate independently in a market. Furthermore, the extension of the scope of an existing joint venture through the significant addition of IPRs may be considered a new concentration within the meaning of the EU Merger Regulation if the assets constitute a business generating a market turnover.

In this context, the EC approved on 16 June 2015 in PRSfM/STIM/GEMA/JV the proposed creation of a joint venture for cross-border online music licensing and copyright administration services by three British, Swedish and German music collecting societies. The parties provided the joint venture with sufficient resources to operate independently as a business, including all IPRs held by them. These include the IPRs relating to the copyright database of a preexisting joint venture between PRSfM and STIM, and to two of GEMA’s licence processing tools. The EC concluded that the transaction fulfilled the requirements of a full-function joint venture and, therefore, constituted a concentration within the meaning of the EU Merger Regulation.

ii Remedies involving divestitures of intellectual property

If the EC concludes that a notified concentration raises serious doubts as to its compatibility with the internal market, the parties may seek to resolve the EC’s concerns by offering commitments (or remedies) before or after the initiation of proceedings, and thereby seek to obtain regulatory clearance of their concentration. Following the modification of the concentration by the parties, the EC may declare the concentration compatible with the internal market and may attach certain conditions and obligations to its decision to ensure the parties’ compliance with their commitments.

The EC draws a distinction between two types of remedies that may involve intellectual property: (1) divestitures or exclusive licensing; and (2) granting access to IPRs to third parties on a non-discriminatory basis.

**Divestiture or exclusive licensing of IPRs**

The EC’s recent decisional practice has confirmed its preference for divestiture commitments as a suitable remedy, as such remedies eliminate the possibility of an ongoing relationship between the parties and their competitors. For instance, on 2 December 2015, the EC approved the proposed acquisition of Cytec by Solvay subject to Solvay divesting the entirety

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59 EU Merger Regulation, Article 3(4).
60 Consolidated Jurisdictional Notice, paragraph 94.
61 Consolidated Jurisdictional Notice, paragraphs 106–108.
64 EU Merger Regulation, Articles 6(2) and 8(2).
65 EU Merger Regulation, Articles 6(2) and 8(2).

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of its phosphor-based solvent extractants business, including all know-how, technical documentation and assistance required for the production of the divestment business, as well as all IPRs and relevant trademarks.67

Licensing arrangements may be deemed a suitable alternative in certain cases in which a divestiture of IPRs would not be feasible – for example, because of the characteristics of the technology or rights concerned, or where a divestiture would obstruct ongoing research.68 For instance, in GlaxoSmithKline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business,69 the EC accepted the granting of an exclusive and perpetual trademark licence for the Nimenrix vaccine to the purchaser as opposed to a full trademark divestiture, given the importance of the IPRs to the merged entity’s retained business.70 The EC has stated that licensing remedies should be as effective as divestitures in enabling the licensee to compete with the merged entity.71

Finally, the EC reaffirmed the acceptability of the scarcely used rebranding commitments in Merck/Sigma-Aldrich. Such commitments entail the granting of an exclusive, time-limited licence to use a brand.72 In particular, rebranding commitments provide for a period within which the licensee must rebrand the product under the licensee’s own brand.73 Similarly, in Honeywell/Elster and DEMB/Mondelez/Charger OpCo, the EC accepted a remedy whereby the merged entity committed to a full transfer of the licence for a brand with a temporary licence back from the purchaser to the entity for the purpose of rebranding certain products that were not being divested.74

Access to IPRs

The EC’s competition concerns may also be resolved if the parties commit to grant, on a non-discriminatory and transparent basis, access to key technology, such as patents, know-how or other IPRs, to third parties who may depend on the technology or IPRs for their activities in a downstream market.75 Such an alternative remedy must have effects at least equivalent to a divestiture of the IPRs.76

This type of remedy may, for instance, require parties to commit to the disclosure of certain necessary information, such as information required for the interoperability of different systems or equipment, or to the granting of non-exclusive licences to their competitors on the

67 Case No. COMP/M.7777 – Solvay/Cytec, decision of 2 December 2015, Section IV.
68 Remedies Notice, paragraph 38.
71 Remedies Notice, paragraph 38.
72 Case No. COMP/M.7435 – Merck/Sigma-Aldrich, decision of 15 June 2015.
73 Remedies Notice, paragraphs 39–42.
74 Case No. COMP/M.7737 – Honeywell/Elster, decision of 21 December 2015, paragraphs 265–269; case No. COMP/M.7292 – DEMB/Mondelez/Charger OpCo, decision of 5 May 2015, paragraphs 702–706, in which the EC additionally stresses the importance of ensuring the proportionality of remedies to the relevant competition concern identified by the EC.
76 Remedies Notice, paragraph 61.
same conditions as prior to the concentration. For instance, the EC considered in Dentsply/Sirona that the parties’ commitments adequately addressed its competition concerns following the parties’ offer to extend Sirona’s existing licensing agreements with its competitors by 10 years, as well as to provide the necessary know-how to these suppliers for the same length of time.77

VI OTHER ABUSES

While these types of conduct can potentially emerge in any industry that relies on IP rights, we will focus on the pharmaceutical sector, which has generated the vast majority of precedents. Indeed, the EC 2009 report on its Pharmaceutical Sector Inquiry (PSI) identified the below types of conduct as part of the ‘tool box’ that originator pharmaceutical companies (i.e., pharmaceutical companies marketing patented branded products) may use to delay or restrict the entry of generic medicines (i.e., non-branded medicines, which are identical (bioequivalent) to a branded drug in dosage, safety, strength, etc.).78

i Sham or vexatious IP litigation

It follows from the obligations imposed on dominant companies by Article 102 TFEU that, in specific circumstances, they may be deprived of the right to adopt a course of conduct that is not in itself abusive and that would even be unobjectionable if adopted by non-dominant companies.79

This can also be the case with respect to fundamental rights, such as the right of access to a court.80 Under exceptional circumstances, instigating litigation, including IP litigation, can amount to an abuse of dominance.

In its 1998 ITT Promedia ruling – which it more recently upheld in Protégé International81 – the GC confirmed the exceptional nature of ‘predatory litigation’ and established that bringing legal proceedings may be abusive under the following two cumulative conditions:

a legal proceedings brought cannot reasonably be considered as an attempt to assert rights of the undertaking concerned and can, therefore, only serve to harass the other party; and

b the action in question is conceived in the framework of a plan whose goal is to eliminate competition.

According to the GC, the actual validity or existence of the rights asserted is irrelevant in determining whether the court action is abusive. Instead, the GC inquires whether the legal action was intended to assert what the undertaking could, at that point in time, reasonably consider to be its rights.

77 Case No. COMP/M.7822 – Dentsply/Sirona, decision of 25 February 2016.
78 Commission Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.1 ff.
80 See Article 47 of the Charter of Fundamental Rights of the EU.
In the same judgment, the GC ruled that a claim for the performance of a contractual obligation can be abusive if it ‘exceeds what the parties could reasonably expect under the contract or if the circumstances applicable at the time of the conclusion of the contract have changed in the meantime’.82

Similarly, an interesting CJEU ruling under Article 101 TFEU is expected in *Genentech Inc. v. Hoechst GmbH*.83 The CJEU’s ruling will give insights into whether EU competition law precludes parties from enforcing patent licensing agreements, requiring royalties, after the invalidation of the patent.

ii Misuse of the patent process

As noted in Section IV, the EU courts have recognised that patent holders, including dominant ones, are generally free to obtain and exercise patent rights save in exceptional circumstances. However, in situations where a dominant firm seeks fraudulently to obtain patent protection, or where it seeks artificially to expand the effective scope or term of patent protection, Article 102 TFEU may apply.

The key EU precedent remains the CJEU’s 2012 *AstraZeneca* judgment,84 which upheld a GC judgment and EC decision finding that AstraZeneca had abused its dominance in two ways:85

a making false representations to patent authorities in various EEA Member States fraudulently to obtain or maintain supplementary protection certificates (SPCs) for its anti-ulcer medicine, Losec; and

b submitting requests to deregister the marketing authorisation for Losec capsules in Denmark, Norway and Sweden in combination with the withdrawal of Losec capsules from the market and the launch of ‘new-generation’ Losec tablets, thereby preventing generic competitors from relying on that marketing authorisation to enter the market.

SPCs effectively extend patent protection for the active substance in a drug to compensate for the time the right holder originally loses during mandatory marketing authorisation processes. In applying for SPCs, AstraZeneca had provided misleading information about the timing of obtaining its first marketing authorisation in the EU, which could result in the relevant authority granting longer SPC protection.

AstraZeneca argued that the alleged anticompetitive effects of its conduct could only materialise if the relevant public authorities were actually misled into granting the requested SPCs. The CJEU rejected this argument, stating that where it is established that behaviour is objectively of such a nature as to restrict competition, the question whether it is abusive in nature cannot depend on the contingencies of the reactions of third parties. Therefore, the fact that certain public authorities were not misled by AstraZeneca’s false representations did not negate the abusive nature of AstraZeneca’s conduct.86

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83 Case C-567/14, *Genentech Inc. v. Hoechst GmbH*, not yet published. This case was brought as a request for a preliminary ruling by the Paris Court of Appeal.
AstraZeneca’s second abuse marked the first time the EC dealt with ‘evergreening’ or ‘product-hopping’ practices.87 These practices involve incremental reformulations of first-generation drugs to shield them from generic competition. Such incremental reformulations are presented as innovations to preserve patent protection, typically through the launch of a second-generation product to which sales are shifted before generic medicines competing with the originator’s first-generation product enter the market.

AstraZeneca’s attempt to deregister Losec capsules was found to affect generic entry in two ways. First, suppliers of generic alternatives could no longer use Losec capsules as a reference product to benefit from the abridged marketing authorisation process.88 The abridged market authorisation process allows manufacturers of generics to refer to the results of the originator’s pharmacological and toxicological tests and clinical trials, thus avoiding repetition of tests, saving resources and expediting market entry. Although owners of original proprietary medicines typically enjoy a right of exclusive use of the test results for a limited period (usually six to 10 years from the grant of the first market authorisation in the EU), this period had already lapsed in AstraZeneca’s case. Second, demand was shifted away from generics and towards the new (patent-protected) Losec tablets before generics could enter the market, thus reducing their viability upon entrance.

The CJEU ultimately found that AstraZeneca’s deregistrations of Losec’s market authorisation did not qualify as competition on the merits or protection of AstraZeneca’s legitimate commercial interests. AstraZeneca had failed to show that its deregistrations of Losec marketing authorisations were commercially necessary (or even useful).89

With regard to both abuses, the GC confirmed that while abuse of dominance is an objective concept that does not require the EC to demonstrate the deliberate nature of AstraZeneca’s conduct, intention to cause harm nonetheless remains a ‘relevant factor which may . . . be taken into consideration’90 in establishing an abuse.

AstraZeneca makes clear that the manner in which an undertaking acquires IP protection can amount to a competition law violation.91 Exploiting ‘loopholes’ in the regulatory system may entail a significant antitrust risk, even in the absence of intent to affect competition on the market.

iii Anticompetitive settlements of IP disputes

Settlements between patent holders and firms challenging patent validity are common and generally recognised as efficient tools to resolve patent disputes: they are cost-effective and provide legal certainty to the parties.92

87 These practices were also identified in the EC’s Pharmaceutical Sector Inquiry. See Commission Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.6.
90 Case T-321/05 AstraZeneca v. Commission, judgment of 1 July 2010 ECLI:EU:T:2010:266, paragraph 359. See also paragraph 813.
Nonetheless, competition concerns can arise where the defendant’s claims challenging validity or infringement of the defendant’s patent, or both, are sufficiently strong not to warrant concessions from the plaintiff in relation to timing and scale of market entry.

Patent settlements between originator companies and would-be generic entrants have come under scrutiny in the pharmaceutical sector. In a typical patent settlement scenario, a generic pharmaceutical company seeks to enter a market still protected by an originator company’s patent. The generic company challenges validity and infringement of the originator’s patent, with both challenges having an uncertain outcome. The originator and the generic supplier settle their dispute, with the generic supplier agreeing not to enter before a specific date – typically earlier than the date of patent expiry. The settlement usually involves some form of payment by the originator to the generic company. Such settlements are known as ‘reverse payment patent settlements’ or ‘pay-for-delay settlements’.

Prior to the 2009 PSI Report, the compatibility of reverse payment patent settlements with EU competition law was considered a ‘legal grey area’. While the EC did not provide substantial guidance in its PSI report, it nevertheless identified patent settlements that (1) limit generic entry, and cumulatively (2) involve value transfers from originators to generic companies as warranting particular antitrust scrutiny.

Contrary to cases involving misuse of the patent process, the EU courts have yet to express their views on pay-for-delay cases.

In its 2013 Lundbeck decision, the EC provided its first analysis of pay-for-delay agreements. The EC found that six (relatively short-term) patent settlements between originator Lundbeck and various companies intending to market generic versions of antidepressant drug citalopram had as their object the restriction of competition in violation of Article 101 TFEU.

Pursuant to these settlement agreements, Lundbeck agreed to make cash payments to the generic companies, or guarantee certain profits for them under distribution agreements or purchase their citalopram stock (to take it out of circulation), or a combination of these. The EC alleged that, in return, the generic companies agreed to delay their entry in the EEA.

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93 According to a 28 January 2004 press release by the Danish Competition Authority, which at the time, together with the European Commission, was investigating a series of settlement agreements between Lundbeck and generic companies. The press release is available at: www.kfst.dk/Afgoerelsesdatabase/Konkurrenceomraaet/Styrelsesafgoerelse/2004/Undersoegelse-af-Lundbeck?tc=A23BB6AE22D4D28A9CDB2A04F087E18.


95 See Section VI.ii.

96 Case COMP/AT.39226 – Lundbeck, decision of 19 June 2013.

97 Case COMP/AT.39226 – Lundbeck, decision of 19 June 2013.

The EC based its finding in *Lundbeck* on three key elements:

- at the time of the settlements, Lundbeck and the generic companies were at least potential competitors in the EEA as the validity and infringement of Lundbeck’s challenged patents were highly uncertain;
- considerable value was transferred from Lundbeck to the generic companies, substantially reducing their incentive to continue independent efforts to enter the market and to challenge validity of the patents; and
- there was a link between the value transfer and the generic companies’ decision to limit efforts for independent entry.99

The parties appealed the EC’s decision before the GC. The GC dismissed the appeals of Lundbeck and others in its ruling issued in September 2016, confirming the EC’s decision and the fines imposed.100

Notably, the GC confirmed the EC’s view that agreements such as the ones that Lundbeck signed with the potential generic entrants can constitute by-object infringements101 of competition law if combined with a series of factors, principal among which are reverse payments to the potential generic entrants. This is because, pursuant to the GC’s ruling, these agreements replace the uncertainty of litigation over the validity and infringement of Lundbeck’s patent with the certainty that the generic companies will not enter the market. To reach this conclusion, the GC relied on various factors, including an analysis of whether the generic companies could be considered Lundbeck’s potential competitors and under what circumstances a reverse payment is compatible with competition law. The GC analogised Lundbeck’s agreements to market exclusion agreements.

The GC also ruled that the restrictions contained in Lundbeck’s agreements could not be justified as being objectively necessary to protect Lundbeck’s IP rights (which would justify these restrictions under the ancillary restrictions test).102

Finally, the GC gave useful guidance on the legal test for determining under which circumstances the generic drug manufacturers with which Lundbeck concluded patent settlements could be considered ‘potential competitors’ of Lundbeck’s patented or branded drug. As noted above, the existence of potential competition between the generic drug manufacturers and the patented or branded drug manufacturer is one of the conditions for a

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99 **Case COMP/AT.39226 – Lundbeck**, decision of 19 June 2013, paragraph 661. A series of other important factors also taken into account by the EC were: the fact that value transferred by Lundbeck took into consideration the turnover or the profit the generic company expected had it successfully entered the market; the fact that Lundbeck could not have obtained the limitations on entry through enforcement of its process patents, the obligations on the generic undertaking in the agreement going beyond the rights granted to holders of process patents; and the fact that the agreement contained no commitment from Lundbeck to refrain from infringement proceedings if the generic undertaking entered the market with generic citalopram after expiry of the agreement.


101 Again, a by-object infringement concerns conduct that is, by its very nature, harmful to the functioning of competition without the need to demonstrate (actual or potential) anticompetitive effects.

102 A contractual restriction can escape the Article 101(1) TFEU prohibition if it is ancillary to a main agreement that is itself not anticompetitive in nature and the main agreement would be impossible to carry out without the existence of the restriction in question. The fact that the main agreement would simply be rendered more difficult to implement/less profitable without the restriction in question is not sufficient to make the restriction lawful. (see case C-382/12, **MasterCard and Others v. Commission**, EU:C:2014:2201, paragraph 91).
reverse patent settlement to be found anticompetitive. The GC ruled that a generic company can be considered a potential competitor if it has real concrete possibilities of entering the market. The GC noted that the fact that the branded drug has an existing patent (which is presumed valid) does not necessarily mean that generic companies are not potential competitors. As long as generic companies can objectively launch generic versions of the branded drug, even ‘at risk’ of infringing the branded drug’s patent, they are considered potential competitors of the branded drug. In short, even the possibility of an at-risk launch of a generic drug is considered by the GC as an expression of potential competition.103

In addition, contrary to the classic test for potential competition, which requires entry within a short period, the GC in Lundbeck accepted that potential competition could already exist several years before the expiry of the patent (at the time when the generic company begins development efforts for a generic version of the patented drug). The GC’s judgment has received criticism on this point, as its thinking could result in generics that are more than five years away from entry being considered potential competitors of the branded drug.

The parties raised various arguments in defence of the reverse patent settlements. In particular, the generic companies argued that other reasons prevented them from entering the market, such as the fact that some of them had not obtained a marketing authorisation. The GC did not consider these arguments credible and instead noted that Lundbeck’s willingness to enter into patent settlements indicated that it saw the generic manufacturers as a potential competitive threat.104 The parties also argued that the settlements could lead to efficiency gains. The GC rejected this argument, as it held that the efficiency gains were not proven by the parties to the required standard of proof. In relation to the imposition and level of the fine, the GC held that it was not unforeseeable by the parties that the agreements were anticompetitive at the time of conclusion, and so the imposition of a fine was warranted. The fact that the EC in 2005 had expressed doubts as to whether the agreements were in fact anticompetitive did not make a difference in this respect, as this was merely a preliminary assessment, and significant emphasis was placed on the size of the reverse payment as a relevant factor in that assessment.

In July 2014, the EC fined originator Servier and five generic companies for having concluded patent settlements aimed at delaying entry of generic versions of the cardiovascular medicine perindopril. As in Lundbeck, the EC found that Servier’s settlements violated Article 101 TFEU by object (i.e., removing the need for the EC to prove concrete harmful effects on competition).105 However, unlike Lundbeck, the EC based its infringement decision against Servier also on Article 102 TFEU: the EC found that Servier had not only induced the settlements, but also acquired (scarce) technology essential to generic entry.

The GC’s judgment on appeal is currently pending.106 On 17 July 2017, the EC issued a statement of objections to Teva and Celaphon for entering into a reverse patent settlement in 2005 regarding the sleeping disorder drug modafinil.107 Its final decision remains pending.

105 Case COMP/AT.39612 – Perindopril (Servier), decision of 9 July 2014.
Patent settlements are driven by the parties’ commercial considerations and thus come in many forms. Attempting to delineate some overarching rules, the EC stated in *Lundbeck* that ‘settlements which are based purely on each party’s assessment of the strength of the patent’ are, in principle, safe from prosecution, while limitations on the generic company’s commercial autonomy achieved through ‘inducements from the originator . . . aligning previously competing interests’ may give rise to a by object restriction of competition.¹⁰⁹

Determining whether generic suppliers present at least potential competition opens the door for the EC to tread dangerously close to assessing patent validity.¹¹⁰ Potential competition is established when it is ‘based on realistic grounds’ while ‘the mere theoretical possibility to enter a market is not sufficient’.¹¹¹ *Lundbeck* confirms that the possibility of invalidity of the originator’s patent can be included in these ‘realistic grounds’. According to the EC, this is reconcilable with the presumption of patent validity as reiterated by the CJEU in *AstraZeneca*.¹¹²

The EC and the courts have interpreted the notions of ‘limiting entry’ and ‘value transfer’ broadly.¹¹³ ‘Limiting entry of generic competition’ could range from an absolute restriction on entry to limited forms of non-immediate or non-independent entry.¹¹⁴ Similarly, ‘value transfers’ are not limited to direct monetary payments, but can also include more covert transfers of value.¹¹⁵ A value transfer that cannot be adequately explained by or that considerably exceeds the value of the generic company’s counter-performance will be, therefore, less easily defensible.¹¹⁶

### VII OUTLOOK AND CONCLUSIONS

The EC and the CJEU are continuing to monitor the enforcement of EU competition laws involving IPRs, most notably in relation to disputes over the possible infringement of SEPs and potentially anticompetitive pay-for-delay arrangements in the pharmaceutical sector, but also in relation to EU merger control. There seems to be a continuing trend whereby competition laws override IPRs where their exercise threatens the technical development of products and stifles innovation.

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¹⁰⁸ *Case COMP/AT.39226 – Lundbeck*, decision of 19 June 2013, paragraph 659.

¹⁰⁹ *Ibid*. This approach is similar to the EC’s approach to ‘co-existence agreements’ between trademark owners; see Section III.vi.


¹¹⁴ For instance, entry as an exclusive distributor of the originator.

¹¹⁵ In *Servier* the EC found a value transfer to have occurred because Servier granted a licence to a generic company for specific EU Member States, which, in return, agreed to cease efforts to launch its generic perindopril in all other EU national markets.

¹¹⁶ *Case COMP/AT.39226 – Lundbeck*, decision of 19 June 2013, paragraph 660.
The 2015 Huawei judgment evokes new questions and has left many issues unsolved including: (1) the exact meaning of FRAND terms and particularly as to what ‘reasonable’ means with respect to royalties; (2) whether the judgment applies to portfolio licensing or cross-licensing; and (3) whether an SEP confers a dominant position on an SEP holder. While the 2017 policy paper published by the Commission provides behavioural criteria that can be used to assess whether a licensee can be considered willing to enter into a licence on FRAND terms, there remains substantial uncertainty around the definition of FRAND.

The GC’s first ruling on the legality of reverse patent settlements confirmed that under specific circumstances these can constitute by-object infringements of competition law. Lundbeck has lodged an appeal on points of law to the CJEU, the decision on which is currently pending.

As part of the Digital Single Market Strategy and having published the final report of the e-commerce sector inquiry, the EC intends to use the findings to target enforcement of EU competition law at the most widespread potentially infringing business practices that have emerged or evolved as a result of the growth of e-commerce. Geo-blocking in particular is relevant in the context of the intersection of competition law and IPRs.
I  INTRODUCTION

French competition law is codified in Book IV of the French Commercial Code (FCC). It is largely similar in substance to EU competition law, which directly applies in cases that may affect trade between EU Member States. The most important French antitrust provisions are Articles L.420-1 and L.420-2 of the FCC, which are the domestic equivalents of Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU) respectively. There is no domestic legal or statutory provision dealing specifically with the interplay between intellectual property (IP) law and competition law. As a result, the rules applicable in this domain are largely based on European and French case law.

II  YEAR IN REVIEW

Over the past year, the main developments affecting the interplay between IP and antitrust laws occurred at the European level, with the General Court’s first rulings on ‘pay-for-delay’ agreements. After the expiration of its patent for a medical molecule used in antidepressant medicines, Lundbeck concluded agreements with different companies active in the sale of generic medicinal products. Under these agreements, the generic companies would stay out of the market, in exchange for different kinds of monetary and commercial consideration. The Commission considered these agreements as restrictive by their object and sanctioned both Lundbeck and the generic companies. Lundbeck and the generic companies lodged a total of six appeals against the Commission decision. The General Court endorsed the Commission’s view that Lundbeck and the generic companies were potential competitors when the agreements were concluded. It thus ruled that the Commission was entitled to find that the agreements were restrictive by their object. Appeals are still pending before the European Court of Justice.

The past year has also seen a significant uptake in litigation involving standard-essential patents (SEPs). These cases have been brought in the wake of the Huawei v. ZTE decision of the Court of Justice of the European Union (CJEU), which laid down a road map for SEP owners and implementers of standards. After a period without significant litigation in this

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1 David Por and Florence Ninane are partners at Allen & Overy LLP.
4 CJEU, 15 July 2015, C-170/13, Huawei v. ZTE.
space, multiple lawsuits have been brought by SEP owners, including in France. They have not yielded significant decisions yet, but many of the cases ask the French courts to take positions on matters of principle turning around the substantive definition of the way to determine fair, reasonable and non-discriminatory (FRAND) terms and conditions.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Under French law, anticompetitive restraints imposed in the context of licensing agreements fall under either Article L.420-1 or Article L.420-2 of the FCC or under the corresponding EU provisions, respectively Article 101 and Article 102 TFEU. This includes, inter alia, non-compete obligations, resale price maintenance, market and customer allocation. In addition, Regulations No. 330/2010 (block exemption regulation applicable to vertical restraints – VBER), No. 316/2014 (technology transfer block exemption – TTBE), No. 1218/2010 (specialisation agreements) and No. 1217/2010 (R&D agreements) are directly enforceable where EU competition law applies, and the positions taken in the set of guidelines published by the European Commission may be relied on by the FCA and the courts in their assessment.

Anticompetitive restraints in the context of licensing agreements may take several forms, such as abusive tying. In the audio-visual broadcasting rights sector, the FCA has found that Canal Plus, a provider of pay-TV services, abused its dominant position by subjecting its pre-purchase of exclusive broadcasting rights for French movies to the producers’ commitment not to transfer the broadcasting rights for pay-per-view during Canal Plus’s exclusivity period. The French Supreme Court upheld this decision. Furthermore, resale price maintenance is prohibited by Article L.420-1 of the FCC and its EU equivalent, Article 101 TFEU. This rule applies to distribution agreements involving products or services protected by IP rights.

ii Refusals to license

Although French law does not make any specific provision on the refusal to license, it may be considered an abuse of dominant position under Article L.420-2 of the FCC and its EU equivalent, Article 102 TFEU. In an Opinion relying on Magill, the FCA considered that an intellectual property right could be considered an essential facility. The FCA went on to find that a software could be an essential facility. This would not be the case, however, where (1) the undertaking requesting to be granted access operates without the software, or (2) if equivalent software

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5 These guidelines include, for example, the Guidelines on Vertical Restraints (OJ C130/01 of 19 May 2010) or the Guidelines on the application of Article [101(3)] TFEU (OJ C101 of 27 April 2004).
6 FCA, decision 98-D-70 of 23 November 1998 concerning a complaint filed by Multivision and Télévision Par Satellite in the audiovisual broadcasting rights sector.
7 French Supreme Court, judgment of 30 May 2000, No. 00-17.038.
8 FCA, Opinion 02-A-08 of 22 May 2002, concerning the request lodged by the Association for the promotion of press distribution.
could be developed under reasonable economic conditions. The FCA and the Paris Court of Appeal consider that the price at which access is granted to the essential facility must be oriented towards costs, regardless of whether the essential facility is protected by IP rights.

In the sector of supply of teaching materials to driving schools, the FCA found that an undertaking owning IP rights on certain materials, for which it was the exclusive provider to the government, abused its dominant position by using these IP rights on a commercial basis while refusing to license them to its competitors.

More recently, the FCA accepted commitments from Nespresso to remove certain barriers to entry to the market for coffee capsules. The FCA found that Nespresso engaged in technical curtailing of the interoperability between its coffee machines and its competitors’ coffee capsules, and that it gave customers legal and commercial incentives to use Nespresso coffee capsules exclusively. This decision was handed down against the background of ongoing patent litigation between Nespresso and manufacturers of compatible capsules, and the behaviour at stake involved both technical aspects (redesigns of the coffee machines that had the effect of making the entry of competing capsules more difficult) and patent strategies.

### iii Unfair and discriminatory licensing

Unfair or discriminatory licensing may fall under either Articles L.420-1 or L.420-2 FCC and their EU equivalents, Article 101 and 102 TFEU. The FCA recently held that ongoing IP litigation with regard to certain rights cannot justify abusive discrimination on the part of a dominant undertaking. As a result, the FCA considered that a dominant undertaking abused its position by refusing to license its leading database to laboratories using the software manufactured by a specific company, while it simultaneously agreed to license the database to laboratories using the software manufactured by competitors. This decision was upheld by the Paris Court of Appeal as well as by the French Supreme Court. It is noteworthy, however, that the Supreme Court found that the abuse was established because the refusals to license were part of a broader policy and did not only concern the company with which an IP dispute was ongoing; it left open the possibility that the existence of such an IP dispute could justify a refusal to license in a specific case, as it may constitute, depending on the circumstances, ‘a legitimate defence [of the IP right owner’s] rights’.

In addition, it is established FCA practice to consider that premium TV broadcasting rights for certain sports are likely to generate many subscriptions. Commercialisation of these rights must comply with FRAND terms, and be of a limited duration. The FCA recently held that broadcasting rights for the Top 14 rugby competition qualified as premium. It then ordered the French National Rugby League and Canal Plus to suspend an agreement granting Canal Plus exclusive broadcasting rights for the Top 14 games for a period of five years.

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11 Paris Court of Appeal, judgment of 29 June 1999 No. 1999/01269.
12 FCA, decision 04-D-09 of 31 March 2004, concerning certain practices by Codes Rousseau in the sector of teaching material for driving schools.
13 FCA, decision 14-D-09 of 4 September 2014 concerning practices engaged in by Nestlé, Nestec, Nestlé Nespresso, Nespresso France and Nestlé Entreprise in the espresso coffee-machines sector.
14 FCA, decision 14-D-06 of 8 July 2014 regarding certain practices by Cegedim in the medical information databases sector.
FCA also ordered the National Rugby League to reattribute TV rights on FRAND terms.\textsuperscript{16} This decision was essentially upheld by the Paris Court of Appeal.\textsuperscript{17} However, the FCA does not easily concede the unfair nature of the attribution of TV rights. It recently rejected a complaint by Ma Chaîne Sport (MCS), which argued that the attribution of certain allegedly semi-premium TV rights by the National Rugby League to certain entities was the result of an anticompetitive agreement, and that the attribution process was discriminatory. The FCA considered that the evidence brought forward by the applicant was insufficient to establish that the defendant’s conduct was anticompetitive.\textsuperscript{18}

Finally, in an opinion,\textsuperscript{19} the FCA took the view that an undertaking could not use an IP right to justify engaging in a margin squeeze that would result in private operators not being able to market, at an economically reasonable price, specific products for which a demand exists.

\textbf{iv Patent pooling}

Patent pooling may have as its object or effect the restriction of competition, and may therefore fall under Article L.420-1 FCC or 101 TFEU, or both. In a thematic study published in 2004, the FCA recognised that cross-licensing between competitors gives the undertakings an opportunity to collude by partitioning the market between them or by engaging in price-fixing. However, the FCA has also considered that such agreements may be pro-competitive under certain conditions, which include, for instance, situations where the cross-licensed technologies are complementary.\textsuperscript{20} Although this position is not binding and should not be construed as a statement of the law applicable to patent pooling, it nonetheless provides guidance on how the FCA could approach the issue in a dispute.

\textbf{v Software licensing}

As highlighted in Section III.ii, above, concerning refusal to license, software may be considered an essential facility by the FCA or by French courts. This question was addressed extensively in a series of judgments and decisions involving the Nouvelles Messageries de Presse Parisienne (NMPP). The FCA ordered NMPP to set up a connection between its software and Messageries Lyonnaises de Presse’s (MLP) on two grounds: (1) there were doubts as to whether the software could be reproduced, and (2) the lack of access to the software could jeopardise MLP’s activities.\textsuperscript{21} The Paris Court of Appeal dismissed the appeal,\textsuperscript{22} but its judgment was overturned by the French Supreme Court. The Supreme Court held that the Court of Appeal failed to establish whether alternative and economically reasonable solutions, even less advantageous than those of NMPP, could be used by MLP.\textsuperscript{23} The case was

\textsuperscript{16} FCA, decision 14-MC-01 of 30 July 2014, concerning beIN Sports France’s request for interim measures in the pay-TV sector.

\textsuperscript{17} Paris Court of Appeal, judgment of 9 October 2014, No. 2014/16759 and No. 2014/17031.

\textsuperscript{18} FCA, decision 16-D-04 of 23 March 2016, concerning certain practices in the context of the commercialisation of audiovisual rights for the Pro D2 French rugby championship.

\textsuperscript{19} FCA, Opinion 01-A-18 of 28 December 2001, concerning certain practices by INSEE in relation to the conditions of commercialisation of information from the SIRENE database.


\textsuperscript{21} FCA, decision 03-MC-04 of 22 December 2003, concerning Messageries Lyonnaises de Presse’s request for interim measures.

\textsuperscript{22} Paris Court of Appeal, judgment of 12 February 2004, No. CT0175.

\textsuperscript{23} French Supreme Court, judgment of 12 July 2005, No. 04-12.388.
remanded back to the Paris Court of Appeal, which rejected the request for interim measures. The Court of Appeal found that, in the absence of the connection between the software, the data contained in NMPP’s software could be manually entered into MLP’s software. In addition, NMPP’s software could be reproduced at a not unreasonable cost, and MLP could set up its own distribution network.24 The French Supreme Court dismissed the appeal filed against that judgment.25 The case nonetheless continued on its merits, and the FCA eventually accepted commitments from NMPP, which granted MLP the requested access in exchange for its contribution to the development, exploitation and access costs.26

More recently, the FCA found that conduct by Oracle could amount to an abuse of dominance. This conduct consisted in refusing to develop new versions of its relational database management system on certain Intel processors and, as a result, on certain Hewlett-Packard servers.27

vi Trademark licensing
With regard to import control, Article L.713-4 of the French Code of Intellectual Property provides that ‘[t]he right conferred by a mark shall not entitle an owner to prohibit its use in relation to goods which have been put on the [single] market . . . under that mark by the proprietor or with his consent. However, the owner shall continue to have the faculty of opposing any further act of marketing if he can show legitimate reasons, especially where the condition of the goods has been subsequently changed or impaired.’ In this context, the French Supreme Court held that the grey-market commercialisation of products, usually distributed through a selective distribution network, does not constitute a legitimate reason to oppose acts of marketing.28

IV STANDARD-ESSENTIAL PATENTS
i Dominance
To the best of our knowledge there is no domestic case law explicitly addressing the issue of whether SEPs confer a dominant position on their owner. It is, however, to be noted that, in first instance PI proceedings, the president of the Paris First Instance Court accepted that the owner of a number of SEPs must be bound by the FRAND undertaking given to the standard-setting organisation.29 The reasoning of the Court does not appear to be based on contract law, but instead on public policy considerations; arguably, thus, despite the issue not being explicitly decided, the court appears to have assumed the existence of a dominant position.

Of note, in the catalogue publishing sector, for stamp-collection valuation, the FCA considered that a company that had been active on the market for more than a century was so well known that its numbering system amounted to a de facto standard for the

26 FCA, decision 08-D-04 of 25 February 2008 concerning certain practices by NMPP.
27 FCA, decision 12-D-01 of 10 January 2012, concerning a request for interim measures in relation to certain practices by Oracle Corporation and Oracle France.
28 French Supreme Court, judgment of 23 March 2010, No. 09-66522.
29 Paris First Instance Court (PI proceedings), judgment of 8 December 2011, Samsung v. Apple, No. 11/58301.
valuation and trade of stamps. In particular, the ‘standard-like’ character of the company’s numbering system was considered ‘a significant element of Yvert’s supremacy on the market’. As a result, its refusal to license its numbering system to competitors could amount to an abuse of dominant position. Indeed, the refusal prevented the development of certain new products for which a demand potentially existed, as well as the competitive development of new valuation catalogues.\(^{30}\)

ii Injunctions

Before the CJEU Huawei v. ZTE decision, there had been a string of decisions by French courts issuing injunctions against implementers of SEPs.

There are two precedents where the court, ruling on the merits, issued such injunctions.\(^{31}\) In both cases, the court explicitly noted that licences – which seem to have been on standard terms – were made available by the patentee. In \textit{TX Western Europe and Africa}, the Court stated that ‘it is undisputable that Philips offers SEP licences to any manufacturer or distributor of the products’ at stake. In the \textit{Sisvel v. Z} case, the Court stated that the defendant, ‘which imports products which have been manufactured by a company who did not seek a licence from Sisvel, committed acts of infringement’.

In another case, an injunction was sought and was refused merely because the patent had expired during the course of the litigation.\(^{32}\) However, the Paris First Instance Court stated that: ‘in accordance with the ISO patent policy, Philips, which was at the time the owner of the patent application on which the MPEG Audio patents are based, filed a patent statement and declaration form with the ISO, it being noted that such a statement is required when it appears that the solution embodied in the envisaged standard is covered by patent rights’.

While there are also precedents for the Court dismissing the request for an injunction, those refusals were not related to the FRAND obligation. Instead, the decisions resulted from findings of non-infringement\(^{33}\) or of invalidity.\(^{34}\) In one case, an injunction was sought, but it was not granted although the Court confirmed the infringement by the former SEP licensee whose licence had been terminated for non-compliance with its obligations. In this case, the claim for injunction was dismissed because the infringer was being wound up in the framework of insolvency proceedings, such that it could not trade any more, which made, in the opinion of the Court, the claims for injunction moot.\(^{35}\)

\(^{30}\) FCA, decision 05-D-25 of 31 May 2005, concerning certain practices by Yvert et Tellier on the market for stamp-valuation catalogues.


\(^{34}\) Paris Court of First Instance, \textit{Melco & MMCE} v. \textit{CP8}, 9 March 2007.

With respect to the MPEG Audio patents licensed by Sisvel, there were a number of preliminary injunctions issued against a wide range of importers and resellers of products: \(^{36}\) Some of those preliminary injunctions were confirmed on appeal, and one of them was even upheld by the French Supreme Court. \(^{37}\)

This long string of cases therefore confirms that injunctions can be available in France on the basis of SEPs. It is, however, important to note that (1) these decisions predate the CJEU *Huawei v. ZTE* ruling, and even the opening of investigations by the EU Commission against Samsung and Motorola, and (2) they were almost all rendered in the context of a licensing programme that had been very successful, with more than 1,000 companies having accepted publicly available licensing terms, such that their FRAND nature had, arguably, been extensively confirmed by the market. In contrast, in *Samsung v. Apple*, \(^{38}\) the president of the Paris First Instance Court found that, in the circumstances of the matter, the seeking of a preliminary injunction was 'disproportionate'; she further considered that the determination of FRAND terms was too complex for preliminary injunction proceedings, thus suggesting that any case implying such a determination \(^{39}\) would need to be brought in main proceedings.

There is, to our knowledge, no post-*Huawei v. ZTE* case in France applying the road map defined by the CJEU. Multiple cases are pending, however, and additional case law should develop over the coming months.

### Licensing under FRAND terms

There has been very little French case law addressing the substance of what FRAND terms are. However, in *Samsung v. Apple*, \(^{40}\) the judge referred to the fact that the determination of a FRAND rate would imply (1) some degree of patent counting to assess the importance of the patentee's portfolio against the standard overall, and (2) taking into account the overall stack of royalties payable for all standards implemented by the particular product.

In the same decision, the judge also appeared to consider that FRAND licences must be truly irrevocable, and – in a provisional assessment given that the case was brought in preliminary injunction proceedings – that defensive termination clauses may not be permissible.

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39 E.g., because the terms offered have not gained wide market acceptance.

Multiple cases are currently pending, which should provide additional guidance on these issues. In one of those cases, the defendant made a pretrial request production of previous licences that the patentee had entered into; that request was dismissed by the Court of Appeals, which found that these documents may or may not become relevant ‘depending on the methodology for calculating the [FRAND] rate, which is disputed by the parties and will have to be determined by the Court’. This decision thus left open, for now, whether comparables are even relevant to a FRAND determination.41

iv Anticompetitive or exclusionary royalties

In one case,42 the Paris First Instance Court, ruling in summary proceedings, accepted that a change of licensing terms, which made them more onerous to the licensee, could possibly amount to an abuse of a dominant position. The possibility that such an abuse might exist led the Court to refuse to issue an injunction. The Court noted that:

The refusal to supply the [music] catalogue unless the terms of Universal Music France were accepted, terms which are different from the terms included in the previous agreements and so in breach of the commitments taken during the agreement of January 2011, constitutes on its own an abuse of a dominant position since the refusal covers a product which is objectively necessary to exercise an efficient competition on the market; that the refusal is susceptible to lead to the elimination of an efficient competition on the market; and finally the refusal is susceptible to harm the consumer . . .

As a consequence, Blogmusik has sufficiently established in summary proceedings the possibility that Universal Music France might have committed an abuse of a dominant position which results in preventing it from claiming injunction measures based on an alleged copyright since no obvious unlawful harm can be alleged any more.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

Under French merger control law, acquisition of control over intellectual property rights may constitute a merger provided that the rights ‘constitute an activity that results in a presence on a market, to which a turnover can unambiguously be attached’.43 Such was the case, for instance, when the FCA reviewed the acquisition by Sara Lee of certain brands and industrial equipment from Benckiser.44

ii Remedies involving divestitures of intellectual property

The FCA has already accepted remedies involving divestiture of intellectual property. In 2012, in the context of the acquisition of certain television channels, Groupe Canal Plus had

41 Paris Court of Appeals, 17 January 2017, Core Wireless v. LG.
42 President of the Paris First Instance Court, Universal v. Blogmusik, 5 September 2011.
43 FCA’s Merger Control Guidelines, para. 19.
44 FCA, opinion 00-A-07 of 28 March 2000 concerning the acquisition by the Sara Lee group of certain assets belonging to the Benckiser group.
to commit to divest its free-to-air broadcasting rights for important sporting events. This decision was later set aside for unrelated reasons, and the transaction had to be notified again. However, this commitment remained unchanged.

VI OTHER ABUSES

i Sham or vexatious IP litigation

As a rule, sham or vexatious IP litigation is sanctioned through an award of legal costs and, possibly, by civil damages for abusive litigation. It is, however, worth mentioning a decision of the Paris First Instance Court of 26 January 2005, in which the alleged infringer counterclaimed for nullity of the asserted patent, for abuse of proceedings, but also for abuse of a dominant position. Each of these counterclaims was dealt with separately by the Court, which declared the asserted patents invalid and ordered the patent holder to pay the defendant €750,000 as damages for abuse of proceedings. The Court held that ‘launching actions on the basis of “illusions of claims” against a competitor is to be seen as an abuse of the right to sue. In the present case, the abuse is compounded by the fact that Luk Lamellen relies, against Valéo, on claims that have been modified to reflect Valéo’s new technology and to paralyse the development of such technology.’ The Court did not stop there and, after reviewing the counterclaim for abuse of a dominant position, which was based on the allegation that the plaintiff had implemented an abusive strategy of patent filing, of systematic disparagement of competitors and of abusive litigation, referred the matter to the FCA for it to investigate the issues. The FCA rendered an opinion finding the patentee to be in a dominant position, but it seems that the litigation stopped there.

ii Misuse of the patent process

In the Luk Lamellen v. Valeo case referred to above, one of the concerns of the Court with the patentee’s behaviour resulted from the change in the wording of the claims of the asserted patents so as to make them match the products of the defendant. However, while that was found to be a possible element of an abuse in the particular circumstances of the case, those circumstances – lack of merit of the patent assertions, invalidity of the patents – played a very significant role in the finding of the Court. In many other cases, similar behaviour was not found problematic.

It is also noteworthy that the Nespresso case partly involved a sophisticated patent acquisition strategy, which formed part of the behaviour scrutinised by the FCA.

45 FCA, decision 12-DCC-101 of 23 July 2012 concerning the acquisition by Vivendi and Groupe Canal Plus of sole control over Direct 8, Direct Star, Direct Productions, Direct Digital and Bolloré Intermédia.
46 FCA, decision 14-DCC-50 of 2 April 2014 concerning the acquisition by Vivendi and Groupe Canal Plus of sole control over Direct 8, Direct Star, Direct Productions, Direct Digital and Bolloré Intermédia. See also letter from the Minister for Economic Affairs, Finance and Industry, of 30 August 2006, to Vivendi Universal’s counsel concerning a merger in the pay-TV sector (Case C2006-02).
47 Abusive litigation constitutes a civil tort in general.
48 Paris First Instance Court, Luk Lamellen v. Valeo, 26 January 2005, Docket No. 00/16758.
49 FCA, opinion 05-A-20 of 9 November 2005 concerning a request by the Paris First Instance Court concerning a dispute between Luk Lamellen and Valeo.
50 Paris First Instance Court, Luk Lamellen v. Valeo, 26 January 2005, Docket No. 00/16758.
51 FCA, decision 14-D-09 of 4 September 2014 concerning practices engaged in by Nestlé, Nestec, Nestlé Nespresso, Nespresso France and Nestlé Entreprise in the espresso coffee-machines sector.
iii Anticompetitive settlements of IP disputes

IP dispute-settlement agreements may be found anticompetitive under Articles L.420-1 or L.420-2 of the FCC or under EU law, or both, if they have an anticompetitive object or are liable to have anticompetitive effects. In an opinion published in 2013, the FCA discussed the enforcement actions carried out in this domain at the European level and in the United States. The FCA noted that the ‘rule of reason’ approach adopted in this context by the US Supreme Court is based, among other things, on a regulatory context very different from what exists in Europe and in France. Although this should not be construed as an official statement of the law applicable to pay-for-delay agreements, it could suggest that the FCA would adopt the same position as the European Commission and the General Court, which both considered that these agreements have a restrictive object.52

VII OUTLOOK AND CONCLUSIONS

Many questions that have been addressed at the European level or in other Member States have yet to be tackled under domestic law. It would not be unreasonable to expect the FCA and the French jurisdictions to draw inspiration from the recent findings made by the European Commission and the European courts, in particular in the pharmaceutical sector. It must also be noted that certain high-profile cases are still pending in French jurisdictions. In addition, a number of cases involving SEPs are currently pending, and some of them will require French courts to opine on the principles underpinning the determination of FRAND terms.

52 Inter alia, General Court, 8 September 2016, T-472/13, H. Lundbeck A/S and Lundbeck Ltd v. European Commission.
Chapter 7

GERMANY

Jörg Witting

INTRODUCTION

In Germany, the legal framework for intellectual property rights most importantly consists of the German Patent Act and the German Trade Mark Act. National competition (antitrust) law is codified in the German Act against Restraints of Competition (ARC). The ARC has been widely aligned to EU competition law, which directly applies in cases with cross-border effects. The essential provisions are Section 1 ARC, which corresponds with Article 101 of the Treaty on the Functioning of the European Union (TFEU) (prohibition of agreements restricting competition) and Sections 19 and 20 ARC, which mainly correspond with Article 102 TFEU (abuse of a market dominant position).

Regarding the interface between intellectual property rights and competition law, there are no practically relevant specific statutory provisions. Rather, extensive case law has been developed with a view either to applying the cartel prohibition on certain types of agreements and restrictions, or to capturing certain types of behaviours as abusive. The core aspect of this IP-related competition law application is to comprehensively consider and duly respect the substance and scope of any exclusive right legitimately awarded to the IP owner.

For the sake of completeness, it should be noted that some IP-related statutory provisions, at least in appearance, have some similarity to competition law aspects; however, in substance they have a different, IP-related background. For example, Section 24 of the Patent Act provides for a compulsory licence based on public interest considerations. The German Federal Supreme Court has clarified already in its Standard-Spundfass judgment in 2004 with a view to competition law-based compulsory licences that ‘these two legal institutions have different goals and different preconditions’ and may thus be applied independently from each other. Also, Section 23 of the Patent Act sounds familiar in the context of standard-essential patents (SEPs), a topic currently at the very forefront of IP-related competition law, as it provides for the possibility of a declaration by the patent holder in relation to the German Patent Office that every interested third party is entitled to use the invention in return for equitable remuneration. The main purpose of this provision, however, is merely to reduce the annual renewal fees.

1 Jörg Witting is a partner at Bird & Bird LLP.
2 Federal Supreme Court, judgment of 13 July 2004, KZR 40/02, Standard-Spundfass. On the differences between a compulsory licence based on Section 24 of the Patent Act and a competition law-based compulsory licence, see also recently BPatG, judgment of 31 August 2016 – 3 LiQ 1/16 (EP) – Isentress.
II YEAR IN REVIEW

The application of IP-related competition law in Germany remained especially marked during the past year by various court decisions dealing with the assertion of standard-essential patents, and thereby implementing and specifying the criteria for enforcing such patents, following the *Huawei v. ZTE* decision handed down the year before by the Court of Justice of the European Union (CJEU), on 16 July 2015. This decision, rendered in preliminary proceedings based on a set of questions referred to the CJEU by the Regional Court of Düsseldorf in 2013, developed a set of criteria under which the proprietor of an SEP can legitimately, without violating Article 102 TFEU, seek an injunction based on such a patent (and claim for recall and destruction).

Regarding the time until the patent owner and plaintiff has to fulfil its FRAND-obligations the Regional Court of Mannheim considered that it might overrule its decision practice that the plaintiff has to fulfil these obligations before filing an action. The Court stated that according to German procedural law it could be possible to accept fulfilling FRAND-obligations also after the beginning of the proceedings when certain conditions are met. The Regional Court of Düsseldorf generally allows the patent owner to make a FRAND offer after bringing an action unless general German procedural law on delay is violated.

The Higher Regional Court of Düsseldorf decided in its decision of 25 April 2018 on the access to file in FRAND proceedings, in particular on the question of if (and how) existing licence agreements submitted by the plaintiff in a SEP proceeding could be protected against inspection by third-party interveners, especially if the interveners did not sign a non-disclosure agreement with the plaintiff.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

In German law, anticompetitive restraints in licensing agreements fall under Section 1 ARC, Article 101(1) TFEU. This includes, *inter alia*, market and customer sharing, pricing, output limitations or no-challenge clauses. In this context, the Horizontal Guidelines of the Commission (2011/C 11/01) and Commission Regulation (EU) No. 316/2014 on technology transfer agreements (TT-BER), which is applicable in German law according to Section 2(2) ARC, are of particular importance. Based on the TT-BER, in particular, hardcore restrictions are of crucial relevance, such as the restriction of a party’s ability to determine its prices when selling products to third parties, limitation of output, allocation of markets or customers, and restriction of the licensee’s ability to exploit its own technology rights.

The Higher Regional Court of Celle decided in its decision of 14 October 2016 on several contractual restrictions in a research and development and technology transfer
agreement between two parties in the sugar beet cultivation sector. The agreement involved various restrictions imposed upon one party, such as a far-reaching non-compete obligation and obligations to comprehensively transfer, or retransfer, the results of its research and development activities to the other party. On basis of the TT-BER and the R&D-BER, the Court considered the restrictions in question partly as hardcore but nevertheless saw them as ‘ancillary’ to the competitively neutral main agreement between the parties and thus to a large extent compliant with Article 101 TFEU.

One additional IP-related highlight was the decision of the Higher Regional Court of Düsseldorf on the marketing of football media rights. The Court dismissed the appeal brought by one of the various third-party interveners, Sky, against the decision of the German Federal Cartel Office (FCO) of April 2016 on the centralised marketing of media rights for the first and second German Federal Football League. The FCO had considered the centralised marketing by the German Federal Football League to fall under Section 1 ARC, Article 101(1) TFEU, and had cleared it on the basis of a commitment decision pursuant to Article 32b ARC. The commitments, inter alia, referred to how the media rights in questions are to be structured in various ‘rights packages’ and included specific provisions on the tender proceedings, most importantly a ‘no-single-buyer rule’. This rule aims to ensure, by way of a certain two-step approach, that no single undertaking would have a chance to acquire all rights for live broadcasting.

One of the joined parties of the FCO proceedings, Sky, which had acquired practically all live media rights in the previous tender, appealed against the FCO’s decision, mainly attacking the ‘imposition’ of the no-single-buyer rule by the FCO on the German Football League (by way of accepting a corresponding commitment) as being an unnecessary and excessive restriction severely harming Sky in its rights and commercial interests.

The Higher Regional Court of Düsseldorf dismissed the complaint in its decision of 3 May 2017. It held the complaint to be inadmissible.

The Court denied that the FCO’s decision infringed any of Sky’s rights as the decision itself had no legal effect on Sky since the decision’s effects materialise only upon its implementation by a private third party – the German Federal Football League offering the media rights. However, even if one were to take these effects into consideration, the decision did not infringe Sky’s rights as the no-single-buyer rule was obviously pro-competition, aiming to open up markets and increase competition – an objective clearly consistent with the legal framework and thus obviously not capable of infringing Sky in any of its rights whatsoever. In addition, the claimant was considered not to be affected sufficiently in its commercial interests. The Court already denied Sky’s commercial interests in this context to be legitimate, inter alia, stressing that the no-single-buyer rule aims to avoid a monopoly-like situation in the relevant end-consumer market, and that Sky’s interest in a tender without this rule thus consists in avoiding competition. Further the Court raised doubts as to whether the claimant’s interests were ‘directly’ affected and stressed that Sky in any case would not be ‘individually’ affected since the no-single-buyer rule would apply equally to all potential bidders for the media rights concerned, in a similar way. The fact that the FCO in its decision explicitly referred to Sky when explaining its concerns was seen merely as a reflex of Sky having secured nearly all live broadcasting rights in the previous tender. Whether this past success

10 Higher Regional Court of Celle, decision of 14 October 2016, 13 Sch 1/15.
11 FCO, decision of 11 April 2016, B6-32/15.
12 Higher Regional Court of Düsseldorf, decision of 3 May 2017, VI Kart 6/16.
might trigger the need for Sky to modify its business strategy now, in the light of a no-single-buyer rule, was not considered relevant by the Court. The Court stressed that media rights, from the outset, are only offered for a limited period, after which all market participants have to adjust their behaviour equally to the new tender proceedings, and the Court did not see any indication why claimant Sky would have been affected by the no-single-buyer rule in an appreciably stronger or structurally different way from its competitors.

ii Refusals to license

There are no specific statutory provisions regarding the refusal to license. Abuse of a market dominant position pursuant to Section 19(1) ARC is interpreted closely along the lines of its EU counterpart, Article 102 TFEU. In particular the conditions under which a refusal to license is deemed abusive derive from the case law of the CJEU, which has mainly been formed by the leading judgments in *Magill* and *IMS Health*. Accordingly, a refusal to license may be abusive and a claim for a compulsory licence successful where: (1) using the intellectual property right in question is indispensable for carrying out business on a neighbouring or downstream market; (2) the refusal to grant a licence prevents a new product for which there is a potential consumer demand; or (3) the refusal is not objectively justified and would exclude competition. According to the Higher Regional Court of Düsseldorf, a product is ‘new’ in this sense where, from a demand-side perspective, there is no substitutability between the product of the licence-seeking undertaking on the one side and the intellectual property right owner’s existing product on the other side.

As regards patents that have already been licensed out by the patent owner, a refusal to license may be abusive and thus lead to a compulsory licence if the licensing practice of the patent owner is discriminatory or exploitative under Sections 19 and 20 ARC, Article 102 TFEU.

Refusal to license regarding SEPs is discussed in Section IV.

iii Unfair and discriminatory licensing

Unfair or discriminatory licensing practices can fall under Sections 19 and 20 ARC, Article 102 TFEU and may be considered as an abusive (discriminatory) behaviour by a market-dominant intellectual property right owner (see Section III.ii).

iv Patent pooling

In practice, the rules established at EU level apply.

v Software licensing

A case before the Regional Court of Hamburg dealt with the issue of an agreement between a software company and a distributor of used software according to which reselling without

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17 Regional Court of Hamburg, judgment of 25 October 2013, 315 O 449/12.
prior permission was prohibited. The court held that the behaviour was abusive under Sections 19 and 20 ARC and not objectively justified, referring to the UsedSoft judgment of the CJEU\(^{18}\) and stating that the applicable right was exhausted.

\textbf{vi Trademark licensing}

In general, restrictions of competition in trademark licensing agreements are compatible with the cartel prohibition of Section 1 ARC, Article 101(1) TFEU if they are necessary to protect the continued existence of the trademark and legitimate interests for the restriction are given.\(^{19}\) Agreements on territorial protection, prohibition or restrictions on exercising, restrictions in quantity, reservation of customer groups, non-assertion and no-challenge agreements are principally deemed to be infringing Section 1 ARC, Article 101(1) TFEU.\(^{20}\)

In practice, delimitation agreements are of particular importance at the interface with competition law, as these agreements typically aim to settle disputes between the parties. Further details are provided in Section VI.iii.

\textbf{IV STANDARD-ESSENTIAL PATENTS}

As mentioned above, in the recent past the application of IP-related competition law in Germany has remained dominated by the German courts’ implementation and concretisation of the decision of the CJEU in the \textit{Huawei v. ZTE} case on the question of the circumstances under which the assertion of SEPs constitutes an abuse of a market dominant position in the sense of Article 102 TFEU, and of the safeguards under which such an assertion constitutes the legitimate use of a granted exclusionary right.\(^{21}\)

\textbf{i Dominance}

The question of dominance linked to owning SEPs was not the subject matter of the questions referred to the CJEU by the Regional Court of Düsseldorf. Nevertheless, Advocate General Wathelet briefly commented on the issue by stressing that owning an SEP does ‘not necessarily’ mean that the patent owner holds a dominant position. The Advocate General went on to argue in a way that might be understood as him favouring a rebuttable presumption for market dominance as a result of owning an SEP; in any case, he stressed the importance for the national court to determine market dominance on a case-by-case basis.\(^{22}\) The CJEU did not deal with market dominance and confined his assessment explicitly to the criterion of an abuse in the sense of Article 102 TFEU.

German courts so far have not relied on a presumption of market dominance. In its decision of 26 March 2015 (i.e., prior to the CJEU’s decision in \textit{Huawei v. ZTE} of July

\begin{itemize}
  \item \(^{18}\) CJEU, judgment of 3 July 2012, C-128/11, \textit{UsedSoft}.
  \item \(^{21}\) CJEU, judgment of 16 July 2015, C-170/13, \textit{Huawei Technologies v. ZTE}.
  \item \(^{22}\) Advocate General’s Opinion of 20 November 2014, C-170/13, \textit{Huawei Technologies v. ZTE}, paragraphs 57 and 58.
\end{itemize}
2015), the Regional Court of Düsseldorf\(^{23}\) rejected the alleged infringers’ antitrust objection, or ‘FRAND defence’,\(^{24}\) because it concluded that the plaintiff and patent owner could not be considered to hold a dominant market position. The Court stressed that there is no legal presumption linking SEP ownership and market dominance;\(^{25}\) rather, the existence of market dominance should be assessed on basis of the scope of the patent in suit and its actual significance in the relevant product markets. The court specified that an SEP leads to market dominance where the use of the patent is mandatory to enter the relevant downstream product market or where it is at least necessary to compete effectively in the market. Accordingly the Higher Regional Court of Düsseldorf stated in a recent decision that a dominant market position of the patent owner has to be determined by the court, with the defendant having to bear the burden of evidence.\(^{26}\)

In cases where the CJEU’s criteria are considered to be fulfilled (i.e., where an abuse by the plaintiff and patent owner is denied), there is a tendency not to address the patent owner’s market position and leave it open whether the patent owner actually is market dominant.\(^{27}\)

### ii Injunctions

The question of whether or not an SEP holder acts abusively within the meaning of Section 19 ARC, Article 102 TFEU by bringing an action of injunction against an alleged infringer has been dealt with by German courts for years. This case law has most importantly been framed by the Federal Supreme Court’s decision of 2009 in the *Orange-Book-Standard*\(^{28}\) case and a large number of subsequent cases of the instance courts.

Differing significantly from this German case law, the CJEU\(^{29}\) set forth specific requirements under which claiming for injunctive relieve (or recall or destruction) is not abusive under Article 102 TFEU:

- **a** First, prior to bringing an action, the SEP holder must alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed.

- **b** Second, the SEP holder is obliged to provide an offer for a licence on FRAND terms after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms. This offer must also be submitted to the alleged infringer prior to bringing an action.\(^{30}\) It has to be stressed that the CJEU corrected the wording of the reasoning after it adopted the judgment because of different interpretations on this point.

- **c** If the infringer does not accept the offer, he or she is obliged to make, promptly and in writing, a specific counter-offer that corresponds to FRAND terms and, if the counter-offer is rejected, from that point on to provide appropriate security, in accordance with recognised commercial practices.

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\(^{23}\) Regional Court of Düsseldorf, judgment of 26 March 2015, 4b O 140/13.

\(^{24}\) ‘FRAND’ refers to fair, reasonable and non-discriminatory terms.

\(^{25}\) See also LG Düsseldorf, judgment of 13 July 2017, 4a O 154/15.

\(^{26}\) Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15.

\(^{27}\) See, for example, Regional Court of Mannheim, judgment of 8 January 2016, 7 O 96/14.


\(^{29}\) CJEU, judgment of 16 July 2015, C-170/13, paragraph 60 et seq., *Huawei Technologies v. ZTE*.

Finally, where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, ‘the parties may, by common agreement request that the amount of the royalty be determined by an independent third party’.

After the *Huawei v. ZTE* judgment was handed down, the German case law has to date focused on two aspects.

One major issue is the question as to whether some sort of ‘transitional law’ applies to cases that were pending prior to the CJEU’s judgment. In its judgment in May 2016, the Regional Court of Mannheim\(^{31}\) argued in favour of such a ‘transitional law’ and considered the plaintiff and patent owner in this case not to have acted abusively even though he did not entirely fulfil the CJEU’s criteria as to the pretrial obligations, namely the obligation to alert the standard user about the infringement by designating the SEP and specifying the way in which it has been infringed. The Regional Court of Mannheim mainly stressed that the patent owner, by bringing the action, had acted in good faith by applying the then existing German case law. The Court also interpreted the *Huawei v. ZTE* judgment as allowing the national courts to consider some of the CJEU’s requirements not to be relevant, and based this interpretation, *inter alia*, on paragraph 70 of the CJEU’s decision, according to which ‘it is for the referring court to determine whether the above-mentioned criteria are satisfied in the present case, in so far as they are relevant, in the circumstances, for the purpose of resolving the dispute in the main proceedings’. The decision is under appeal, but the Higher Regional Court of Karlsruhe meanwhile handed down a decision in corresponding enforcement protection proceedings.\(^{32}\) The Higher Regional Court criticised the first instance approach as such but indicated that it is necessary to differentiate between a potential abuse in bringing action on the one hand and asserting the patent abusively up until the end of the court proceedings on the other hand.

Comparable to the Court of Mannheim’s approach, the Regional Court of Düsseldorf\(^{33}\) also decided in favour of a ‘transitional period’. The Higher Regional Court of Düsseldorf, in enforcement protection proceedings, stressed that the principles developed by the CJEU in the *Huawei v. ZTE* decision also apply in cases prior to the decision.\(^{34}\)

One other major issue is the question of whether the *Huawei v. ZTE* criteria must be fulfilled ‘step by step’ or whether a more general approach, weighing each parties’ activities, is appropriate. Both the Regional Court of Düsseldorf\(^{35}\) and the Regional Court of Mannheim\(^{36}\) initially applied a more flexible approach in that they did not assess the FRAND character of the plaintiff and patent owner’s licence offer in each and every detail. Following a more general assessment, the courts finally left it open whether the plaintiff’s licence offer actually was FRAND and considered the relevant defendants not to have acted diligently by failing to swiftly provide a FRAND counter-offer. The competent Higher Regional Courts

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\(^{31}\) Regional Court of Mannheim, judgment of 4 March 2016, 7 O 96/14.

\(^{32}\) Higher Regional Court of Karlsruhe, decision of 31 May 2016, 6 U 55/16.

\(^{33}\) Regional Court of Düsseldorf, judgment of 3 November 2015, 4a O 93/14.


\(^{35}\) Regional Court of Düsseldorf, judgment of 3 November 2015, 4a O 144/14.

\(^{36}\) Regional Court of Mannheim, judgment of 4 March 2016, 7 O 96/14.
of Düsseldorf\textsuperscript{37} and Karlsruhe\textsuperscript{38} respectively overturned this approach (in enforcement protection proceedings) and ruled in favour of a step-by-step approach according to which a plaintiff and patent owner’s licence offer has to be scrutinised in detail as to whether it is FRAND; only upon such a FRAND offer are standard users and defendants obliged to make a FRAND counter-offer.\textsuperscript{39}

Another aspect that has recently been discussed by the Higher Regional Court of Düsseldorf is the interest of the patent owner on confidentiality regarding the revealed licence contracts and licence conditions.\textsuperscript{40} The court basically ruled that the patent owner who signed a secrecy agreement with the licensee, as opposing party in the proceedings, can hardly prevent a possible third-party intervener who did not sign a secrecy agreement getting insight into the revealed licence contracts.

The Regional Court of Mannheim explicitly considered changing its decision practice and allowing the patent owner to fulfil its FRAND-obligations, in particular revealing the calculation of the licence fee, after bringing an action.\textsuperscript{41} However, the court stressed that this should not be seen as complete relativisation of the pretrial obligations and that certain conditions have to be met. The Regional Court of Düsseldorf\textsuperscript{42} and the Higher Regional Court of Düsseldorf\textsuperscript{43} generally accepted that the patent owner can still make a FRAND-offer after the beginning of the proceedings if he or she does not violate general German procedural rules on delay.

iii Licensing under FRAND terms

A major issue in the field of SEP is the question of defining FRAND terms and conditions. Although a large number of German court cases have dealt with the FRAND defence so far, the exact determination of FRAND criteria remains open to discussion.\textsuperscript{44} One important aspect in considering the FRAND character of an offer is the established licensing practice of the licensor or of other market participants.\textsuperscript{45} Accordingly the Higher Regional Court of Düsseldorf defined the term ‘non-discriminatory’ to the effect that the patent owner has to offer the willing licensee a licence on conditions similar to those offered to other licensees or that the patent owner comprehensibly shows reasonable grounds for an unequal treatment. The Court stated further, that a judicial finding regarding a ‘non-discriminatory’ offer requires – especially with regard to the amount of the licence fees – specific submission of facts by the patent owner with respect to licence agreements with third licensees. In the Court’s opinion, this would include specific statements to conditions agreed with other licensees as well as their importance on the relevant markets. Thus the patent owner may not assert that a non-disclosure agreement with third licensees excludes a specific submission.

\textsuperscript{37} Higher Regional Court of Düsseldorf, decision of 9 May 2016, 15 U 35/16; also judgment of 30 March 2017, I-15 U 66/15.

\textsuperscript{38} Higher Regional Court of Karlsruhe, decision of 31 May 2016, 6 U 55/16.

\textsuperscript{39} See meanwhile: Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 126/14.

\textsuperscript{40} Higher Regional Court of Düsseldorf, decision of 25 April 2018, I-2 W 8/18.

\textsuperscript{41} Regional Court of Mannheim, judgment of 11 November 2017.

\textsuperscript{42} Regional Court of Düsseldorf, judgment of 13 July 2017, 4a O 154/15.

\textsuperscript{43} Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15.


\textsuperscript{45} See Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 73/14.
Furthermore, the Higher Regional Court of Düsseldorf stated in its judgment of 30 March 2017 that the higher the discount that the patent owner grants to the licensee is, the higher the requirements are to justify an unequal treatment of different licensees. The court considered several factors as relevant for determining the amount of the license fee, such as quick acceptance of the licence and licensee as ‘first mover’.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger
Under German competition law, the transfer of intellectual property rights can constitute a merger by way of an acquisition of control within the meaning of Section 37(1) No. 2(a) of the ARC if the acquisition relates to a substantial part of the assets.

ii Remedies involving divestitures of intellectual property
In a clearance decision, the FCO decided on ancillary provisions, inter alia, with regard to intellectual property rights: the Funke Media Group intended to acquire assets of TV programme guides. The FCO found that the acquisition would have led to the strengthening of a collective dominant position of the acquirer. Therefore, the acquirer was obliged to sell intangible assets regarding TV programme guides.

VI OTHER ABUSES

An example of an exploitative abuse within the meaning of Section 19 ARC is the recent investigation of the FCO regarding Google. The FCO had to decide on Google’s practice of displaying snippets of search results regarding news publishers. Google refused to pay a fee for the displayed content and did not purchase any licences for the content. As a reaction to this unauthorised use of the content, several news publishers filed a complaint to the FCO with regard to their respective ancillary copyrights. After examining the complaint, the FCO held that it was highly likely that Google’s behaviour was objectively justified and, therefore, did not constitute abusive conduct within the meaning of Section 19 ARC, Article 102 TFEU.

i Sham or vexatious IP litigation
In line with EU law, it is accepted under German law that the alleged infringer can raise the objection that the patent holder’s claim is abusive within the meaning of Section 19 ARC, Article 102 TFEU because of a ‘patent ambush’. This means a situation where the patent holder does not disclose the existence of a patent application during the standard-setting process, and subsequently asserts that a patent is infringed.

46 Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15.
47 Higher Regional Court of Düsseldorf, judgment of 30 March 2017.
48 See Federal Supreme Court, decision of 10 October 2006, KVR 32/05, National Geographic I.
49 FCO, decision of 25 April 2014, B6-98/13.
51 See, e.g., Regional Court of Mannheim, judgment of 10 March 2015, 2 O 103/14.
In a civil case before the Regional Court of Düsseldorf, a holder of design rights regarding wheel rims claimed for injunctive relief regarding the use of design rights without a licence. The defendant argued that the assertion of design rights would be abusive in the sense of Article 102 TFEU because he had to produce parts that matched the car and would otherwise not be purchased (‘must match’ part). The court rejected this argument. With reference to the case law of the CJEU (\textit{Magill} and \textit{Volvo/Veng}), the court stated that the assertion of design rights can only be considered abusive in exceptional circumstances. The concrete design of the wheel rims is not technically necessary. It is possible, rather, for the defendant to produce wheel rims of similar quality, but with a different design. Beyond that, the court held that it is acceptable for a customer to purchase a wheel rim of the claimant or a complete set of wheel rims of other producers.

Furthermore in a case regarding the infringement of a standard-essential patent the Regional Court of Düsseldorf stated that a patent ambush with the intention of demanding excessive royalties does not necessarily lead to the patent owner’s loss of a patent law claim to a cease-and-desist order. Rather, the legal consequence would be the patent owner’s obligation to provide an offer for a licence on FRAND terms to the alleged infringer. The Higher Regional Court supported the Regional Court’s view in its decision of 9 May 2016.

Another example for a possible abuse of intellectual property rights litigation is the \textit{BMW-Emblem} case of the Federal Supreme Court. The claimant, BMW, filed an action against a producer of spare parts that, \textit{inter alia}, produces and supplies BMW emblems without a licence. The court rejected the defendants and held that the action was founded. Additionally, in an \textit{obiter dictum}, the court stated that a manufacturer of spare parts for BMW that are visible (e.g., front or rear parts) could, under certain circumstances, be entitled to supply original BMW emblems from the intellectual property rights holder or at least grant the retrofitting by customers or by workshops on the customer’s order under competition law.

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\subsection*{ii Misuse of the patent process}

In accordance with EU law, under the German provisions the strategic misuse of the patent process can be deemed to be abusive (Sections 19, 20 ARC, Article 102 TFEU).

\subsection*{iii Anticompetitive settlements of IP disputes}

Settlements of intellectual property disputes between competitors may, under certain conditions, constitute an infringement within the meaning of Section 1 ARC, Article 101(1) TFEU. In line with EU law, under German antitrust law, patent settlements are generally

\begin{flushleft}
52 Regional Court of Düsseldorf, judgment of 10 March 2016, 14c O 58/15.
54 CJEU, judgment of 5 October 1988, 238/87, \textit{Volvo/Veng}.
55 Regional Court of Düsseldorf, decision of 31 March 2016, 4a O 126/14.
56 Regional Court of Düsseldorf, decision of 9 May 2016, I-15 U 35/16.
57 Federal Supreme Court, judgment of 12 March 2015, I ZR 153/14, \textit{BMW-Emblem}.
\end{flushleft}
accepted as a compromise to a *bona fide* legal disagreement. If there are serious objective indications for the settled right and the restrictions remain within the frame of objective uncertainties, the antitrust prohibition does not apply.

Agreements between undertakings that aim to prevent the access of substitutes to the market, such as pay-for-delay or reverse-payment agreements, especially the delay of generic drugs’ entry into the market, also fall under Section 1 ARC, Article 101(1) TFEU.

With regard to trademarks, undertakings also settle disputes on conflicting similar trademarks by ‘delimitation agreements’. The compatibility of such agreements can constitute an infringement of Section 1 ARC, Article 101(1) TFEU. As a general rule, delimitation agreements regarding trademarks constitute cartel infringements if market sharing or other restrictions of competition are intended. In its decision *Winn & Coales v. DENSO*, the Higher Regional Court of Düsseldorf stated that a delimitation agreement does not restrict competition if it is neutral (i.e., if it only specifies the existing intellectual property rights).

In a further decision, the Federal Supreme Court stressed that a trademark delimitation agreement does not necessarily include a prohibition against advertising in the other party’s business district. Thereby, it contradicted the decision of the court of appeal, which held the relevant clause to be an unlimited delimitation agreement also prohibiting advertising with clarifying additional wording in the other party’s business district, and therefore inadmissible under antitrust law. In contrast, the Federal Supreme Court’s interpretation of the relevant clause was that it had not been intended by the parties to prohibit advertising with additional distinguishing wording in the other’s district.

### VII OUTLOOK AND CONCLUSIONS

The development at the interface between intellectual property and antitrust law remains highly dynamic in Germany. It can be expected that the specific interface between patent and antitrust law, mainly with regard to SEPs, will remain of crucial importance and will probably also have some influence on similar cases in other Member States of the European Union.

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60 See, e.g., Federal Supreme Court, 5 July 2005, X ZR 14/03, *Abgasreinigungsvorrichtung*.


63 Higher Regional Court of Düsseldorf, judgment of 15 October 2014, VI-U (Kart) 42/13, *Winn & Coales v. DENSO*.

64 Federal Supreme Court, decision of 12 July 2016, KZR 69/14, *Peek & Cloppenburg II*. 

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I INTRODUCTION

In the past few years, the debate on the interplay between competition law and intellectual property rights (IP) in India has continued to draw attention. In addition to dealing with questions of jurisdiction and addressing disputes dealing with fair, reasonable and non-discriminatory (FRAND) terms, the Competition Commission of India (CCI) has increasingly focused its attention on issues such as the impact of standard-setting on competition law; and the use (or abuse) of IP-related judicial processes by dominant enterprises to stifle competition.

The general prohibition on anticompetitive agreements and abuse of dominance under the Indian Competition Act, 2002 (the Competition Act) applies equally to IP-related business practices as it would to non-IP-related conduct. The only reference to IP rights in the Competition Act is by way of an express carveout that recognises the right of any person to impose reasonable and necessary conditions for protecting IP rights, specifically conferred under certain identified Indian IP statutes. This carveout does not, however, extend to unilateral conduct, thereby exposing IP holders to the risk of scrutiny under the abuse-of-dominance provision (Section 4) of the Competition Act.

In this chapter, we provide (1) a brief overview of the year in review; (2) issues surrounding antitrust and licensing in India; (3) the international debate surrounding the standard-selection process and the manner in which the CCI and Competition Appellate Tribunal (COMPAT) have interpreted competition claims arising out of standards while issuing prima facie orders; (4) the circumstances under which transfer of IP could be viewed
as a transfer of assets under the merger control provisions (Section 5) of the Competition Act; and (5) finally we discuss, under ‘other abuses’, the emerging jurisprudence involving IP-related vexatious litigation leading to abuse-of-dominance claims before the CCI.

II YEAR IN REVIEW

The emerging discourse surrounding IP-linked antitrust issues in India is invariably tied to the application of the disciplines contained in Section 3 of the Competition Act (which deals with anticompetitive agreements) and Section 4 of the Competition Act (which deals with abuse of dominance).

The debate on IP-related antitrust issues in India came to the fore in 2014 when the CCI examined whether the practice of several domestic and multinational passenger vehicle manufacturers (PVMs) of selling spare parts and diagnostic kits only through authorised dealers resulted in ‘denial of market access’ to independent repairers and after-sales service providers, or constituted a ‘refusal to deal’. Without examining the larger question of the primacy of IP holders’ right to use and commercialise an IP-protected technology the way they deem appropriate, the CCI summarily held that PVMs’ decision not to supply spare parts and diagnostic kits to third-party or non-authorised dealers and after-sales repair and service providers results in denial of market access, and IP rights do not offer any protection from a finding of infringement under Section 4 of the Competition Act. Consequently, the CCI has opened the door for ‘compulsory licensing’ of IP protected technology to third parties, should it establish that the owner of the IP-protected technology is in a dominant position in a relevant market.

While examining the claim on refusal to deal, the CCI’s approach appears to give primacy to short-term foreclosure effects over the due deference that relatively more mature antitrust jurisdictions, such as the United States, extend to primacy of IP rights, which are essential for fuelling innovation and competition in the long run. Drawing simplistic analogies, the CCI summarily held that selling diagnostic tools in the open market would not compromise the IP rights of the PVMs in the diagnostic tools.

6 Section 5 of the Act includes an acquisition of asset where the acquirer enterprise or group and the target enterprise exceed the prescribed jurisdictional thresholds.

7 See In re: Shri Shamsher Kataria v. Honda Siel Cars Indian Ltd & Others (case No. 03/2011, 25 August 2014: the Auto Parts case). On an appeal by three vehicle manufacturers, the appellate court upheld the findings of the CCI. The case is currently pending before the Supreme Court.

8 Refusal to deal is identified as a type of vertical restriction in Section 3(4) of the Competition Act. Explanation (d) to Section 3(4) of the Competition Act defines ‘refusal to deal’ as including any agreement that restricts, or is likely to restrict, by any method the persons or classes of persons to whom goods are sold or from whom goods are bought.

9 Paragraph 20.5.85, page 157 of the Auto Parts case.

10 Taking the example of whether the sale of CT scan machines to hospitals would compromise the IP right of the CT scan machine manufacturer, the CCI concluded that this would not be the case as then all CT scan manufacturers would need to open diagnostic centres for diagnosing patients.

11 See paragraph 20.6.22, page 190 of the Auto Parts case.
On appeal by certain PVMs, the COMPAT agreed with the CCI’s findings that PVMs’ decision not to supply spare parts and diagnostic kits to third-party or non-authorised dealers amounted to refusal to deal.\(^{13}\) Further, the COMPAT dismissed the arguments of the PVMs that restrictions requiring supply of spare parts and diagnostic tools only through authorised dealers were ‘reasonable’ restrictions to protect their IP and that the PVMs were simply trying to prevent the circulation of counterfeit spare parts in the aftermarket. In this regard, the COMPAT observed that circulation of counterfeit parts would be curbed if the restrictions imposed by PVMs on sale of genuine spare parts in the aftermarket were removed.

While coming to its decision, the COMPAT also observed that the PVMs did not have valid IP rights because (1) the PVMs’ copyright protection did not subsist under the copyright laws in India, as the article to which the copyrighted drawings pertained had been produced more than 50 times by an industrial process,\(^{14}\) and (2) the PVMs were not able to prove that the right under a patent registered by a parent outside India is available in India.

In another instance, the CCI held that a claim of alleged violation of the complainant’s (an animation company) registered title by the defendant company (another animation company) was not a competition-law concern, given that there had been a series of legal proceedings between the parties to claim ownership of the title ‘Picasso’ in various forums and courts.\(^{15}\)

More recently, the Madras High Court,\(^{16}\) in a decision that could be more immediately relevant to competition cases initiated at the behest of IP implementers against the potentially anticompetitive practices of IP owners, has ruled that the scheme of the Competition Act empowers the CCI to consider settlement agreements between the complainants and defendants.

The potential repercussion of this judgment of the Madras High Court on settlement in IP cases is discussed in the subsequent paragraphs.

### III LICENSING AND ANTITRUST

Antitrust concerns associated with IP licensing arrangements are relatively low on the CCI’s enforcement agenda. Where the CCI has dealt with complaints arising out of the unfairness or restrictions of licensing terms, it has done so fairly simplistically, without dealing, in any significant manner, with the interplay of IP and antitrust or balancing IP rights with the public interest.

#### i Anticompetitive restraints

Restrictive terms in licensing arrangements would be examined as vertical restraints under Section 3(4) of the Competition Act. In the absence of any specific provisions for assessing

\(^{13}\) Shamsher Kataria v. Honda Siel Car & Others (case No. 3 of 2011), and Toyota Kirloskar Motor Private Limited & Ors. v. Competition Commission of India & Others (Appeal No. 60 of 2014).

\(^{14}\) Section 15(2) of the Copyright Act, 1957: ‘Copyright in any design, which is capable of being registered under the Designs Act, 2000, but which has not been so registered, shall cease as soon as any article to which the design has been applied has been reproduced more than fifty times by an industrial process by the owner of the copyright or, with his license, by any other person.’


\(^{16}\) The Tamil Nadu Film Exhibitors Association v. Competition Commission of India (Writ Appeal Nos. 1806 and 1807 of 2013).
licensing arrangements, antitrust concerns arising out of licensing arrangements are treated within the same conceptual framework that applies to the sale of goods or services under the Competition Act. Simply put, restrictions accompanying IP licensing arrangements are prohibited if they can result in an AAEC, and the CCI is unlikely to reach a finding of AAEC unless the IP licensor enjoys significant market power.\(^{17}\) For instance, any attempt by an IP licensor to determine the pricing decision (for the licensed IP) of the IP licensee would be scrutinised as potentially anticompetitive ‘resale price maintenance’.\(^{18}\)

An IP licensor could also impose territorial or customer-specific restrictions as part of the IP licensing arrangement (e.g., the aforementioned broadcaster being forbidden from broadcasting the licensed video content outside a certain territory or from broadcasting to a specified group of potential viewers). Such territorial or customer-specific restrictions would be scrutinised as an instance of potentially anticompetitive ‘exclusive distribution’\(^{19}\) or an anticompetitive refusal to deal.\(^{20}\) An IP licensor could also restrict the IP licensee from dealing with any competing IP licensor, a restriction that would be examined as a potentially anticompetitive ‘exclusive supply’ arrangement.\(^{21}\) Any attempt by an IP licensor to make the grant of the IP licence conditional on the IP licensee purchasing the IP licensor’s other products, services or licences would be treated as a potentially anticompetitive ‘tie-in’ arrangement.\(^{22}\)

Notably, the Competition Act provides a limited carveout allowing IP owners to impose restrictions, including restrictions accompanying their licensing arrangements that are reasonable and necessary to prevent the infringement of their existing IP rights.

### ii  Refusals to license

Unlike in the United States and the EU, where refusal to deal is usually examined as unilateral conduct, in India, refusal to deal can also be scrutinised as an anticompetitive vertical restraint. Thus, a refusal to grant a licence altogether or imposition of unreasonably restrictive licensing terms can be examined as a potentially anticompetitive refusal to deal. For instance, in the Auto Parts case, the CCI viewed the car companies’ refusal to license their diagnostic (software) tools and repair manuals to independent repairers and workshops as an anticompetitive refusal to deal.

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\(^{17}\) Automobiles Dealers Association, Hathras, UP v. Global Automobiles & Ors. and Pooja Expo India Private Limited (case No. 33 of 2011).

\(^{18}\) Pursuant to Explanation (e) to Section 3(4) of the Competition Act, an IP licensor could impose a price ceiling (i.e., a maximum resale price) but not a price floor (i.e., a minimum resale price).

\(^{19}\) Pursuant to Explanation (c) to Section 3(4) of the Competition Act, ‘exclusive distribution agreements’ include ‘any agreement to limit, restrict or withhold the output or supply of any goods or allocate any area or market for the disposal or sale of the goods are identified under the Competition Act as a vertical restraint and is prohibited if it results in an AAEC’.

\(^{20}\) Pursuant to Explanation (d) to Section 3(4) of the Competition Act, ‘refusal to deal’ includes ‘any agreement which restricts, or is likely to restrict, by any method the persons or classes of persons to whom goods are sold or from whom goods are bought’.

\(^{21}\) Pursuant to Explanation (d) to Section 3(4) of the Competition Act, ‘exclusive supply agreements’ include ‘any agreement restricting in any manner the purchaser in the course of his trade from acquiring or otherwise dealing in any goods other than those of the seller or any other person’.

\(^{22}\) Pursuant to Explanation (a) to Section 3(4) of the Competition Act, a ‘tie-in’ arrangement includes ‘any agreement requiring a purchaser of goods, as a condition of such purchase, to purchase some other goods’.
A ‘refusal to license’ can equally be scrutinised as an abuse of dominance under Section 4 of the Competition Act, to the extent that the refusal results in a denial of market access,23 restricts the production of goods or services,24 or restricts the technical or scientific development relating to goods or services.25 For instance, in the Auto Parts case, apart from holding the car companies liable for anticompetitive vertical restraints, the CCI also held that the car companies’ refusal to license the diagnostic tools to independent repairers and workshops was an abuse of their dominance.

However, in a recent decision, the CCI observed that a delay in licensing on account of plausible business justifications, namely minimising the imminent threat of reverse engineering, could not be considered as denial of market access, as every entity has a right to protect its own commercial interests.26

iii Unfair and discriminatory licensing
Where an IP licensor is in a dominant position (e.g., the owner of a standard-essential patent (SEP), where dominance can flow from the patent being indispensable for complying with an industry or technical standard), the terms of its licensing arrangements could be scrutinised for being potentially ‘unfair’ or ‘discriminatory’ and thus, abusive. For example, charging excessive royalty rates or charging different royalty rates to similarly placed customers may be viewed as an imposition of unfair or discriminatory prices and thus, an abuse of dominance.27 For instance, in a complaint against Monsanto Inc, United States (MIU),28 the CCI reached a preliminary view that MIU had charged ‘unfair’ royalty rates since its trait value (a kind of recurring royalty fees) was a percentage (16 to 18 per cent) of the maximum retail price of the final seed packet in advance of each crop season.29

In turn, Monsanto Technology LLC (Monsanto) filed a suit for infringement of patent, trademark and passing off before the Delhi High Court against the Nuziveedu group (sublicensee of Monsanto’s BT cotton technology). The Nuziveedu group refused to pay the licence fee in terms of the agreements with Monsanto, claiming that Monsanto could not claim any more than the ‘trait value’ fixed by the state governments. Recently, a division bench of the Delhi High Court found against Monsanto by stating that plant varieties and seeds cannot be patented under the Indian Patents Act. The observations of the Delhi High Court in this case may have a bearing on the CCI’s investigation against MIU. The CCI has dealt with the issue of discriminatory or unfair licensing terms in a few cases. In Atos/Verifone,30 the CCI examined allegations that Verifone, a manufacturer of point of sale (POS) terminals, had imposed unfair and discriminatory conditions in the grant of licences for its software development kits (SDKs), a basic version of which was required to

23 Section 4(2)(c) of the Competition Act.
24 Section 4(2)(b)(i) of the Competition Act.
25 Since the CCI has held that for a vertical restriction to qualify as an anticompetitive vertical arrangement, market power is necessary, vertical restrictions may equally be examined as unilateral conduct (where the entity imposing the restriction is a dominant entity).
26 Justickets Pvt. Ltd v. Big Tree Entertainment (case No. 8 of 2016).
27 Section 4(2)(a)(iii) of the Competition Act.
28 Case Nos. 37, 38 and 39 of 2016.
29 In addition to the trait value, MIU’s licensor entity in India (Mahyo Monsanto Biotech Limited) also charged a significant upfront one-time non-refundable fee of approximately US$75,000.
30 Case No. 56/2012.
operate POS terminals,31 to value-added service (VAS) providers32 and third-party processors (TPPs)33 such as Atos. In its licensing arrangements with VAS providers, Verifone restricted the licensee from using any third party to develop or assist in developing any software using the licensed software, without first obtaining prior permission from Verifone and disclosing certain confidential information, including the names of its customers. Verifone contended that these restrictions were further to its IP rights pursuant to which it could legitimately restrict the grant of its licence to third parties without its permission. The CCI disagreed with Verifone’s plea and viewed the restrictions as simply the means to further Verifone’s entry and growth in the VAS market. The CCI also held that Verifone’s rationale for not allowing VAS developers to develop payment software (i.e., that it may damage the basic software of the POS terminal that was necessary for its functioning) was inconsistent with Verifone’s practices in other countries. The CCI also found the SDK licence agreement imposed ‘unfair’ disclosure requirements on VAS providers that were driven by Verifone’s desire to gain confidential commercial information from VAS providers and enable it to exploit the lucrative VAS market. Based on these findings, the CCI held that Verifone had imposed unfair and discriminatory terms in its SDK licence agreements with VAS providers and imposed a penalty of approximately US$670,000.

The CCI’s approach towards excessive pricing claims in the IP licensing context is consistent with its general approach on unfair pricing, where it has chosen to adopt a simple cost-plus approach for determining whether the price has a reasonable relation to the economic value of the product supplied. The CCI’s decisions on IP and antitrust issues are being contested before the appellate courts and it will take a while before definite guidance on these issues emerges.

IV STANDARD-ESSENTIAL PATENTS

i Standard-selection process and antitrust

Industry standards are widely acknowledged to be one of the fundamental drivers of the modern economy. Standard setting through stakeholder collaboration usually results in significant efficiencies; for instance, the interoperability of standards, consumer safety, technological innovation and the introduction of performance standards in the market. While antitrust authorities have recognised the pro-competition benefits of standardisation, the standard-selection process itself involves deliberation and communication between competitors that may raise potential antitrust concerns. For instance, coordination in a standard-selection process may lead not only to minimum price-fixing, but also to a buyers’

31 POS terminals along with their core applications are either sold directly to the customers, such as banks and retail outlets, or to the TPPs, who act on behalf of the acquiring banks and also render VAS to develop and integrate applications into POS terminals.

32 VAS providers develop applications including loyalty, bill payment, money transfer, top-up and dynamic currency conversion for integration into POS terminals. Customers of VAS providers, including banks and financial institutions, use these services to customise commission and install and maintain POS terminals at merchant locations.

33 TPPs track the process of payment from the time a card is swiped for payment until a customer receives a printed charge slip at the POS terminal of the merchant.
cartel in which the licensees (voting members of the standard-setting organisation) coerce patent holders to accept lower royalties in exchange for having their patents incorporated into a standard.  

Apart from the coordination concerns involved in a standard-selection process, the adoption of industry standards involving IP may result in the creation of an SEP. Once a patent is included in a standard and is widely adopted, it grants absolute monopoly power to the SEP holder. The SEP holder is under an obligation to license on a FRAND basis and a failure to do so could be an abuse of dominant position. The task of an antitrust regulator is therefore not limited to adjudicating only violation of FRAND commitments by the SEP holder, but also extends to claims involving abuse of the standard-setting process. Globally, much of the antitrust litigation and controversy in relation to standard-selection processes has revolved around SEPs, and specifically patent hold-ups.

In India, the antitrust concerns surrounding standard-selection processes have also followed this trend, looking at issues surrounding FRAND terms for the Global System for Mobile Communications, or GSM standard, in the *Ericsson v. Micromax* case and others. In March 2013, Ericsson sued Micromax, for damages worth 1 trillion rupees alleging that Micromax had refused to enter into a licensing agreement covering Ericsson’s patented innovations across several wireless technology standards after three years of negotiations failed to yield a licence agreement. Micromax contested the claims, arguing that Ericsson was not licensing its SEPs on FRAND terms. Micromax, and subsequently Intex, approached the CCI, alleging abuse of dominance by Ericsson. The CCI, noting that the practices adopted by Ericsson were discriminatory and contrary to FRAND terms, directed the Director General, Competition Commission of India to investigate Ericsson for any potential violation of the provisions of the Competition Act. This order of the CCI was challenged by Ericsson before the Delhi High Court. During the pendency of these proceedings, Ericsson and Micromax entered into a global patent licence agreement and ended their dispute. Even though Micromax, apparently, has written to the CCI to withdraw its complaint, the Delhi High Court noted that notwithstanding such withdrawal, the CCI would be at liberty to proceed against Ericsson for any potential abuse of its dominant position.

In addition, the CCI has turned its attention more recently to the potentially anticompetitive effects arising out of voluntary non-SEP technical standards. Recently, the CCI considered whether the digital projection and screening of Hollywood movies in India, through Digital Cinema Initiative (DCI)-compliant servers – agreed and enforced between six Hollywood movie production houses (HMPs) by way of a joint venture – would

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35 *A standard, by definition, eliminates alternative technologies. When a patented technology is incorporated in a standard, adoption of the standard eliminates alternatives to patented technology. The value of a patent becomes significantly enhanced after the patent is incorporated in a standard.*
36 *Broadcom Corp. v. Qualcomm Inc*, 501 F.3d 297, 314 (3d Cir. 2007).
37 Patent hold-up refers to a situation where participants chose not to make a complete disclosure of their patents during the standard-selection process, and once the standards were widely adopted, demanded unreasonable royalty. Also see *In re Rambus Inc*, Dkt. No. 9302 (FTC 2002), *In re Union Oil Co of Cal.*, Dkt. No. 9305 (FTC 2003), *In the matter of Dell Computer Corp* 121 F.T.C. 616 (1996).
38 Director General is the investigative arm of the CCI and is commonly referred to as ‘DG’.
lead to an anticompetitive horizontal agreement or abuse of dominant position. The HMPs, to protect their proprietary content from piracy, required the cinema owners and digital cinema service providers to comply with DCI technology. Arguably, the DCI-compliant servers provide better image quality to the viewers and protect HMPs from piracy of their proprietary content. The CCI considered protection from piracy as a reasonable defence under the Competition Act to require the projection of movies through DCI-compliant technology (for protection of HMPs’ copyright), and decided that the allegations did not merit investigation.\(^{41}\) On considering this issue on appeal, however, the COMPAT equated the requirement of DCI-compliant servers by HMPs with the process of private standardisation, and held that adoption of high standards could possibly have resulted in the creation of entry barriers for non-DCI-compliant service providers. Essentially, in its analysis, the COMPAT viewed the requirement of DCI-compliant technology introduced by HMPs as being a private standard-setting process (that may result in an abuse of dominance). Accordingly, it ordered the Director General to conduct an investigation into the matter. Interestingly, both the CCI and the COMPAT did not delve deeper into the protection available to efficiency-enhancing joint ventures under the Competition Act.\(^{42}\)

While the approach adopted by the COMPAT seems to suggest that a private standard-setting process involving non-SEPs can indeed be investigated under the Competition Act, it remains to be seen how the CCI will balance, on one hand, the need to protect IP developed jointly for the promotion of minimum cinematic ‘quality’ standards with, on the other hand, the competing claims that the IP is being misused to keep out ‘non-compliant’ film distributors and results in an abuse of dominance.

V INTELLECTUAL PROPERTY AND MERGERS

The Indian merger control regime requires the mandatory notification of all mergers and acquisitions that meet certain jurisdictional thresholds; these thresholds are assessed on the basis of the sum of the acquirer and target company’s assets and turnover collectively. However, the question of whether the licensing of IPs constitutes the ‘acquisition’ or ‘transfer’ of assets (and consequently requires notification) has been the subject of some debate. Since IPs can be transferred through many methods, including through their assignment, exclusive licensing, non-exclusive licensing, sub-assignable licensing, for a limited duration or perpetually, the CCI has been called upon to identify situations where such licensing might require merger notification. The CCI has now clarified through its decisional practice that the licensing of an IP will not in itself constitute a transfer or acquisition if the licence is demonstrably non-exclusive – both as a matter of law (\textit{de jure}) and as a matter of fact (\textit{de facto}). The licensor has to, among other things, establish that it itself continues to use the IP, or indeed license out the IP to others for wider use; and that the licence is not exclusive, irrespective of terminology used in the licence agreements. As a corollary, IP licences that do not meet this test, either \textit{de jure} or \textit{de facto}, will be treated as asset acquisitions that trigger merger notification to the CCI if no statutory exemption is available.\(^{43}\)

\(^{41}\) Section 3(5) of the Competition Act provides for an IP protection carveout, by allowing the IP holder to impose reasonable conditions for protection of IP, but this carveout applies only to horizontal and vertical agreements under Section 3 and not to abuse of dominance under Section 4.

\(^{42}\) The case is now pending before the Supreme Court of India.

\(^{43}\) Combination Registration No. C-2016/11/456, AT&T and Time Warner Inc.
VI OTHER ABUSES

Sham or vexatious litigation as a tool to exclude competition is one of the important issues in IP and antitrust, since it involves the strategic use of IP infringement actions before courts with the ultimate objective of excluding a rival from the market. Globally, mature antitrust regulators have examined vexatious litigation as a strategy involving denial of market to a competitor. In the EU and the United States, the courts have laid down two broad principles that need to be satisfied when resolving an antitrust claim based on vexatious litigation: first, the lawsuit must be objectively baseless to the extent that no reasonable litigant could expect success on the merits; and second, the IP holder’s utilisation of the court system must be conceived in the framework of a plan to eliminate competition.44

While in India litigation in relation to both SEP and sham complaints are ongoing, the focus of this section is on complaints involving sham IP litigation. In the past eight years of antitrust enforcement, the CCI has received three complaints regarding sham litigation as a potential abuse of dominance. The CCI initiated an investigation into the first-ever complaint based on vexatious litigation in 2014.45 However, in the subsequent complaints, the CCI has refrained from directing investigations based on sham litigation, requiring the presence of exceptional circumstances. In all these cases, the CCI has effectively followed the principles laid down by the courts in the EU and the United States to examine claims involving vexatious litigation. The CCI’s approach in the first case of this nature involved a complaint against JCB India Ltd (JCB), where the complainant Bull Machines Private Limited alleged that JCB had, as patent holder, used an ex parte infringement injunction obtained from the High Court to strategically delay its own competing product launch. The withdrawal of the patent infringement suit by JCB soon after the product launch had been successfully delayed, formed the basis of the CCI’s investigation into whether JCB had engaged in sham or vexatious litigation.46

In more recent cases, however, the CCI appears to be increasingly reluctant to view as abusive conduct the use of court proceedings to enforce legitimate IP rights. For instance, recently the CCI, in an initiation order in Biocon v. Roche, considered that Roche had been engaged in a long-drawn-out (and continuing) legal battle involving IP rights before the Delhi High Court and noted that recourse to legal proceedings is a right of every party and, as a general principle, cannot be viewed as being sham litigation except under exceptional circumstances.47 It seems the intensity of the underlying patent battle, as reflected by the time taken in arguments before the High Court, has weighed heavily with the CCI in determining that the patent litigation was not vexatious.

45 M/s Bull Machines Pvt Ltd v. M/s JCB India Ltd & Ors (case No. 105 of 2013).
46 Ibid.
In sum, the jurisprudence on the point of vexatious litigation under the Competition Act so far has developed on the basis of the CCI’s *prima facie* orders.\(^{48}\) Since the *prima facie* orders of the CCI are not determinative of their final findings or meant to list detailed reasoning, the CCI’s approach to vexatious litigation remains a matter of some speculation.\(^ {49}\)

VII OUTLOOK AND CONCLUSIONS

The Madras High Court’s observed in *The Tamil Nadu Film Exhibitors Association v. Competition Commission of India* that the Competition Act permits the parties to settle their dispute, subject to CCI’s satisfaction that the settlement would not lead to or help continue any anticompetitive practice in India. This observation opens the door for the CCI to consider the global licence agreement between Micromax and Ericsson and the subsequent request by Micromax to terminate the proceedings against Ericsson while examining the allegations against Ericsson. While the Competition Act is designed to remedy instances of anticompetitive practice affecting the market as a whole and not just the interests of select competitors, the CCI may very well continue to examine the allegations against Ericsson; the very fact that Micromax no longer wishes to pursue its claims against Ericsson may weaken the CCI’s case against Ericsson.

To conclude, the CCI has adopted a largely balanced and progressive approach in ensuring that the enforcement of competition law is not at odds with preservation of IPs. In doing so, it has taken cues from decisional practice in other jurisdictions, and has evolved its own jurisprudence on issues such as whether patent litigation is sham, or indeed on the role of private standards in the market. However, much of the future direction of the CCI’s decision-making in this area will be determined in appellate review, where the Indian Supreme Court is likely to have the last word. As with many other issues, the enforcement of antitrust law on questions involving IP is likely to continue to evolve in the coming years.

\(^{48}\) CCI’s *prima facie* orders are somewhat equivalent to the statement of objects and reasons issued by the European Commission.

\(^{49}\) *InPhase Power Technologies Pvt Ltd v. ABB India Ltd* (case No. 12 of 2016).
I INTRODUCTION

Intellectual property laws in Indonesia grant exclusive rights to intellectual property owners to exploit their intellectual property or to grant licences to other parties to exploit them. The licensing provisions of the intellectual property laws do not specifically regulate circumstances when the implementation of intellectual property can conflict with antitrust laws and regulations. The intellectual property laws in Indonesia only provide general provisions that licence agreements should not contain provisions that are directly or indirectly detrimental to the Indonesian economy, hinder the ability of Indonesian people to master and develop technology in general, or contradict Indonesian laws and regulations, morality and public order.

The Anti-Monopoly Law of Indonesia generally covers the same ground as the competition law of other jurisdictions. It contains prohibitions against the usual forms of cartel behaviour, horizontal collusion and conspiracy, and also vertical restraints of trade and unilateral conduct (such as abuses of dominant position). The Anti-Monopoly Law is applicable to all businesses established in Indonesia or operating in Indonesia, whether or not they are legal entities.

In Indonesia, intellectual property cases are tried by the commercial courts. The commercial courts' decisions may be subject to further appeal (by way of cassation) to the Supreme Court. Meanwhile, antitrust cases are tried by the Business Competition Supervisory Commission (KPPU), and the district courts and the Supreme Court are mandated to accept and try appeals against KPPU decisions. KPPU, which is the main enforcement body for the Anti-Monopoly Law, is an autonomous body, independent of the executive and judiciary legislative bodies, but its members are appointed by the president. KPPU is authorised to examine allegations of violations of the Anti-Monopoly Law, issue guidelines for implementation of the law and apply administrative sanctions, subject to court control.

Article 50(b) of the Anti-Monopoly Law exempts agreements related to intellectual property (e.g., the licensing of intellectual property), trade secrets and franchising. The text

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1 Daru Lukiantono is a senior partner, Mochamad Fachri is an associate partner and Wiku Anindito is a senior associate at Hadiputranto, Hadinoto & Partners.


3 Law No. 5 of 1999 on Prohibition of Monopolistic Practices and Unfair Business Competition.
of this Article does not include any qualification to this exemption. However, in its Guideline No. 2 of 2009 on the Exemption of Intellectual Property Agreements (the KPPU Guideline on the Exemption of Intellectual Property Agreements), KPPU has taken the position that this exemption is not absolute and that intellectual property licences are still subject to scrutiny under the Anti-Monopoly Law. KPPU assesses licence agreements under the rule of reason and will only exempt licences that do not cause monopolistic practices or unfair competition. In practice, when parties accused of violating the Anti-Monopoly Law try to invoke Article 50(b) in their defence, KPPU generally disagrees and does not accept that the exemption under this Article applies.

Intellectual property licences are likely to become subject to increased competition law scrutiny as there is a draft revision to the Anti-Monopoly Law (the Draft Anti-Monopoly Law) that proposes eliminating the intellectual property licensing and franchising exemptions provided by Article 50(b). This draft is still being discussed by the Indonesian House of Representatives. At the current pace of discussion, it is not likely to become law until late 2018. If the proposal to eliminate this exemption is passed in its current form, it should become very clear that all intellectual property licences will have to comply with the Anti-Monopoly Law.

Moreover, the Draft Anti-Monopoly Law is likely to increase the importance of antitrust concerns in intellectual property transactions. Transfers of assets (including intellectual property) that pass a certain threshold will become subject to merger review. Formations of joint ventures (including those that include contributions or the use of intellectual property) that pass a certain threshold will also be subject to merger review.

In 2019, therefore, one may see a much greater interface between intellectual property and competition law in Indonesia, and potentially a greater interest being taken in intellectual property transactions by KPPU.

II YEAR IN REVIEW

No notable intellectual property-related cases have been tried by KPPU in the past year. As Indonesia is not a jurisprudence-based jurisdiction, prior court decisions do not need to be followed by panels of judges in similar cases.

Moreover, the Draft Anti-Monopoly Law expands the criteria of transactions that are subject to merger review. Under the current law, only share transactions such as acquisitions and mergers are subject to merger review. Under this draft, asset acquisitions that pass a (yet to be determined) threshold will also be subject to merger review. This means whereas currently transfers of intellectual property are not subject to merger review, in the future they will be if the relevant thresholds are passed.

Formation of joint ventures will also be subject to merger review under the Draft Anti-Monopoly Law. This means that intellectual property transactions arising from joint ventures such as parties agreeing to contribute intellectual property to a joint venture or agreeing on other arrangements involving intellectual property (e.g., common use of intellectual property, exclusive use of intellectual property) will be subject to review by KPPU.

The Draft Anti-Monopoly Law also expands the definition of business actors to cover not only those who engage in business activities within Indonesia, but also those who engage in business activities outside Indonesia that affect the Indonesian economy. Taken together with the deletion of the exemption on licensing and franchising agreements, this means that if a licence agreement was concluded by overseas parties, those parties would become subject
to penalty under the Anti-Monopoly Law if the agreement were found to be in violation of the Anti-Monopoly Law and affected the relevant market in Indonesia, even though the parties had no presence in Indonesia.

III LICENSING AND ANTITRUST

According to the KPPU Guideline on the Exemption of Intellectual Property Agreements, the exemption provided by KPPU would only be applicable if the licence agreement was made in line with the intellectual property laws. According to intellectual property laws in Indonesia, intellectual property licence agreements must be recorded at the relevant intellectual property office to bind third parties. However, intellectual property owners have only been able to file recordal requests since the issuance of Minister of Law and Human Rights Regulation No. 8 of 2016 on Requirements and Procedures for the Recordal of Intellectual Property Licence Agreements on 24 February 2016.

The purpose of the requirement to record intellectual property licence agreements is to bind third parties. From the perspective of third parties, recordal automatically serves as notification that there is an intellectual property licence arrangement in place between the intellectual property owner as the licensor and the licensee in Indonesia – which would be important if the intellectual property owner needed to show proof of use of its intellectual property in Indonesia. However, so far there have been no notable cases before the commercial courts where a licence agreement was overruled because of non-recordal issues. Moreover, KPPU has not issued any notable decisions in which it considered an intellectual property licence agreement as anticompetitive on the basis of non-recordal issues.

Although the following discussion is based on the KPPU Guideline on the Exemption of Intellectual Property Agreements, in practice, KPPU guidelines do not restrain KPPU from adopting a different approach to particular cases if deemed necessary. So the views expressed in the Guideline might not reflect how KPPU will act in a particular case.

i Anticompetitive restraints

As stated previously, the Anti-Monopoly Law exempts agreements related to intellectual property, but KPPU regards such exemptions as not being absolute, as a licence agreement would still be subject to the application of the Anti-Monopoly Law if it were to cause conditions of actual monopolistic practices or unfair business competition. As regards the Anti-Monopoly Law, business actors should not prevent other competitors from carrying out business activities in the same relevant market, or from carrying out development of technology, or prevent consumers from engaging in business relationships with competitors, as such conduct may lead to monopolistic practices or unfair business competition.

According to the KPPU Guideline on the Exemption of Intellectual Property Agreements, intellectual property licence agreements may be subject to the application of the Anti-Monopoly Law if (1) the intellectual property is deemed as an essential facility and the owner refuses to license it, or (2) the licence agreement leads to exclusive dealing.

The KPPU Guideline on the Exemption of Intellectual Property Agreements provides some examples where licence agreements may lead to exclusive dealing, such as pooling licensing and cross-licensing, tying arrangements, material supply limitation, production and marketing limitation and grant-back licensing. According to this Guideline, it should
be identified whether the licensed intellectual property is deemed as an essential facility. An essential facility in general is a facility that is required to run a business and not economical to duplicate.

Specifically in relation to franchise agreements, according to KPPU Guideline No. 2 of 2009 on Exemption of Franchise Agreements (the KPPU Franchise Guideline), a franchise agreement cannot be exempted from the application of the Anti-Monopoly Law if it consists of provisions relating to purchase obligations or unrelated to the intellectual property that is the essence of the franchise business or that cause entry barriers for other suppliers.

**Exclusive dealing**

The Anti-Monopoly Law also prohibits exclusive dealing. This is, for example, an agreement where any of the following apply:

- **a** the recipient of any product or service may only resupply or may not resupply the product or service to certain parties or in certain places;
- **b** the recipient of any product or service must agree to purchase other products or services from the supplier (tying-in agreements); and
- **c** the recipient of any product or service will get certain prices or discounts, but in return it is required to purchase other products or services from the supplier or the recipient is prohibited to purchase the same type of products or services from the supplier’s competitors.

Article 15 of the Anti-Monopoly Law provides that a prohibition on exclusive dealing is illegal *per se*, but the KPPU guidelines indicate that this should be subject to the ‘rule of reason’, specifically prohibiting the practice if it has caused or might cause monopolistic practices or unfair competition.

**Grant-back licences**

The intellectual property laws do not specifically regulate grant-back licences. Nevertheless, according to the KPPU Guideline on the Exemption of Intellectual Property Agreements, each party should consider the fact that a grant-back licence may hinder the licensee from advancing the technology. The grant-back licence may also be unfair, as it allows the licensor to own intellectual property that it has not created itself. Therefore, this provision could be seen as anticompetitive and, hence, it may be further examined for potential violation of the Anti-Monopoly Law, with consideration given to the background, purpose and reasons for the inclusion of the grant-back provision in the licence agreement.

**ii Refusals to license**

From the intellectual property law perspective, refusals to license are not considered as prohibited practices. However, in terms of the Anti-Monopoly Law, this could be seen as a form of abuse of dominant position if the licensor has a market share of 50 per cent or more of a certain product or service, or where the licensor and one or two other business actors collectively control market share of 75 per cent or more of a certain product or service.\(^4\) Moreover, a business actor could also be deemed dominant if it no longer has any significant

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\(^4\) Article 25(2) of the Anti-Monopoly Law.
competitors in the relevant market in terms of the market share controlled, and has a higher position than all of its competitors in terms of financial capability, access to supply or sales, and capability to adjust the supply or demand for certain products or services.\(^5\)

As explained earlier, that assessment should also consider whether the licensed intellectual property is deemed as an essential facility. In general, if the intellectual property is not deemed as an essential facility, the exemption could be applicable.

The Patent Law does not provide specific measures that could be taken by third parties if patent holders refuse to grant a licence. Nevertheless, according to the Patent Law, a third party who can show that he or she has the capability to fully exploit a patent and has his or her own facilities for doing so can file an application for compulsory license of a patent within 36 months after the patent is issued.\(^6\) A compulsory licence could be given based on the Minister of Law and Human Rights’ decision in any of the following circumstances:

\(a\) the patent holder does not implement an obligation to create a product or use a process in Indonesia within 36 months after the patent is granted;

\(b\) a patent has been implemented by the patent holder or its licensee in a form or way that harms the public interest; and

\(c\) a patent resulting from a development of a previous patent cannot be implemented without using a third-party patent that is still under protection.

To obtain the compulsory licence, the applicant (or its proxy) should also provide evidence that it has taken actions within 12 months after the first action to obtain a licence from the patent holder based on proper requirements and conditions, but that it was not successful. The Minister of Law and Human Rights can only grant a compulsory licence if the Minister is of the opinion that the aforementioned patent can be implemented in Indonesia on a ‘proper economic scale’ and can benefit society.\(^7\) ‘Proper economic scale’ is regarded as circumstances in which the products manufactured using the patent could be sold at an affordable price to the public while still taking the rights of the patent holder into consideration.

### iii Unfair and discriminatory licensing

As stated earlier, the refusal of a dominant business actor in a relevant market to license intellectual property could constitute a prohibited relative monopolistic practice.

The Anti-Monopoly Law provides the following criminal and civil liabilities for dominant business actors who: (1) impose terms of trade with the intention of preventing or obstructing consumers from acquiring competitive products; (2) restrict the market and the development of technology; or (3) obstruct potential competitors from entering the market:

\(a\) criminal liability: criminal fine of at least 25 billion rupiah and at most 100 billion rupiah, or imprisonment for a maximum period of six months; and

\(b\) civil liability: subject to an order to cease the abuse of the dominant position and fines of between 1 billion rupiah and 25 billion rupiah, and damages.

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\(^5\) Article 1(4) of the Anti-Monopoly Law.

\(^6\) Article 84(1)(a) of the Patent Law.

\(^7\) Article 84(1)(c) of the Patent Law.
iv Patent pooling
Patent pooling takes the form of an agreement between multiple patent holders to license their patent to a third party. In general, the Patent Law does not specifically regulate patent pooling issues. Nevertheless, from the perspective of the KPPU Guideline on the Exemption of Intellectual Property Agreements, the Anti-Monopoly Law could still be applicable to patent pooling arrangements, subject to the rule of reason. Specifically, the Guideline provides that if the pooling of a licence consists of provisions allowing manufacturing or marketing activities of a product dominantly owned by one business entity such that other business entities could not compete effectively, those provisions could be seen as anticompetitive. For example, those kinds of monopolistic practices could be applied by setting discriminatory pricing for other business actors outside the patent pool and limiting the grant of licences to those outside the pool.

v Software licensing
In practice, software may be protected by different forms of intellectual property, such as patents and trade secret rights, although the common form of intellectual property protection for software is copyright. The Copyright Law does not specifically regulate software licences (or software distribution and end-user licence agreements). However, as a general rule, the Copyright Law provides that copyright licensing should not extend beyond the validity and protection period of the licensed copyright work, and that the licensor is entitled to receive royalties from the licensee (unless agreed otherwise). Moreover, a copyright licence agreement should not be used as an avenue to diminish or take over all the author's rights in relation to its copyright.

vi Trademark licensing
With regard to trademark licensing, the licensors’ perspective is usually that it would be essential for them to control the use and commercial exploitation of their marks by licensees, and ensure that this use does not conflict with the licensors’ business and interests. For example, in a franchise business, the licensors may request the licensees to purchase materials from a certain supplier. According to the KPPU Franchise Guideline, such an arrangement could be exempted from the application of the Anti-Monopoly Law, as long as it is related to the intellectual property that is the essence of the franchise business, or would not cause entry barriers for other suppliers.

In some jurisdictions, competition issues relating to trademark licensing may also arise in the form of coexistence agreements when both the licensor and licensee decide to regulate each party’s use and registration of its marks to avoid confusion among consumers. In general, the Trademark Law and also the Indonesian Trademark Office's practice do not acknowledge coexistence agreements. Therefore, while coexistence agreements may be considered binding between parties from a contractual perspective, coexistence agreements may not be used to overcome possible rejections of trademark by the Indonesian Trademark Office. The Anti-Competition Law also does not specifically regulate the coexistence-agreement issue. As

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8 Article 80(2) of the Copyright Law.
9 Article 80(3) of the Copyright Law.
10 Article 82(3) of the Copyright Law.
a general rule, however, coexistence agreements should not limit competitors’ ability to carry out their business activities in the same relevant market or prevent consumers from doing business with competitors, as such terms may be monopolistic and anticompetitive.

IV STANDARD-ESSENTIAL PATENTS

i Dominance
In general, the patent for an invention that is integral to standards that are important for functionality or for relevant commercial items is known as a standard-essential patent (SEP). This is mostly relevant in the information and communication technologies sector, where creation and protection of new communication standards through patents could constitute a competitive advantage that allows an SEP holder to control input and hinder the entry of potential competitors or innovation in the market.

The Patent Law does not specifically define or regulate SEPs, although it provides a mechanism for third parties to seek a compulsory licence for implementing a patent resulting from a development of a previous third party’s patent that is still under protection, as stated above. Moreover, under the Patent Law and the Anti-Monopoly Law, holding an SEP has not been found to directly yield dominance in the patent-related market. Furthermore, there have been no KPPU decisions issued in recent years finding refusal to license an SEP as being anticompetitive.

ii Injunctions
There have been no KPPU decisions analysing injunctions sought by patent holders from the antitrust perspective, as there is currently no measure for injunctions under the Anti-Monopoly Law. As a general rule, the Patent Law provides a mechanism for the owner of a patent registration to file a request for an injunction (in the form of a temporary court order) to prevent: (1) the entry to the market of products resulting from patent infringement; (2) the removal of the evidence of patent infringement from the infringer’s premises; and (3) further damage being suffered by the patent owner.\(^\text{11}\) The mechanisms to initiate a temporary court order are stipulated in Supreme Court Regulation No. 5 of 2012 on Temporary Court Orders (Regulation 5/2012). According to Regulation 5/2012, the court order request should be lodged together with the payment of a deposit or warranty in an amount equal to the value of the suspended goods.

With regard to the process, within two days of the court order request being lodged, the commercial court should decide whether to grant or reject the request. If the request is granted, the bailiffs will go to the defendant’s premises to initiate the order. Within 30 days of the implementation of the court order, the panel of judges should review the case (hearing arguments from both parties) and accordingly decide either to confirm or cancel the order. If the panel of judges confirms the order, the plaintiff should proceed with filing an infringement claim as a follow-up. If the panel of judges cancels the order, the deposit or warranty will be given to the defendant.

According to Regulation 5/2012, the amount of the deposit for the temporary court order should be equivalent to the value of the goods detailed and the costs that will be

\(^{11}\) Article 155 of the Patent Law.
incurred as a result of the implementation of the court order. Unfortunately, at the time of writing, the implementation of this measure is yet to be tested, as there is no further guideline available for the commercial courts to calculate the deposits or warranties for temporary court orders; hence, there have been no court orders requested for patent infringement cases so far.

iii Licensing under FRAND terms
The Patent Law does not include any provisions that require an SEP holder to grant patent licences to other parties under FRAND licensing terms. There have been no notable court cases in Indonesia in relation to the application of FRAND licensing terms, particularly those cases where patent licence agreements are overruled or deemed invalid because of failure to comply with FRAND licensing terms.

iv Anticompetitive or exclusionary royalties
There are no specific provisions in the Patent Law prohibiting issues such as exploitative prices and practices, or exclusionary practices. Moreover, there has been no notable intellectual property or antitrust case where royalty rates in an intellectual property licence agreement are deemed as abusive or excessive.

As best practice, any applicable industry-specific guideline should also be taken into consideration when determining royalty rates. For example, in the music industry, the Minister of Law and Human Rights has issued Decree No. HKI.2.OT.03.01-02 of 2016 to regulate the benchmark for royalties for the use of music by various users or premises in Indonesia.

V INTELLECTUAL PROPERTY AND MERGERS
i Transfer of IP rights constituting a merger
Currently, a transfer of IP rights is not subject to merger review and does not constitute a merger. That said, as discussed earlier, the Draft Anti-Monopoly Law proposes to include transfers of assets and the establishment of joint ventures that meet certain thresholds (to be determined in an implementation regulation) as transactions subject to merger review. In relation to this, KPPU must complete the merger review within 25 working days. This requirement could be important and should be taken into consideration for transactions involving acquisitions of intellectual property after the Draft Anti-Monopoly Law is passed.

ii Remedies involving divestitures of intellectual property
In relation to the post-completion notification as elaborated above, if KPPU determines that a transaction may cause monopolistic practices or unfair competition, KPPU Guideline No. 10 of 2011 on Mergers (the KPPU Merger Guideline) provides a procedure that allows the acquiring entity to propose remedies. According to the KPPU Merger Guideline, the proposed remedies can be in the form of behavioural remedies relating to intellectual property. If KPPU accepts the proposed remedies, it will issue a conditional opinion of no

12 Article 2 of Regulation 5/2012.
risk of monopolistic practices or unfair competition. If KPPU rejects the proposed remedies, it will issue an opinion that the transaction risks causing monopolistic practices or unfair business competition.

Nevertheless, we are not aware of any mergers where KPPU has imposed remedies involving the transfer of intellectual property to prevent a business entity achieving a dominant position by such means.

As noted, the above discussion applies to the current merger review regime, the application of which is limited to acquisitions of shares, and mergers and consolidations between companies. It remains to be seen whether a new more specific remedy regime will be applied to transfers of assets, in particular those involving transfers of intellectual property when the Draft Anti-Monopoly Law comes into force.

VI OTHER ABUSES

i Sham or vexatious IP litigation
This concept is not commonly known in Indonesia, as there have been no notable cases analysing the antitrust implications of sham or vexatious IP litigation. While 'pay for delay' has been a hot issue in other jurisdictions, there have been no notable patent-related cases before the commercial courts where pay for delay was one of the measures to settle the court dispute. In general, the number of patent infringement cases in Indonesia is not significant, compared with other intellectual property infringement cases such as trademark or copyright infringement.

The Patent Law does not specifically define ‘sham litigation’, but it is normal in Indonesian court practice that infringers respond to infringement claims by saying that the civil claim was groundless or unclear. This defence is usually raised together with the arguments that the intellectual property being used by the infringer is not the same as the one owned by the plaintiff; hence, the commercial use is non-infringing.

ii Misuse of the patent process
In some jurisdictions, this topic may lead to ‘evergreening’ issues in the pharmaceutical and healthcare industry, which is considered a life-cycle strategy initiated by patent holders to extend products that are about to expire to retain patent royalties. This is not a concept normally regulated under the Patent Law, and in general there have been no notable cases where KPPU considered evergreening or life-cycle management measures initiated by patent holders as anticompetitive.

Moreover, at the time of writing, there have been no patent infringement cases before the commercial courts where the panel of judges highlighted misuse of the patent process. On a related note, the Patent Law provides five years (two years under the previous law) for third parties to use a patented invention for the purpose of carrying out tests, preparing for production and seeking regulatory or marketing approval before the patent expires (widely known as the Bolar provision).

iii Anticompetitive settlements of IP disputes
So far, there have been no notable cases where KPPU reviewed the settlements of intellectual property disputes from antitrust perspectives.
VII OUTLOOK AND CONCLUSIONS

The development at the interface between intellectual property and antitrust law has not been very dynamic in recent years. That said, we would expect a greater degree of dynamism once the Draft Anti-Monopoly Law is passed, as the exemptions for intellectual property-related agreements will be set aside, and asset transactions and joint-venture transactions involving intellectual property will be subject to KPPU review.
I INTRODUCTION

Industrial and intellectual property rights (IPRs) are regulated in Italy by the general principles laid down in the Italian Civil Code and in Legislative Decree No. 30 of 10 February 2005, as amended (the IP Code), and, in relation specifically to copyright, by Law No. 633 of 22 April 1941 (the Italian Copyright Law or ICL).

The use and validity of Italian IPRs is governed by national law. The use of Italian IPRs is, however, always subject to the Treaty on the Functioning of the European Union (TFEU), and in particular its Articles 101 (regulating anticompetitive agreements between undertakings) and 102 (regulating abuse of market power by a single undertaking).

In Italy, the equivalent national competition rules are contained in Law No. 287 of 10 October 1990, setting out rules for the protection of competition and the market (the Italian Antitrust Law or IAL). That legislation covers agreements, abuses of dominant position and concentrations, but does not explicitly regulate the interplay between IPRs and competition law.

Article 101 TFEU (and the equivalent Italian legislative provision) may affect the terms under which IPRs are licensed (by acting, for example, to prohibit certain anticompetitive restrictions), unless those terms come under one of the exemptions for which Article 101(3) provides. Article 102 (and the equivalent Italian legislative provision) may also be applied against a holder of an IPR who refuses to grant a licence, charges unfair prices, or imposes anticompetitive terms, but only where they occupy a dominant position in the relevant market. In certain circumstances, the mere fact of holding IPRs may per se amount to a dominant position.

Intellectual property law and competition law ultimately share a common goal of promoting economic growth, innovation and consumers’ welfare. The general consensus is, however, that their relationship is destined to remain highly conflictual notwithstanding that common objective. The fundamental reason for that conflict historically arises out of the way that the law of intellectual property in essence establishes ius excludendi alios: Competition law, by contrast, presupposes that a resource should be shared, as a means of favouring free competition.

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1 Luciano Di Via is a partner and Monica Riva is a counsel at Clifford Chance Studio Legale Associato.
2 See Franceschelli, ‘Struttura monopolistica degli istituti di diritto industriale’, in Studi in onore di Francesco Messineo, Milan, 1959, Vol. III, p. 95, stating that the purpose of a patent ‘is not so much to enable the performance of an act, as to prevent others from doing the same’.
This does not, however, represent an irreconcilable conflict, and in Italy – as in most countries – there are many reasons for saying that IP law now operates in favour of competition.

Above all, in Italy IPRs are only granted for a limited period and there is a right to obtain a declaration of nullity if IPRs do not meet the legal requirements for their protection. Other ways in which the Italian intellectual property system operates in favour of competition include the following:

a. Italy has a system for bringing trademark opposition proceedings in an administrative process, in a similar way to the system for opposing Community trademarks. That procedure has been in place since July 2011, following publication of a Ministerial Decree of 11 May 2011 and an accompanying explanatory Circular, No. 582. Under the procedure, holders of earlier rights that conflict with third-party holders of an earlier registration may oppose an application for registration through an administrative route, by filing with the Italian Patents and Trademarks Office. This system represents a credible and effective alternative to the ordinary court-based procedure, and delivers results much more quickly and at considerably lower cost, while still leaving it open to litigants to seek to have the courts declare a trademark void.

b. In relation to patents, applications made on or after 1 July 2008 have been able to include a novelty search conducted by the European Patent Office on behalf of the Italian Patents and Trademarks Office, with the search results provided to the applicant. Historically, domestic patents were too weak and failed to confer much credibility upon an invention, not least when they were the subject of court proceedings, and that lent itself to abuses by patent holders.

c. There are many circumstances in which use may be made in Italy of IPRs under exemptions. For example, Article 241 of the IP Code, entitled ‘Exclusive rights over components of a complex product’, states that ‘exclusive rights over components of a complex product cannot be enforced to impede the manufacture or sale of those components for the repair of the complex product, so as to restore its original appearance.’ Accordingly, components of a complex product (such as a motor car), while protected by IPRs, may nonetheless be reproduced without the consent of the holder of those rights, where the reproduction enables restoration of the complex product’s original appearance.

d. Trademark rights cannot impede the use for descriptive purposes of a trademark that belongs to another (see Article 21 of the IP Code); and the case law on shape trademarks in Italy – like that of the European Court of Justice – is very much aware of the pro-competitive need to avoid the granting of a shape trademark conferring a monopoly over that which gives substantial value to the goods. Generally, the approach in Italy to the protection of colours and shapes by trademarks has favoured a pro-competitive stance.3

e. Research and development in Italy naturally focuses on technical and aesthetic advances that the law requires must not be contrary either to morality or public policy (Articles 43 and 50 of the IP Code), and the legislation on trademarks, and on distinctive signs generally, includes specific provisions that not only prohibit misleading use of a

3 See recently Court of Milan, 12 March 2015, in relation to the protection of the shape of a popular watch as trademark; see also Ghidini-Capuzzi, ‘Profili di rilievo concorrenziale nella disciplina dei marchi’, reported at www.aippi.it.
trademark, but also establish that a registration may be revoked where it has become a means of misleading the public (Articles 13, 23 and 26 of the IP Code). Indeed, the academic authorities in Italy have described the notion that a trademark should not be deceptive as central to the entire system.4

Incentivising innovation and the award of exclusive rights impose a duty to carry through and use the rights. This is the sense of the rules whereby a trademark may be revoked for non-use (under Articles 24 and 26 of the IP Code), and also the system for the grant of mandatory patent licences where patents remain unexploited (Article 70 of the IP Code). IPRs should never prevent subsequent progress – the rules governing the exhaustion of IPRs and the obligation, in relation to patents, to grant reciprocal licences, represent significant technical progress in this respect (see Article 71 of the IP Code).

While the debate remains far from resolved, there are nonetheless many indications that intellectual property may no longer be regarded as an exception and a contradiction in a market system – an island of monopoly in an ocean of free competition. Rather, it is now an instrument that is ‘by nature favourable to competition, rewarding true progress and development’.5

This chapter analyses the greatest exceptions to the rule, examining the cases in which intellectual property law gives rise to fully monopolistic rights by way of an exception to principles of free competition.

In addition, it cannot be ignored that nowadays the relationship between IPRs and competition law has been deeply affected by new technologies.

It is clear to all that new technologies have the potential to revolutionise every field of society, including the law; therefore, they raise many crucial issues that need to be fully investigated in the next future in order to find suitable legal instruments to address the challenges of the new digital era.

These new technologies include what has come to be known as ‘big data’.

Generally speaking, Big Data is defined as ‘high-volume, high-velocity and high-variety information assets that demand cost-effective, innovative forms of information processing for enhanced insight and decision making’.6

In other words, the term ‘big data’ refers to enormous amounts of different types of data produced at high speed from a great variety of sources. This data represents the raw material derived from different sources and that needs to be elaborated and processed to become meaningful, such as the data concerning the density of the traffic collected through the sensors attached to cars.


5 See Vanzetti-Di Cataldo, Manuale di diritto industriale, Milan, 2012, p. 377, who considers the patent system a positive, at least within a larger market system.

The tremendous value of big data resides in its capacity to aggregate enormous amount of data at an incredible speed and to convey knowledge that is useful, inter alia, to predict social behaviour, increase security, improve industrial performances and prevent disasters or critical, dangerous circumstances.

For example, data collected through sensors in cars, once analysed, can provide useful information concerning the density of traffic, the level of pollution, the environmental conditions in specific areas and, thus, lead public authorities to adopt effective policies to govern traffic.

Big data affects every sector, including the market and competition.

The acquisition and processing of large amount of data on the behaviour and interests of consumers allow data-driven companies to improve their services and to provide services that really meet users’ expectations and wishes. Therefore, datasets based on the information that individuals disclose when using online services have become an extraordinary competitive advantage and a tremendous economic asset in the digital economy.

As it is clear from the above, big data raises crucial issues from an antitrust perspective; for this reason, the Italian Competition Authority (ICA) together with the Italian Authority for the protection of personal information (IAPPI) in May 2017 initiated a preliminary investigation on big data to ascertain the underlying issues and to create a legal framework to safeguard competition, and to protect privacy and consumers’ rights.7

At this preliminary stage of the investigation, some experts have started to point out that, for example, big data may be considered an essential facility, which is an infrastructure whose duplication is impossible or extremely difficult, and should accordingly be made available to competitors.

Under antitrust law, the refusal to supply big data may amount to an abuse of dominant position only when the refusal:

- is put in place by a company which is dominant in a upstream market;
- regards data deemed essential to compete in a downstream market; and
- forecloses competition in the downstream market and harms the consumer.

In this case, the crucial issue consists in ascertaining the second condition, that is to say whether the refusal to supply big data restricts competition in the downstream market or, on the other hand, the competitors may rely on information derived from alternative sources.

In other words, considering the peculiar nature and characteristics of big data, it must be determined if there is a potential or actual substitute that can be used by competing companies to overcome the negative consequences of the refusal and to compete effectively on the downstream market.

With this regard, it should be noted that, for example, most of the raw data are free and freely available to anyone. Hence competitors may develop their own big data analytics to acquire and to process information and, therefore, play a role in the downstream market.

Moreover, they can buy this software from others or they can purchase datasets from third parties.

Therefore, it is clear from the above that especially in this stage and considering the lack of judicial decisions, the abuse of dominant position involving a refusal to supply big data must be assessed on a case-by-case basis.

In this chapter we will address the major issues regarding the intersection between IPRs and competition law under Italian law, although it should be borne in mind that in some respects, the rules will in reality often be set at a European level.

II YEAR IN REVIEW

During the past years the Italian courts and the CJEU have addressed some relevant cases law concerning both IPR and competition law topics.

Particularly the Tribunal of Milan⁸ and then the Court of Appeal of Milan⁹ decided an important case involving Ryanair and other online travel agencies (OTAs) regarding the ‘essential facility doctrine’ and the – alleged – abuse of dominant position by Ryanair by refusing to allow the other OTAs to access its databases and the procedures for flight reservations.

Another important case addressed by the CJEU in this field of intersection between the IPR and competition law is the *Huawei Technologies v. ZTE* case¹⁰ regarding the criteria under which the proprietor of the SEP that is in a dominant position may seek an injunction against the infringement of the SEP without violating Article 102 TFEU. This ruling of the CJEU is of the utmost importance because it clearly defines a kind of ‘to do list’ for the IP owner and precisely lists all the SEP duties it must comply with and the subsequent steps it has to take to prevent its refusal to grant the SEP being regarded as an abuse of dominant position.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

In Italy licences of IPRs – not least those over patents, trademarks, know-how and software – are subject to the general principle of freedom of contract.

Some contractual provisions may, however, be cause for concern from a competition law standpoint where the market share held by the owner of the IPRs exceeds certain thresholds or otherwise occupies a position of significant market power even if not necessarily in a dominant position.¹¹

These include in particular provisions that:

a would require the licensee to sell only through certain distribution channels or in certain territories; or

b make the licensor the owner of any independent, severable, improvements by the licensee.

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⁸ See Court of Milan, Special Section for Enterprises, 4 June 2013, judgment No. 7825.
⁹ See Court of Appeal of Milan, Special Section for Enterprises, 12 October 2015, judgment No. 3900.
¹⁰ See CJEU, 16 July 2015, C-170/13.
¹¹ This is the concept of ‘relative dominance’, which does not always constitute a dominant position for the purposes of competition law. Further, Article 9 of the Law No. 192 of 18 June 1998 (governing sub-supply in production activities) prohibits the abuse of economic dependence as a form of ‘relative dominance’.
Additionally, one area that is fiercely debated in Italy is the validity of clauses that prohibit a licensee from pursuing disputes over the licensed rights, in and out of the courts.

Absolute restrictions on a licensee’s ability to challenge the validity of licensed rights are, generally speaking, considered contrary to competition law. The practical suggestion often put forward to reduce such risks is to change a no-challenge restriction to a right for the licensor to terminate if a challenge is made, and the Court of Milan has recently ruled on such an issue, in relation to a patent. A licensee had waived its entitlement to challenge a patent’s validity as part of a settlement agreement. The court found this to have been a legitimate waiver of a right that would otherwise have been available to it, and thus a legitimate disposal of its power to pursue actions. Accordingly, the no-challenge provisions were found to be valid.

In relation to technology transfer agreements (TTAs), EU Regulation 316/2014 has been incorporated in full into the Italian legislation.

TTAs include licensing agreements concerning know-how, patents, utility models, design rights, topographies of semiconductor products, supplementary protection certificates and software copyright.

Subject to satisfaction of certain conditions, Article 101(1) TFEU does not apply to TTAs.

### Refusals to license

In Italy, as in Europe, the ‘essential facility doctrine’ is the only doctrine within competition law that can lead to the grant of a compulsory licence, and it only applies in the field of intellectual property in certain rare, well-demarcated circumstances.

In Italy, there is a broad consensus that the doctrine only applies to companies that can be regarded as dominant in a market and that it cannot be applied, on the contrary, to non-dominant companies.

Secondly, even with respect to dominant companies, an obligation to grant an IPR licence only arises in very exceptional circumstances, namely that:

- **a** first, the requesting undertaking must be intending to produce new goods and services for which there is potential consumer demand;
- **b** second, access to the protected material must be ‘indispensable’, so that the refusal would exclude any or all competition on a secondary market. ‘Indispensable’ is meant here in a very restrictive manner, whereby the product or asset in question, while itself essential to the good functioning of the sector, could not be duplicated on any conceivable economic conditions; and
- **c** third, the refusal has to be unjustified.

A recent ruling by the Court of Milan has based its reasoning on the ‘essential facility doctrine’, holding that Ryanair abused its dominant position by refusing to allow other online travel agencies (OTAs) to access its databases and the procedures for flight reservations, which can be made only on Ryanair’s official website.

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12 See Court of Milan, 12 March 2012.
14 See Court of Milan, Special Section for Enterprises, 4 June 2013, judgment No. 7825.
The Court of Milan stated that Ryanair holds a 10 per cent market share in the air transport market within the European Union, and has a monopoly on 49 routes; therefore, it is the owner of essential infrastructure facilities.

Thus, the ‘upstream’ decision to exclude OTAs from being able to sell seats on its flights prevents the OTAs from performing their activities as reservation agents and especially to operate in the downstream market for additional travel services, such as insurance, car rental and hotel reservation.

The ruling by the Court of Milan was in part overturned by the Court of Appeal of Milan. 15

The Court contested that Ryanair holds a dominant position in the air transport market because it only has a 10 per cent market share on the market and to assert dominance a larger share, of 40 to 50 per cent, is required. Therefore, with this limited market share, Ryanair’s decisions and acts cannot be really restrictive of the competition.

Moreover, the Court of Appeal of Milan stated that Ryanair manages essential infrastructure facilities only in relation to the 49 routes for which it has a monopoly.

Therefore, according to the court, Ryanair’s decision to sell directly seats on its flights and to deny OTAs access to the procedures for flight reservations cannot be regarded as an abuse of dominant position.

iii Patent pooling

Patent pooling agreements are licensing agreements that may come within the scope of Article 101(1) TFEU and the equivalent Italian legislation, because the creation of a pool may result in price fixing or in a significant reduction in innovation.

It is important to note that in principle a patent pooling agreement should not come within the block exemption provisions of Regulation 316/2014, as an agreement to establish a pool does not qualify as a TTA.

For the purposes of patent pooling, patents can be classified as: (1) complementary or substitute; and (2) essential or non-essential, depending on their nature.

According to the European Antitrust Guidelines (EAGs), the pooling of complementary patents is generally considered pro-competitive because it should not affect, for example, competitive pricing. On the other hand, substitute patents that compete with each other should not be pooled, so that competition between the substitute technologies can be preserved. Essential patents are required to comply with technical standards and are complementary, and thus patent pools comprising essential patents are less likely to conflict with competitive concerns than patent pools that include non-essential patents.

In the EAGs, the Commission sets out the factors to be considered in determining whether pooling agreements fall outside Article 101(1).

In assessing the possible competitive risks and efficiencies of a pooling agreement, the Commission should consider, inter alia: (1) the transparency of the pool creation process; (2) the selection and nature of the technologies; and (3) the measures adopted by the parties against exchange of sensitive information.

The Italian courts have yet to rule on the details of patent pooling agreements, and there continues to be some debate in Italy over the legal nature of such agreements in terms of civil law.16

15 See Court of Appeal of Milan, Special Section for Enterprises, 12 October 2015, judgement No. 3900.
Trademark licensing

Under the IP Code, trademark licences are not required to be made in any particular form, and may be granted on exclusive or non-exclusive terms, and with respect to all or any part of the services or products for which the trademark has been registered, and with respect to all or any part of the relevant territory (see Article 23 of the IP Code).

The grants that give rise to the greatest number of issues, in terms of consumer protection, are those made on non-exclusive terms, as these carry the most significant risk that the public might be misled. Where a non-exclusive licence is granted, the trademark’s use is divided among a number of different licensees, with multiple businesses introducing products into the market that carry the same trademark.

The Italian legislation explicitly states that trademark licensing must not result in consumers being misled. That means that inherently any licence granted in Italy is going to include provisions that enable the licensor to oversee the licensee, in terms of the quality of the products it introduces into the market. Such clauses are, therefore, not only lawful in terms of the competition law, but indeed necessary for the licence to be valid, in terms of the law of intellectual property. Generally, trademark licences are viewed positively in Italy from a competition law standpoint.

Overall, the effects are thought favourable, in terms of distribution and efficiency, with benefits to consumption and the development of small and medium-sized businesses – even if that sometimes means compromising the licensee’s freedoms in terms of its ability to have a free hand in decision-making on product quality and distribution.

One specific kind of licence is for franchising arrangements, which in Italy have their own legislation, Law No. 129 of 6 May 2004.

Provisions that appear in Italian-law franchising agreements that are restrictive of competition are considered valid and effective provided the potential anticompetitive effects are not excessive, and provided also the franchisor does not have a dominant position in the market for the particular product.

Recently, the Court of Milan has found against a franchisor that first dictated both the distribution channels the franchisee had to use for its products and the prices of those products, and then sold its own products into supermarket channels – thereby frustrating all of the franchisee’s efforts and investments.

Another issue to consider is in relation to coexistence agreements. These are agreements between independent owners of similar brands, and deal with each party’s use and registration of its trademarks in a manner that the parties consider will avoid confusion. Coexistence agreements are relatively common in Italy. There could, however, be concerns if the agreement makes it difficult for either party to effectively enforce its rights against the other, or if the restrictions imposed far outweigh the parties’ rights, so that the restrictions imposed are not balanced out by the benefits of avoiding conflict and confusion.

It is also worth mentioning co-marketing agreements, which are also common, especially in the pharmaceutical sector, where they aim to promote the sale and marketing of medicines. Under a co-marketing agreement, for example, two pharmaceutical companies agree to sell, concurrently and autonomously the same product, under different trademarks. Companies typically execute co-marketing agreements because they own trademarks and patents that

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17 See Court of Milan, 24 January 2014 (interim decision).
give them a competitive advantage in the market. Such agreements may, however, generate antitrust concerns if their effective use is as a means of exchanging commercially sensitive information, achieving market-sharing, or as price-fixing arrangements.

In a domestic case involving Novartis and Italfarmaco, the ICA began investigating in January 2014 whether Novartis and Italfarmaco had infringed an anticompetitive agreement by coordinating their conduct over a three-year period in relation to tender procedures for the selection of drug suppliers containing the active ingredient of long-acting octreotide. The ICA suspected that the two competitor companies had implemented bid-rigging practices to influence the outcome of tender procedures, and in particular to fix prices, so as to share the market between them. The evidence collected by the ICA indicated that Novartis and Italfarmaco had entered into a co-marketing arrangement for the sale of drugs containing long-acting octreotide, and that this agreement was regulated by a supply contract and a sub-licence, originally made in 1987 and renewed in 2010. Under these contracts, Novartis – which was marketing these drugs under the trademark ‘Sandostatin LAR’ – undertook to supply the same drugs to Italfarmaco, which sold them under the trade name of ‘Longostatina LAR’, for which it held a market authorisation. In August 2014, the ICA extended its investigation to cover the co-marketing agreement, to assess whether it had anticompetitive effects.

In particular, the ICA focused on the effects of the co-marketing agreement as enabling a pervasive exchange of sensitive information between Italfarmaco and Novartis.

v Software licensing

The Software Copyright Directive was mainly implemented in Italy by Legislative Decree No. 518 of 29 December 1992, which amended the Italian Copyright Law, introducing the following articles into the ICL:

- an Article 64 bis enacting in full the provisions on restricted acts in Article 4 of the Software Copyright Directive, which deals with exclusive rights granted to the right holder; and
- Articles 64 ter and 64 quater, which reflected virtually verbatim the exceptions to the restricted acts set out in Articles 5 and 6 of the Software Copyright Directive.

There are no specific issues related to software licensing agreements other than those described above.

One interesting case currently being examined by the ICA relates to a possible abuse of dominant position by a software rights holder. The ICA investigation into this case is currently ongoing.

In Italy, since 2015 all filings in civil trials made electronically have been managed by a software program. The Italian company Net Service acquired a competitive advantage in this market by being awarded three tenders, in 2001, 2002 and 2007, to develop the central electronic infrastructure for this electronic filing procedure.

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19 Upon the outcome of the case, Novartis and Italfarmaco offered a list of commitments, which were evaluated by the ICA with a market test and then amended by the parties to address the concerns the market test had brought to light. Ultimately, the commitments were approved and made binding by the ICA, which closed its investigation without an adjudication on the merits.
In addition to the central infrastructure, managed exclusively by Net Service, certain software applications are necessary to use the procedure. These applications are supplied by various companies, including Net Service, in a competitive regime. The applications need to communicate with the central electronic infrastructure, and Net Service, in its capacity as the exclusive supplier of the central system, is required to provide all competitors with all the information necessary to allow the systems to interoperate. An independent software developer association filed a complaint alleging that Net Service abuses its dominant position and breaches Article 101 of the TFEU and Article 3 of the IAL, in the market for software applications, by: (1) obtaining the information necessary for interoperability faster than the other companies are able; (2) providing competitors with a different ‘model office’, without providing the technical information needed to use it; and (3) installing a software update on the central system without giving competitors any details of its operating principles. The result, it was claimed, was that Net Service’s software applications were more efficient because of this, and so preferred by the final customers.

IV   STANDARD-ESSENTIAL PATENTS

A technical standard is defined by standard authorities as ‘a document, established by consensus and approved by a recognised body that provides, for common and repeated use, rules, guidelines or characteristics for activities or their result, aimed at the achievement of the optimum degree of order in a given context’. Standards may, therefore, be defined as a set of parameters and technical and qualitative requirements that certain goods, services and processes must meet to be functional for their intended use.

Standards may also comprise technical knowledge that is covered by patents, and if this technical knowledge is essential and fundamental to implement a standard (i.e., they constitute standard-essential patents (SEPs), the application of standards cannot be avoided for the production of goods that must comply with those standards.

SEPs are patents that are essential to a standard and that cover technology to which a standard makes reference.

The holder of an SEP who is in a dominant position may not require licensees to agree to excessive royalty rates. Under Article 102 TFEU and its equivalent Italian rule, these rates may not be unfair; in cases where the SEP holder has made a FRAND commitment, these rates must be precisely fair, reasonable and non-discriminatory.

A patent holder who brings an action to protect his or her patent in Italy may seek injunctive relief against the infringer (Section 124 of the IP Code).

The fact that an injunction is sought on the basis of an SEP, and that the alleged infringer defends itself by invoking violation of FRAND commitments and antitrust rules, does not per se impede grant of an injunction.

The anticompetitive effects that an injunction could give rise to have, however, led the Italian courts that have examined the question to be very prudent in their grant of injunctions to protect SEPs. In deciding whether or not to issue an injunction, the Italian courts have held that they must first carry out an analysis of dealings between the parties prior to the action. In this regard, willingness on the part of an SEP holder to grant a licence upon fair conditions and a demonstration of interest in obtaining a licence by the party against whom an injunction is sought can be crucial.

Italy also had a role in the well-known dispute between Samsung and Apple (in relation to which there has been a recent decision of the Court of Milan).22

In the Samsung case, it was established that the SEP holder had been under an obligation to enter into a licence agreement, but this obligation would not be considered breached if the prospective licensee did not seek a licence from the SEP holder.

In a nutshell, an injunction may be granted only against an unwilling licensee. Reference was also made in the interim decision to *periculum in mora*, with the court declaring that the patent holder's right ‘can be adequately safeguarded in the suit in the merits, and they are not able to permit the immediate order of an inhibitory provision, as that does not appear to be supported by the requisites for there to be a sufficient degree of *periculum in mora*, in terms of irreparability as well as timeliness’. The Samsung decision, in denying the preliminary injunction, also referred to the question of the balancing of interests between patent holders and consumers, with the latter’s to prevail.

Following similar reasoning, another ruling by the Court of Milan granted an injunction to an SEP holder, stating in particular that ‘a request for a FRAND licence cannot go hand in hand with infringement of the content of a patent and cannot be a request made *ex post*, but must of necessity pertain to conduct which *ab origine* respects another’s patent’; and that ‘the conduct of the party that applies for FRAND conditions subsequent to infringement or misappropriation of another’s SEP, could seem to contradict the aims of FRAND licences, which strive to open the market to healthy competition and not to be invoked as a justification for infringement.’23

The Court of Justice of the European Union (CJEU) recently issued another important ruling concerning SEP in the *Huawei Technologies v. ZTE* case.24

In this case, Huawei Technologies, a multinational company active in the field of telecommunications, held a patent essential to the ‘long term evolution’ standard. On the other hand, ZTE, also active in the telecommunications sector, marketed products equipped with software linked to the said standard.

Huawei and ZTE initially engaged in discussions concerning the infringement of SEP and the possibility of concluding a licence on FRAND terms in relation to it. After the failure of the discussion for the licence of the SEP, Huawei started an action for infringement against ZTE before a German Court, seeking *inter alia* an injunction prohibiting the infringement, the rendering of accounts, the recall of products and an award of damages.

The proceeding was related to the interpretation of Article 102 TFEU and the issue to be decided focused on whether the action brought by Huawei Technologies might be considered an abuse of that company's dominant position.

Therefore, considering the different approaches to the issue, the German Court decided to stay the proceedings and to refer the question to the CJEU for a preliminary ruling, essentially asking in what circumstances the bringing of an action for infringement, by an undertaking in a dominant position and holding a SEP, which seeks an injunction prohibiting the infringement of that SEP, is to be regarded as an abuse contrary to Article 102 TFEU.

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22 Court of Milan, 5 January 2012 (interim decision).
23 Court of Milan, 8 November 2011.
The CJEU in its ruling precisely lists all the duties the SEP proprietor must comply with and the subsequent steps it has to take to prevent that its refusal to grant the SEP may be regarded as an abuse of dominant position.

The Court expressly stated the following:

- **first**, the proprietor of a SEP that considers that the SEP is subject to an infringement cannot, without infringing Article 102 TFEU, bring an action for a injunction against the alleged infringer without notice or prior consultation with the alleged infringer, even if the SEP has already been used by the alleged infringer;

- **second**, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, the proprietor of the SEP has to present to the alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalties and the mechanism to be used to calculate the royalties;

- **consequently**, the alleged infringer must respond to that offer, in accordance with recognised commercial practices and in good faith;

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

- **furthermore**, where the alleged infringer is using the teachings of the SEP before a licensing agreement has been concluded, that alleged infringer, as from the time when its counter-offer is rejected, must provide appropriate security, in accordance with recognised commercial practices in the field; and

- **in addition**, where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may request that the amount of the royalties be determined by an independent third party.

Therefore, the CJEU conclusively ruled that:

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

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

- where the alleged infringer continues to use the patent in question, that alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics.”
Although the CJEU does not address the question of whether the SEP owner is in a dominant position, because such issue is not dispute by the parties in the main proceedings, this is an important ruling because it clearly offsets forth a ‘to do list’ for the IP owner and clarifies the duties it has to comply with to prevent the exercise of its IP rights constituting an abuse of dominance pursuant to Article 102 TFEU.

V INTELLECTUAL PROPERTY AND MERGERS

Where two undertakings merge, or one acquires control, and thus the ability to exercise significant influence, over another undertaking, that may — under Article 7 of the IAL — give rise to a concentration. The acquisition of intellectual property rights from one party by another may constitute a merger between two firms under Article 5(a) of the IAL. A concentration may also occur where two or more undertakings establish a joint venture that performs on a lasting basis all the functions of an autonomous economic entity (Article 5 of the IAL). From the standpoint of the market’s functioning, what matters is whether the concentration is able to reduce competition, in particular by enabling the new entity to increase prices or apply terms that are disadvantageous to its counterparties.

Under Article 16 of the IAL, concentrations require prior notification to the ICA where combined worldwide turnover generated by all the undertakings involved, and domestically by the company being acquired, exceeds thresholds that the regulator updates annually, assuming that the concentration does not otherwise require examination by the European Commission.

Where the domestic regulator considers that a concentration implies the creation or strengthening of a dominant position on the relevant market such as to eliminate or reduce competition substantially for an extended period, then that concentration may either be prohibited from going forward, or its execution may be made subject to satisfaction of certain conditions that are intended to eliminate the possible effects that might otherwise restrict competition.

Where an undertaking acquires a business division of another undertaking, it must be possible in any event to associate a turnover with that division. Applying this test, the acquisition of a trademark, a patent or other IPRs may also constitute a concentration — if a trademark or patent generates turnover then its acquisition may give rise to a concentration.

One well-known example in Italy saw the ICA examine a proposed 1999 acquisition by Coca-Cola.25 The regulator scrutinised the transaction to see whether it might give rise to the creation or strengthening of a dominant position on the relevant market such as to eliminate or reduce competition substantially for an extended period in the Italian market.

The transaction involved Coca-Cola acquiring (with respect to the Italian market) ownership of the Schweppes brands of mixer drinks and tonic water, and also the Canada Dry brand of cola, and the associated intellectual property. The acquirer would also gain the assets used in manufacturing concentrates for the drinks marketed under those brands. Included within the transaction was a series of Italian-registered trademarks that Cadbury Schweppes was not using in Italy. The examination of the market’s competitive structure, and the two parties’ competitive positions, clearly revealed the importance of the concentration, which Coca-Cola ultimately decided not to pursue.

In April 2007, the ICA issued a decision prohibiting the acquisition by Seat Pagine Gialle of 12.88 Servizio di Consultazione Telefonica, a company that provided telephone information services to subscribers. As a result of the merger, Seat Pagine Gialle would have acquired the rights to use the ‘1288’ and ‘1248’ numbers, as well as a licence to the brand.

At that time, in Italy, subscriber information services were being provided through numbers in forms such as ‘12XY’ and ‘892UUU’, based on the information contained in the single national telephone subscribers database (NTSD), set up under rules established by the Communications Authority. Telecom Italia, BT Albacom and Eutelia were selected as the operators authorised to make the NTSD available to third parties at a fair, reasonable and non-discriminatory price.

The investigation found that the concentration would strengthen Seat’s dominant position in the national market for directory assistance services. Seat was the only operator that was allowed, following the market’s liberalisation, to go on using the ‘89.24.24 Pronto Pagine Gialle’ number it had been marketing since 2001. As a result, it had continued to enjoy the benefits of its advertising investments and retained its customer base and goodwill.

Furthermore – and it is at this point that the law of competition and intellectual property intersect – the ICA classified the database containing consumer profiles as an essential facility for operating in the downstream market for telephone information services. It also recognised the importance of the way that the crude information might be processed, and therefore considered that the merger would give Seat a strategic advantage, since it could exploit synergies from access to the combined information base of advertising in the Yellow Pages and the White Pages directories and databases (in hard copy and online), with both owned and controlled by Seat.

These two databases owned by Seat contained additional, more detailed, information compared to the NTSD, and such information (collected and processed by Seat over the years) could not be readily duplicated by other operators. The merger would, therefore, strengthen Seat’s dominant position, since existing competition would be eliminated, while potential competition would be curbed by rising entry barriers.

Finally, the authority noted that, on completion of the operation, the probable elimination of the ‘1288’ brand would have led to a reduction in consumer choice and the loss of one of the specialist directory assistance operators. The ICA therefore prohibited the operation.

VI OTHER ABUSES

In terms of domestic case law, the Pfizer case is the most famous example of patent abuse.

On 12 February 2014, the Italian Council of State delivered its Judgment 693, which overturned a decision by the Regional Administrative Court in Lazio and upheld a decision by the ICA of 11 January 2012 in Case A431 involving Ratiopharm and Pfizer. The ICA had brought an investigation following complaints filed by some generic drug manufacturers. In

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its decision of 11 January 2012, the authority had found that Pfizer had abused a dominant position in breach of Article 102 TFEU by implementing a complex strategy intended to establish barriers to entry for generic drug manufacturers on the market for the sale and marketing of latanoprost-based drugs for the treatment of glaucoma. More specifically, the unlawful conduct, which the ICA had ordered to cease, imposing a fine of €10.6 million — consisted of: (1) having ‘deceitfully’ extended the patent protection over the drug Xalatan from September 2009 to July 2011 and, subsequently, to January 2012, by applying for a divisional patent and the relevant supplementary protection certificate, and exploiting the resulting situation of legal uncertainty, in order to delay the entry of equivalent latanoprost-based drugs on the relevant market; (2) effectively maintaining exclusive rights to market Xalatan, even after patent protection had expired; and (3) as a consequence, imposing additional costs to the national health service estimated at €14 million. In its judgment, No. 7467 of 3 September 2012, the Lazio Regional Administrative Court had granted Pfizer’s appeal, overturning the ICA’s decision to reject the commitments the company had offered and the decision finding an infringement under Article 102 TFEU. The Regional Administrative Court considered the conduct alleged against Pfizer to have been held within lawful limits. The Regional Administrative Court found that the company had applied for a divisional patent in 2002, seven years before the generic drug manufacturers had contemplated entering the market, as soon as it had realised that Xalatan had less patent protection in Italy. That had represented the exercise of a right. The court ruled, and accordingly could not be considered as reflecting a strategy to exclude others.

In granting the authority’s appeal, the Italian Council of State found that ‘although the conduct and actions of Pfizer, if taken individually, constitute the exercise of a right abstractly envisaged under the legal system, including the sector-specific provisions, these actions gave rise to complex and intricate conduct that the ICA had not incorrectly described as an abuse of a right and, therefore, anticompetitive.’ More specifically, the Council specified that the ‘abuse of a right’ category within which the abuse of a dominant position falls is not to be considered an infringement in formal terms, but rather ‘the altered use of the formal elements of the right, for the purposes of achieving objectives other than those specified by the legislature’.

According to the Council of State, the complex strategy implemented by Pfizer had been correctly described by the ICA as an abuse of a right since it comprised several unlawful acts – including not only an application for a divisional patent for an active ingredient that was already protected and the associated protection certificate extending the duration of the protection, but also the warning letters sent to competitors, the consequent legal actions, the action taken before the Italian Medicines Agency, AIFA, to prevent generic drug manufacturers from including it on the transparency list and the subsequent request for a paediatric extension – aimed at achieving ‘an aim other than that of patent protection’, in this case attempting to exclude competitors from the market.

The Council of State did not, therefore, uphold that part of the Regional Administrative Court’s judgment that had tied the lawfulness of Pfizer’s conduct to patent protection. In this regard, the Court explained that Pfizer’s ability to bring an application for a divisional patent in relation to a product already protected by Pfizer was not at dispute, as a right fully recognised under the sector-specific legal provisions. Rather, it was the company’s use of this right that was being questioned, as opportunistic and inconsistent with the aim for which the legislature envisaged the right to exploit a patent-protected drug.
Further, according to the Italian Council of State, the ICA’s findings had been supported by the fact that, as set out in the statement of objections No. 2790 of 22 May 2013 filed in the appeal proceedings, the divisional patent did not result in the release on the market of any product other than the product that was already present.

As well as the Pfizer case, there is extensive literature and case law in Italy on patent abuse and sham litigation, especially regarding situations where a patent is found void in the course of the litigation. There have been a number of cases where sending a letter demanding that a competitor not put a product on the market may give rise to issues under Article 2598 of the Civil Code (which prohibits unfair competition), on the basis that a threat of litigation that is made in bad faith, or negligently in ignorance of a patent’s invalidity, constitutes an unacceptable attempt to disrupt a market.28 In competition terms, a notice sent to a competitor’s clients seeking to enforce IP rights that are subsequently declared void is considered *prima facie* to constitute unfair competitive practice.

By contrast, in a dispute involving an essential patent, the Court of Turin29 found a patent to be invalid for lack of innovative step, but nonetheless did not find there had been unfair competition or any abuse of a dominant position by the holders (the companies Rovi and Starsight). The court held that Rovi and Starsight were exercising their intellectual property in good faith, because the patent: (1) had almost reached its expiry date without being challenged as invalid; and (2) had been licensed to various companies that deemed it valid and paid the relevant royalties.

### VII OUTLOOK AND CONCLUSIONS

All the mentioned cases point to how the system regulating intellectual property is considered in Italy to be intrinsically hazardous to free competition, and thus there is a demand that ways be found to use the competition law to mitigate this, and make the system more sympathetic to competition.

While there is thus still scope for conflict between the two fields, it would appear that they are nonetheless increasingly finding common cause.

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29 See Court of Turin, 10 March 2011.
I INTRODUCTION

In Japan, on the one hand, an act regulating antitrust is the Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade (the Japanese Antimonopoly Act or JAA). The purpose of the JAA is to promote fair and free competition by prohibiting private monopolisation, unreasonable restraint of trade and unfair trade practices, preventing excessive concentration of economic power and eliminating unreasonable restraints on production, sale, price, technology etc. For that purpose, the JAA provides legal remedies such as surcharges, injunctions and damages. On the other hand, acts specifying patents, copyright and trademarks are the Patent Act, Copyright Act and Trademark Act, respectively. The purpose of the intellectual property laws is to protect those intellectual properties by giving a right holder the exclusive right to control such rights. For that purpose, those acts also provide legal remedies such as injunctions and damages. From the perspectives of those purposes, the JAA and the intellectual property laws might conflict. Accordingly, the tension between the JAA and intellectual property should be paid attention to and be addressed. In this respect, the JAA recognises such potential tension between the JAA and the exclusivity of the intellectual property under Article 21.

Article 21 of the JAA provides: ‘The provisions of this Act do not apply to acts found to constitute an exercise of rights under the Copyright Act, Patent Act, Utility Model Act and Trademark Act.’ It is generally interpreted that this does not mean that the exercises of the intellectual properties are always released from the antitrust regulations. However, the JAA does not provide details of how to draw a line between acts to be found as exercises of the rights and acts not to be found as exercises of the rights. Also, unfortunately, case law regarding Article 21 is extremely limited.

Instead, the Japanese Fair Trade Commission (JFTC) provides the Guidelines for the Use of Intellectual Property under the Antimonopoly (the Guidelines for Intellectual Property) to clarify how to handle such tensions between antitrust concerns and the exclusivity of the intellectual property. As to Article 21 of the JAA, the Guidelines for Intellectual Property provide as follows: ‘This means that the Antimonopoly Act is applicable to restrictions pertaining to the use of technology that is essentially not considered to be the..."
exercise of rights.\(^4\) Thus, the practical issues are whether exercises of the rights may, under certain circumstances, constitute private monopolisation,\(^5\) unreasonable restriction of trade\(^6\) or unfair trade practice, which is not considered to be the exercise of rights.\(^7\)

II YEAR IN REVIEW

As mentioned above, in 2005 the JFTC published the Guidelines for Intellectual Property\(^8\) to articulate the tension between the JAA and intellectual property laws. The Guidelines were partially amended to clarify the JFTC’s views on the relationship between FRAND (fair, reasonable and non-discriminatory) declaration and possible limitations on the exercises of patents. This amendment could be thought to reflect situations where, as illustrated by Apple Japan Godo Kaisha v. Samsung Electronics Co, Ltd,\(^9\) standard-essential patent holders increasingly exercise their exclusive rights against potential licensees and the features of standard-essential patents have posed antitrust concerns as well as in the US and EU. Especially, as discussed in Section III, the Special Division of the Intellectual Property High Court handed down a decision on limitations on the exercise of a standard-essential patent including a brief reference to antitrust concern.

The JFTC published a draft amendment to the Guidelines for Intellectual Property on 8 July 2015 and requested for public comments on it by 6 August 2015. Based on feedback from the public, the JFTC finally published the amendment to the Guidelines for Intellectual Property on 21 January 2016.

Under the amendment to the Guidelines for Intellectual Property, it is clearly recognised that, under specific circumstances, an exercise of a patent may be restricted as an act to inhibit the use of technology, which may constitute private monopolisation\(^10\) or unfair trade practices\(^11\) under the JAA.

i Private monopolisation

In the event a standard-essential patent holder who commits to FRAND declaration under an intellectual property policy to be set by a standard-setting organisation refuses to license the patent or files a patent suit against ‘a willing licensee’, such action may constitute an action to exclude a third party’s business activities under the JAA because it may cause difficulties in research, development, manufacture or sales of products adopting such standard. In this case, it does not matter whether such action is taken by the party who committed to a FRAND declaration, an assignee or an agent consigned to handle such essential patent with a FRAND declaration. Whether a third party is a willing licensee or not shall be respectively determined case by case based upon situations between the parties, including, but not limited

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5 Article 2(5) of the JAA.
6 Article 2(6) of the JAA.
7 Article 2(9) of the JAA.
8 The first version was published on 28 September 2005.
10 Part III, (1), (e), (i) of the Guidelines for Intellectual Property.
to, a showing of actual infringement or infringement manner of a standard-essential patent, communications between parties such as a proposal of licence terms and explanation why such terms are necessary and a prompt reasonable counterproposal to it, and whether they are commercially acting in good faith or not.

Also, the Guidelines for Intellectual Property make it clear that the fact a third party disputes validity, essentiality or non-infringement of a standard-essential patent does not always disqualify that party from being a willing licensee to the extent that it is commercially acting in good faith in licence negotiations.

ii  Unfair trade practices

Further, even if the action described above by a standard-essential patent holder does not constitute private monopolisation owing to failure to substantially restrict competition in the market of the product adopting such standard, such action still may constitute unfair trade practice for its tendency to impede fair competition. In this case, the interpretation of a willing licensee is handled in the same manner as discussed in Subsection i.

iii  New case

After the amendment to the Guidelines for Intellectual Property, the JFTC investigated conduct by One-Blue, LLC, which offers licences of the Blu-ray disc (BD) standard-essential patents based on product categories such as recordable BDs, BD players and BD recorders (the SEP licences). Since around 2012, One-Blue had been engaged in negotiations regarding licence of the BD standard-essential patents for recordable BDs with Imation Corporation Japan (Imation Japan), which is located in Japan and engages in the manufacture and sales of recordable BDs, and its US parent company (Imation US). While Imation Japan and Imation US expressed the intention to One-Blue that they were willing to pay a fair and reasonable licence fee, requesting grounds for the proposed licence fee. One-Blue did not respond to the request and finally, parties were not able to agree terms and conditions for the SEP licences. Then, Imation Japan filed a lawsuit in Japan because, around June 2013, One-Blue sent notice to Imation Japan’s major customers, informing them that Imation Japan’s product infringed the patents held by One-Blue and thus its customers should stop making sales of Imation Japan’s products or risk injunction orders against them.

On 18 November 2016, the JFTC found that Imation Japan was willing to take a licence of the BD standard-essential patent on the FRAND terms, that One-Blue unjustly interfered with the recordable BD transaction between another entity who was in a domestic competitive relationship that fell under Paragraph 14 of the Designation of Unfair Trade

12 Article 2(6), paragraph 14 of General Designation, available at www.japaneselawtranslation.go.jp/common/data/notice/120704.htm. (‘(14) Unjustly interfering with trade between another enterprise that, domestically, is in a competitive relationship with oneself or with a company in which one is a shareholder or an officer, and its transacting party, by preventing the conclusion of a contract, by inducing a breach of a contract, or by any other means whatsoever.’)


14 Prior to the FTC’s action, the Tokyo District Court ruled on 18 February 2015 that One-Blue licensors were not allowed to exercise the right to seek injunction because it constituted an ‘abuse of rights’ and that notifying retailers that the One-Blue licensors were entitled to exercise such right should be deemed to be making a false allegation, which may constitute unfair competition set forth in Article 2(15) of the Unfair Competition Prevention Act.
Practices and that One-Blue was in violation of Article 19 of the Antimonopoly Act. However, at that point, One-Blue had already stopped and corrected the conduct above and accordingly, the JFTC did not take any further action against One-Blue, considering the situation one where One-Blue is unlikely to repeat such illegal conduct.

Also, the JFTC clearly mentions that:

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\text{it will continue to closely watch in the future years competition situation in the field of technology and products relating to intellectual property from the viewpoint of promoting fair and free competition in the use of intellectual property. Moreover, the JFTC will strictly address any problematical issue occurring in relation to the AMA in connection with the use of intellectual property by entities or trade associations.}
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Taking the situation above, it could be assumed that the FTC will play a role in balancing interests of SEP holders and prospective licensees based upon the Guidelines for Intellectual Property.

### III LICENSING AND ANTITRUST

In the Guidelines for Intellectual Property the JFTC makes it clear that, under certain circumstances, the exercise of the intellectual property may not contravene the antitrust regulations under Article 21 of the JAA. The Guidelines for Intellectual Property provide guidance on various situations with respect to intellectual property. Specifically, the Guidelines state:

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\text{An act by the right holder to a technology to block other parties from using its technology or to limit the scope of use may seem, on its face, to be an exercise of rights. The provisions of the Antimonopoly Act apply even to this case if it cannot be recognised substantially as an exercise of a right. In other words, any act that may seem to be an exercise of a right cannot be 'recognisable as the exercise of the rights' provided for in the aforesaid Article 21, provided that it is found to deviate from or run counter to the intent and objectives of the intellectual property systems, which are, namely, to motivate entrepreneurs to actualise their creative efforts and make use of technology, in view of the intent and manner of the act and its degree of impact on competition. The Antimonopoly Act is applicable to this kind of act.}^{15}
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The Guidelines further analyse such boundaries of an exercise of a right, as well as other antitrust issues, from the perspectives of (1) substantial restraint of competition, (2) unreasonable restraint of trade, and (3) unfair trade practice.

#### i Anticompetitive restraints

In connection with anticompetitive restraints in licensing, the Guidelines for Intellectual Property confirm that limiting the scope of the use of technology may not be considered to be the exercise of rights, which is out of scope of the exception to the antitrust regulations under Article 21 of the JAA, and provides guidance on specific cases as follows:\(^{16}\)

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15 Part 2 (Basic Principles on Application of the Antimonopoly Act), (1) of the Guidelines for Intellectual Property.

16 This section is based on Part 4 of the Guidelines for Intellectual Property.
function-specific licensing: In the event a licensor licenses a patent only to either produce, use, assign or export, it does not in principle constitute an unfair trade practice;

limitation on the licence period: In the event a licensor sets the period for the use of the licensed technology, it does not in principle constitute an unfair trade practice;

limitation on the field in which the technology may be used: Limiting the scope of the licence to the manufacturing of a specific product does not constitute an unfair trade practice;

limiting the area in which manufacturing is allowed: In the event a licensor limits the area in which licensees may use the technology to manufacture products it does not in principle constitute an unfair trade practice;

limiting the quantity of products: In the event a licensor imposes a limit on the minimum quantity of products manufactured using the technology or the minimum number of times the technology is used, it does not in principle constitute an unfair trade practice unless such restriction excludes the use of other technologies. On the contrary, where a maximum quantity of products or numbers of the uses of the technology is set, such restriction may constitute an unfair trade practice to the extent that the restriction attempts to impede fair competition;17

restrictions pertaining to export: In the event a licensor prohibits licensees from exporting the product incorporating the licensed technology, it does not principally constitute an unfair trade practice;

sublicensing: In the event a licensor limits parties to which licensees may grant a sublicence, it does not principally constitute an unfair trade practice;

restrictions on raw materials and components: In the event a licensor may impose limits on licensees as to the quality or suppliers of raw materials, components and other items needed to supply the product using the licensed technology to the extent that such limits could be considered necessary to ensure the functions and effect of the technology, to maintain safety and to prevent the disclosure of confidential information, it may constitute an unfair trade practice if the licensor exceeds the necessary extent from the above viewpoint and may impede fair competition;18

restrictions on selling and resale prices: In the event a licensor imposes a restriction on licensees on the selling or resale prices of products incorporating licensed technology, it certainly reduces competition. Accordingly, it is in principle recognised as an unfair trade practice;19

restrictions on selling and resale prices: In the event a licensor imposes a restriction on licensees on the selling or resale prices of products incorporating licensed technology, it may in principle constitute an unfair trade practice;20

restriction on transaction with competitors: In the event a licensor imposes a restriction on licensees in relation to the manufacture or selling of any product that competes with the licensor’s products or the acquisition of a licence for a competing technology from

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17 Article 2, paragraph 13 of General Designation.
18 Paragraphs 10, 11 and 13 of the General Designation.
19 Paragraph 13 of the General Designation.
20 Paragraph 13 of the General Designation.
a competitor of the licensor, such a restriction may constitute an unfair trade practice if it has the potential to impede fair competition with the exception that such restriction would be necessary to protect the licensed properties or know-how, and

no-contest obligation: In the event a licensor imposes a restriction on the right to challenge the validity of licensed patents it may not constitute unfair trade practice because such prohibition may promote patent licensing in extreme cases where such prohibitions may impede fair competition.

ii Refusals to license

The freedom to refuse to license is an essential aspect of the exclusive rights to the intellectual property. However, under certain circumstances, the refusal to license may pose antitrust violation concerns.

The Guidelines for Intellectual Property state that private monopolisation may be considered a substantial restraint of competition where: (1) right holders participating in a patent poll jointly refuse to license a technology to any third party that is not member of the patent pool; (2) businesses that have obtained promising patents used by many businesses in a market refuse to license such technology to other businesses; (3) businesses that have collected and concentrated technologies that may be used by its competitors reject to license those technologies to other competitors; and (4) a right holder refuses to license a patent that was adopted as a standard technology in an fraudulent manner to competitors.

The Guidelines for Intellectual Property also state that refusal to license may constitute a violation of the JAA from the viewpoint of unreasonable restraint of trade in cases where: (1) a patent pool that is essential to a certain product is formed and then members of the pool refuse to license such technologies to their competitors through the patent pool without any reasonable justification; or (2) businesses that involve cross-licensing refuse to license their technologies to competitors to the extent that a market share of products adopting cross-licensed technologies are high.

Moreover, the Guidelines for Intellectual Property state that refusal to license may constitute a violation of the JAA from the perspective of unfair trade practices in cases where (1) a licensor refuses to license its technologies to other businesses after the technologies were initially adopted by them and then it became very hard for them to replace them with other technologies; (2) a member of a technology standard setting organisation refuses to license its technologies to other businesses after its technology was adopted as the standard subject to its commitment to license them on preferable terms; (3) a licensor discriminately refuses to license its technologies to other businesses to the extent that the technologies have provided a

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21 Paragraph 2, 11 and 13 of the General Designation.
22 Part 3, (1), (a) of the Guidelines for Intellectual Property.
23 Part 3, (1), (b) of the Guidelines for Intellectual Property.
24 Part 4, (1), (c) of the Guidelines for Intellectual Property.
26 Part 3, (2), (i), (d) of the Guidelines for Intellectual Property.
27 Part 3, (2), (iii), (b) of the Guidelines for Intellectual Property.
28 See, Paragraph 2 and 15 of the General Designation.
29 See note 11.
foundation for business activities in a certain product market and many businesses have done business in that product market. To constitute unfair trade practices, those activities must have a tendency to impede fair competition.

iii Unfair and discriminatory licensing

Discriminatory licensing itself may constitute an unfair trade practice to the extent that such licensing practice has a tendency to impede fair competition, regardless of whether other aspects of the licence would pose any antitrust concerns. The Guidelines for Intellectual Property clearly state that ‘Restrictive conduct of the kinds . . . are also examined not only from the perspective of the impacts that they themselves have on competition but also from the perspective of the influence of their discriminatory aspect, if any, on competition.’

iv Patent pooling

The JFTC promulgated the Guidelines on Standardisation and Patent Pool Arrangements (the Guidelines on Patent Pools) in 2005 (amended in 2007). Before it, the JFTC had promulgated the ‘Guidelines on patent and know-how licence agreements’ (1999) and patent pools were also covered by the former guidelines. However, considering that situations involving patent pools have increasingly received attention since the former guidelines were published, the JFTC specifically promulgated the Guidelines on Patent Pools. The Guidelines define a patent pool as an organisation to which multiple holders of patents and other rights delegate the authority to grant licences.

**Formation of patent pool**

Where patents included in a standard are essential to the standard, the formation of the patent pool would not pose a violation of the JAA. However, where non-essential patents are included in a patent portfolio with essential patents, competitive patents that are out of the standard may have difficulty competing with the patent included in the standard, thereby resulting in restraint of competition. In such case, the formation of the patent pool may not cause antitrust concerns to the extent that potential licensees could take the licence they actually need separately from the patent pool itself. In this respect, the Guidelines on Patent Pools specifically present two illustrative examples: (1) ‘When a number of patents on interchangeable technologies are pooled and licensed with fixed conditions, because the patents on these technologies are competing based on their licensing conditions, competition among these interchangeable technologies is restricted;’ and (2) ‘When there are a number of patents on interchangeable technologies and some of them are pooled and licensed as a package with essential patents, the interchangeable technologies outside of the pool are hardly adopted by licensees of the pool and are excluded from the technology market.’
Joining a patent pool

It is reasonable to restrict participants in a patent pool because such restriction would enable the patent pool to work more effectively and produce pro-competitive effects. Accordingly, restriction on participants does not pose any antitrust concerns. Also, to control the patent pool effectively, it is in principle reasonable to impose internal restrictions on participants in the patent pool (e.g., an internal rule to distribute loyalties) with the exception of cases where participants are prohibited from licensing their own patent separately from the patent pool.36

Licensing through a patent pool

In practice, a patent pool is used to grant licences effectively. However, under certain circumstances, licensing through a patent pool may pose antitrust concerns. The Guidelines on Patent Pools refer to antitrust concerns in the following five categories:

a differentiating licence terms that reflect the natures of each deal (e.g., quantity of products, licensed areas) in principle does not constitute a violation of the JAA. However, where a right holder imposes a much higher royalty on a licensee or refuses to license a technology to a specific licensee without any reasonable justification may pose antitrust concerns;

b restriction on research and development (R&D) may pose antitrust concerns where a patent pool licence restricts a licensee's own R&D or R&D of third parties and as a result, such restriction may interfere with potential development of interchangeable technologies with the pooled ones;

c grant-back of any improvement of the pooled technologies may not impose antitrust concerns to the extent that improvement is a constituent of an essential patent, the grant-back is non-exclusive and the fair distribution of the royalty of the pooled patents to the licensee is warranted;

d a non-contest obligation imposed on a licensee may pose antitrust concerns where a patent pool licence provides that the pool participants shall jointly terminate the licence if a licensee challenges the validity of licensed patents; and

e a restriction on the exertion of whole or a part of patents against other licensees of pooled patents may pose antitrust concerns except in very limited cases where such patents to be obtained by such licensee are constituents essential to the pooled patents.

v Software licensing

The Guidelines for Intellectual Property are applied to software licensing but do not explicitly mention software licensing. In the past, it was unclear whether, under the Copyright Act of Japan, the distribution right to computer software is exhausted once it is sold to consumers in the market. When a copyright holder of certain game software, Sony Computer Entertainment Inc (SEC) claimed that it held the exclusive right to control repurchasing of the used game software, SEC prohibited retailers from repurchasing and reselling the used game software. The JFTC held37 that SEC's imposed restriction constituted an unfair trade practice defined in the paragraph 13 of the General Designation. In the area of copyright,

36 See Id, Part 3, 2(2), b, ‘imposing on participants restrictions on the use of their pooled patents such as prohibiting them from licensing their patent without going through the pool is generally not recognised as reasonably necessary to manage the activity and is likely to have a significant impact on competition’.

37 Judgment of the JFTC regarding Sony Computer Entertainment (1 August 2001).
the Supreme Court of Japan held that the right to distribute a copyrighted work is exhausted once it is lawfully sold in line with the result of the JFTC’s ruling. This is an illustrative case where the Japanese court held that an action taken by a copyright holder was not found to be an exercise of the copyright. The Guidelines for Intellectual Property state that, owing to the exhaustion of intellectual property, after a product protected by intellectual property was lawfully put on the market by a right holder, restrictions imposed by the right holder would be handled in the same way in the case of products without intellectual property from the antitrust perspective.

vi Trademark licensing
Trademark licensing is also covered by Article 21 of the JAA and the Guidelines for Intellectual Property. At the time of writing, no particular topics warrant discussion.

IV STANDARD-ESSENTIAL PATENTS

i Dominance
In Japan, holding a standard-essential patent has not been found to directly yield dominance in those patent-related markets. In the JFTC’s proposed amendment to the Guidelines for Intellectual Property in 2015, it seemed to have taken the position that holding a standard-essential patent would in principle lead to dominance in that technology-related market. The proposed draft mentions that the refusal to license standard-essential patents to or file an injunction against a willing licensee after FRAND declaration constitute an action to exclude other business activities because such actions would make it harder to conduct research on, develop, manufacture and sell products adopting a standard that has been widely accepted. However, the JFTC’s initial view was heavily criticised by the public comments on the draft, and the JFTC finally changed its position, with the amendment to the Guidelines for Intellectual Property clearly stating that the refusal to license standard-essential patents to or file an injunction against a willing licensee after FRAND declaration ‘may’ constitute an action to exclude other business activities.

However, dominance is not always a deciding factor under the Japanese antitrust analysis. If a standard-essential patent does not mean dominance in a certain market, the patent holder is regulated by the JAA from the unfair trade practice perspective. As discussed above, without dominance (private monopolisation), there is a possibility that the exercise of the right constitutes an unfair trade practice subject to a tendency to impede fair competition.

ii Injunctions
The two court decisions handed down by the Intellectual High Court, Special Division (the IP High Court) in Apple Japan Godo Kaisha v. Samsung Electronics Co, Ltd have currently provided a basic legal framework regarding FRAND declaration and limitations on exercises of a standard-essential patent.

Actions against a willing licensee
In the event a standard-essential patent holder commits to FRAND declaration, the patent holder is not entitled to an injunction against a willing licensee, regardless of any violation of the obligations to negotiate in good faith (stated below). The underlying idea is that the right holder, by committing to FRAND declaration, has accepted that its patent will be
widely used without injunction relief in exchange for being a part of a standard essential
technology. The request for injunction by a right holder will be held to be abuse of the right
under Article 1 of the Civil Code.38

**Actions against an unwilling licensee**

On the contrary, the IP High Court states that a standard-essential patent holder may request
an injunction against an unwilling licensee regardless of FRAND declaration.

**iii Licensing under FRAND terms**

Under Japanese law, a commitment to FRAND declaration does not certainly constitute a
licence agreement with a willing licensee. Some commentators argue that a commitment to
FRAND may constitute a contract for the benefit of third parties under Article 537 of the
Civil Code. The IP High Court has not, however, taken such position. It states that, owing to
FRAND declaration, the parties shall have obligations to negotiate in good faith to enter into
a licence agreement, in addition to licensing obligations defined by the FRAND declaration
to be provided by standard-setting organisations.

**iv Anticompetitive or exclusionary royalties**

Under the IP High Court framework, the request for damages or payment of royalties, either
FRAND rate royalties or the normal rate, shall be handled as below.

**Damages against a willing licensee**

A standard-essential patent holder is entitled to damages calculated by FRAND rate even if
that patent holder violates an obligation to negotiate in good faith. The underlying idea is
that the patent holder should be at least entitled to FRAND rate royalties in the event the
patent holder is not entitled to an injunction as abuse of right. Provided, however, that the
IP High Court held that in the event the right holder’s actions are found to be extremely
unfair ‘under specific circumstances’, no damage remedy is available. While the IP High
Court does not specifically explain what circumstances would constitute extremely unfair
practice and whether this notion has something to do with an unfair trade practice under the
JAA, it would be assumed that the patent holder’s fraudulent seeking for anticompetitive or
exclusionary royalties could lead to such denial of damage remedy.

**Damages against an unwilling licensee**

Where it is clear that a potential licensee does not intend to take a licence from a
standard-essential patent holder, the patent holder is entitled to damages to be calculated at
the commercially normal royalty rate, which is usually higher than the FRAND royalty rate.

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38 Article 1(3) of the Civil Code provides that no abuse of rights is permitted. This clause is practically used to
deny an excise of a right under specific circumstances notwithstanding that exercising a right is valid on its
face.
V INTELLECTUAL PROPERTY AND Mergers

i Transfer of IP rights constituting a merger

Neither the Guidelines for Intellectual Property nor the Guidelines to Application of the Antimonopoly Act Concerning Review of Business Combination (Guidelines for Review of Business Combination) provide any specific guidance on intellectual property and mergers. Part II, (3) of the Guidelines for Intellectual Property, however, provides general guidance on the method of analysing the effects in reducing competition as follows:

Whether or not restrictions pertaining to the use of technology reduces competition in the market is determined by fully considering the nature of the restrictions, how they are imposed, the use of the technology in the business activity and its influence on it, whether or not the parties pertaining to the restrictions are competitors in the market (Note 7), their market positions (such as market share (Note 8) and rank), the overall competitive conditions that prevail in the markets (such as the number of companies competing with the parties concerned, the degree of market concentration, the characteristics and the degree of differentiation of the products involved, distribution channels and difficulty in entering the market), whether or not there are any reasonable grounds for imposing the restrictions, as well as the effects on incentives of research, development and licensing.

Further, Part II, (4) of the Guidelines for Intellectual Property provides illustrative cases having major impacts on competitions as follows.

Acts between competitors

If restrictions pertaining to the use of technology are imposed among competitors, they are more likely to result in evasion of competition among them or more likely to be used to exclude other competitors than restrictions imposed among non-competitors. This type of conduct is thought to have a relatively strong influence on competition.

Influential technologies

Restrictions pertaining to the use of technology are likely to have a greater effect on competition when the technology is influential than when it is not. Generally whether or not particular technology is influential is determined, not by the fact that the technology is deemed to be superior, but through a comprehensive consideration of how the technology is used in the product market, whether or not it is difficult to develop any alternative technology or difficult to switch to any technical substitute and the position of the right-holder to the technology in the technology or product market. For instance, if any technology becomes a de facto standard in the technology or product market, it is likely to be determined as influential.
In addition, Part II, (5) of the Guidelines for Intellectual Property provides illustrative cases having minor impacts on competitions as follows:

In principle, restrictions pertaining to the use of technology are deemed to have a minor effect in reducing competition when the entrepreneurs using the technology subject to the restrictions in the business activity have a share in the product market (hereinafter referred to as “product share” in this section) of 20% or less in total. This is not applicable however to conduct of restricting selling prices, sales quantity, market share, sales territories or customers for the product incorporating the technology (Note 9) or to the conduct of restricting research and development activities or obliging entrepreneurs to assign rights or grant exclusive licenses for improved technology. The impact of a particular restriction on competition in the technology market is also deemed to have minor effect in reducing competition if the product share is in principle 20% or less in total. Where the product share is unavailable or the product share is found to be not appropriate to determine the effect on the technology market, the effect in reducing competition is considered to be minor provided that there are at least four parties holding rights to alternative technologies available with no outstanding detriment to business activities.

The Guidelines above are not mentioned in context of mergers and acquisitions but the guidance on the analysis of effects in reducing competition and illustrative cases above should be consulted and would be applicable.

ii Remedies involving divestitures of intellectual property
As mentioned above, the JAA and the Guidelines for Intellectual Property do not provide specific provisions regarding divestitures of intellectual property. Generally, the antitrust remedies for mergers are to be given in accordance with the JAA and the Guidelines for Review of Business Combination. Intellectual property would be considered in interpreting ‘combined business’ or ‘competing product’ under the Guidelines for Review of Business Combination.

VI OTHER ABUSES
i Sham or vexatious IP litigation
Article 32 of the Constitution of Japan provides that no person shall be denied the right of access to the courts. In practice, under extremely limited situations, filing a lawsuit would constitute a tort or claims based upon on-the-face right would be rejected as abuse of right. There have been no cases of sham or vexatious IP litigation in Japan thus far.

ii Misuse of the patent process
Unlike other jurisdictions, misuse of the patent process has not yet been recognised clearly in Japan, and therefore no Supreme Court and IP High Court cases are available at the time of writing.

VII OUTLOOK AND CONCLUSIONS
As stated above, in 2014, the IP High Court, Special Division articulated a legal framework around a standard-essential patent and in 2016, the JFTC amended the Guidelines for
Intellectual Property to cover the limitations on the exercise of a standard-essential patent from the perspective of antitrust law. In Japan, the JAA still does not seem to drastically affect the area of intellectual property law. However, after the IP High Court decision in *Apple Japan Godo Kaisha v. Samsung Electronics Co, Ltd*, the situation may be changing as the *One-Blue* case above illustrated. Further, recently, in March, 2018, the Japan Patent Office published a guideline instructing SEP licence negotiations.40 The Japan Patent Office is willing to be flexible regarding the factors to be considered for negotiations to be deemed reasonable. As mentioned in the guideline, this does not legal bind any parties but will shape the future landscape of SEP negotiations in Japan.

Chapter 12

MEXICO

Antonio Cárdenas Arriola and Carlos Mainero Ruiz

I  INTRODUCTION

The subject of the interaction between the protection of intellectual property rights and the protection of a sound competition environment for commerce is of the utmost importance in Mexico, as it is worldwide. This subject has acquired particular significance as a result of the development of sophisticated inventions and processes, primarily associated with technology and telecommunication industries.

As a member of the World Trade Organization (WTO) since 1 January 1995, Mexico has enacted laws and regulations that protect intellectual property (IP) consistent with the principles, guidance and best practices applicable to the members of the WTO. Mexico is also a party to various international treaties that seek to protect intellectual property rights (the Paris Convention for the Protection of Industrial Property, the Convention establishing the World Intellectual Property Organization and the Patent Cooperation Treaty, among many others) and has adhered to the principles of the TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights).

The Mexican Federal Constitution (the Mexican Constitution) generally prohibits monopolies, antitrust practices and other activities that hinder competition among market participants. However, the Mexican Constitution includes a specific exclusion, providing that privileges granted to authors and artists in the production of their works and other privileges granted to the creators of inventions shall not constitute monopolies.

Consistent with the constitutional mandate, the Mexican Congress enacted the current Industrial Property Law on 27 June 1991 (as amended, the IP Law). The matters subject to the IP Law are further governed by additional enabling regulations issued by the Ministry of Economy.

From an antitrust perspective, Mexico enacted its first antitrust law on 24 December 1992, as part of the agreements and consequences of entering into the North American Free Trade Agreement. This first antitrust law created the Federal Competition Commission (as of 2013, the Federal Economic Competition Commission (COFECE)), which was originally an autonomous administrative entity of the Ministry of Economy (part of the executive branch) but has been constitutionally autonomous since 2013.

Most importantly, on 11 June 2013, a constitutional reform was enacted on the subjects of antitrust and telecommunications (the Constitutional Reform). As a result of the Constitutional Reform, the Mexican Congress enacted a new Federal Economic Competition Law (FECL), which became effective on 7 July 2014.

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This Constitutional Reform is considered one of the structural reforms submitted by President Enrique Peña Nieto, in an effort to incentivise the Mexican economy, and set a new standard of competitiveness in a country where, despite the existence of competition and antitrust statutes and regulation, monopolies continue to exist in various areas of the economy.

While the Constitutional Reform is relevant on many levels, for the purposes of this chapter, there are three major reforms that have already started to show their impact on market dynamics, regulatory policy and judicial precedents:

\( a \) the creation of two constitutionally autonomous agencies with powers in competition and antitrust matters: (1) the Federal Institute of Telecommunications (IFETEL), with exclusive jurisdiction to resolve on telecommunications and broadcasting antitrust and competition matters; and (2) COFECE, with jurisdiction on antitrust and competition matters in all other areas of the economy;\(^2\)

\( b \) the creation of specialised courts for the judicial review – through *amparo* trials – of antitrust and telecommunications matters. Under the Constitutional Reform and the FECL, the *amparo* trial is now the only judicial means available to contest the resolutions of IFETEL and COFECE. This reform was introduced with the purpose of preventing the involvement of any other judge or court in these specialised processes; and

\( c \) the introduction of a constitutional prohibition on specialised courts granting injunctions in *amparo* trials against resolutions issued by IFETEL and COFECE, which in practice permits these agencies to enforce a monetary sanction or even effect a divestiture of the plaintiff during the *amparo* trial.

The Constitutional Reform constitutes a substantive turnaround in antitrust public policy and its relationship with IP (particularly related to the telecommunications industry), among others, because with the existing constitutional and legal framework, autonomous agencies and specialist courts are in charge of resolving and establishing precedents on those particular matters.

## II YEAR IN REVIEW

The following constitute decisions in which the new antitrust framework has been put into practice in the telecommunications sector:

In a case involving a public-access television concessionaire as plaintiff against a restricted television concessionaire, a local commercial judge with jurisdiction in Mexico City issued an injunction, ordering IFETEL to refrain from issuing the ‘must carry and must

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\(^2\) IFETEL is a newly created agency, while COFECE replaced the former Federal Competition Commission, which was an agency of the Ministry of Economy. The purpose of granting constitutional autonomy to these agencies is to ensure the independence and technical authority of their decisions. From a practical perspective, there are several markets where it is still unclear whether IFETEL or COFECE has jurisdiction. The ultimate decision on the applicable jurisdiction of these agencies lies with the newly created specialised courts. For example, in a recent merger control matter where the affiliates of Nokia and Alcatel-Lucent in Mexico submitted an antitrust application for merger authorisation, both IFETEL and COFECE claimed authority. Ultimately, a specialised court determined that jurisdiction in this matter lay with IFETEL.
offer’ guidelines governing the obligations of public-access television concessionaires to grant, on a no-fee basis, their audiovisual content to restricted television concessionaires, as required under the Constitutional Reform.3

This case resulted in a constitutional controversy between IFETEL and the local commercial judge, which was ultimately resolved by the Supreme Court. The Supreme Court resolved in favour of protecting IFETEL’s authority to issue the implementing antitrust rules applicable in the telecommunications industry, and further resolved that the local judge lacked jurisdiction to order IFETEL to perform a specific act.

In a separate but related dispute, a specialist court resolved in favour of the constitutionality of the obligation of public-access television concessionaires to rebroadcast (on a no-fee basis) audiovisual content under the new ‘must-carry must-offer’ guidelines, alleging that, pursuant to the Constitutional Reform, the competition process is more relevant in this particular case than the protection of any legitimate potential IP rights over the audiovisual contents.4

In summary, the main precedents where the Constitutional Reform has had an impact have shown the priority granted from a public policy standpoint to the competitive process in the telecommunications industry (an industry where typically competition has been very limited in Mexico) even if the defence and establishment of competition conditions result in the obstruction of dominant public-access television concessionaires’ IP rights.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Consistent with the Mexican Constitution prohibition on monopolies, the FECL prohibits both absolute monopolistic practices (horizontal conduct) and relative monopolistic practices (vertical conduct).

Generally, absolute monopolistic practices constitute contracts, agreements, arrangements or combinations of the same among competing economic agents, whose purpose or effect is, generally: (1) to fix prices of goods or services offered in the market; (2) to restrict supply (obligation to produce, process, distribute, sell or render only a limited or restricted amount of goods or services); (3) to create market segmentation (division, distribution, allocation or imposition of portions or segments of a current or potential market of goods and services, whether by clients, suppliers, seasons or spaces); or (4) to create private agreements in public bids or auctions.

Absolute monopolistic practices are considered per se violations; in other words, the conduct is prohibited regardless of the market power of the economic agents involved or of other circumstances.

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3 These Guidelines constitute enabling regulation establishing the obligation of public-access television concessionaires to permit the rebroadcast of their proprietary contents – subject to copyright laws – to restricted television concessionaires that are not declared to have a dominant position, on a no-fee basis. The main argument raised by the public-access television concessionaire plaintiff in the litigation was precisely that this provision violated its IP right over its content required to be freely broadcast.

4 Judicial precedent reference: ‘Lineamientos sobre Must Carry y Must Offer emitidos por el Pleno del Instituto Federal de Telecomunicaciones. Los concesionarios de televisión restringida terrena carecen de interés para reclamar en amparo la restricción que, aducen, aquellos imponen a los titulares de los derechos de autor, consistente en entregar gratuitamente el contenido que les pertenece.’
On the other hand, relative monopolistic practices include a list of various acts or behaviours between economic agents that participate in the commercial chain (manufacturers, distributors, merchandisers, and ultimately, final customers). Whereas absolute monopolistic practices are sanctioned *per se*, relative monopolistic practices are penalised only if carried out by an economic agent considered by COFECE to be dominant in the relevant market.

ii Refusals to license

The IP Law governs patents, trademarks, industrial designs and other IP rights. By their nature, IP rights grant an exclusive right to their holders, who are also granted the right to license them under a contractual agreement.

Neither the IP Law nor the FECL includes specific provisions governing the terms under which an IP right shall be licensed. Thus, the Mexican legal framework does not include a particular statute or guideline in connection with what contractual arrangements in a licence agreement could specifically constitute violations or impediments to a free competition environment.

Considering the above, and in the absence of a particular statute or set of guidelines in this regard, the general prohibitions of monopolistic practices under the FECL are applicable to the licensing of IP rights. The analysis of whether a particular act or behaviour in connection with licensing, or a particular contractual arrangement is contrary to antitrust provisions should be made in the light of the specific circumstances, including among others, the market position of the licensor and licensee, the relevant market, the type of IP right subject to the licence, and the ability of the licensee to alternate options to access the specific technology, invention or right being licensed.

The FECL includes among the prohibited relative monopolistic practices the ‘unilateral action consisting in refusing to sell, commercialise or provide to specific persons goods or services available and regularly offered to third parties’.

As mentioned above, the FECL does not include a particular prohibition in connection with the refusal to license IP rights as an antitrust infringement. However, conduct of this nature by a dominant participant in the market could probably be categorised as one of the relative monopolistic practices described in the paragraph above. It is clear from the statute that the prohibited conduct only includes an active ‘refusal’ to deal, and not a constructive refusal. Therefore, the imposition on the licensee of prohibitive royalty fees or other excessive obligations would not necessarily qualify as this type of monopolistic practice.

Conduct also characterised as a relative monopolistic practice is ‘the establishment of different prices or sale or purchase conditions for different purchasers or sellers under equivalent conditions.’ While this prohibition does not make specific reference to the licensing of IP rights, in certain circumstances, it is possible that conduct consisting in the imposition of an excessive licence fee (when a lower licence fee was granted to a different party) could be categorised within this prohibited relative monopolistic practice.

In any case, the prohibited conduct makes reference only to ‘different prices’ or ‘conditions’, without any reference to excessive, prohibitive or other qualifications that could automatically render the imposition of an extremely burdensome contractual condition as a vertical monopolistic practice.

Particularly with respect to patents, the IP Law governs the legal framework applicable to this type of IP right, by granting an exclusive right to exploit the patent for a term of 20 years. After the 20-year term, the patent shall become available for public use. A patent
holder is entitled – as with any other IP right – to license its use to one or more third parties. As discussed above, the IP Law does not include any particular rule in connection with the terms and conditions under which such licences should be granted.

As a particular legal framework for patents, the IP Law provides for ‘mandatory patent licences’. These mandatory licences may be granted to applicants by the Mexican Institute of Industrial Property (IMPI) if, after three years of the grant of a patent, the owner has not exploited it. An applicant for the mandatory patent licence must show the IMPI that it has the technical and economic skills to efficiently exploit the patent. If the IMPI decides to grant the mandatory patent licence to the applicant, the IMPI will determine the term, conditions, scope and amount of royalties applicable to this licence.

No similar mandatory licensing exists for IP rights other than patents.

This mandatory patent licence framework appears to be a response to the existing tension between two competing rights: on the one hand, the exclusive right of the patent holder to exploit its protected invention, and on the other, the principle that the use of inventions in the industry is in the public interest – as a means to foster innovation, and grant consumers access to the newest technologies and discoveries – and, therefore, failure of a patent holder to exploit that invention for the benefit of the industry during a certain period entitles willing third parties to do so under the mandatory patent licence regime.

iii Unfair and discriminatory licensing

As discussed above, conduct by a dominant player in a relevant market consisting in refusing to license an IP right, or in the imposition of licensing conditions that are ‘different’ – while not necessarily excessive or prohibitive – compared with those offered to different parties, could constitute a prohibited relative monopolistic practice.

Conduct such as this may result in the imposition of monetary sanctions under the FECL, up to 8 per cent of the economic agent’s revenues, in addition to potential damages directly related to the performance of the prohibited behaviour.

As discussed above, the imposition of such sanctions may only be challenged by the alleged violator through an amparo trial.

iv Patent pooling

Patent pooling can be defined as ‘an agreement between two or more patent owners to license one or more of their patents to one another or to third parties’. 5

Mexican law does not include any specific regulation governing patent pooling. However, the IP Law generally provides for the right of a patent-holder to license the patent to one or various licensees, therefore leaving the possibility open for a patent pooling arrangement. Thus, a patent-pooling arrangement in Mexico would not be anticompetitive or illegal per se.

However, as a potential agreement among competitors, patent pooling arrangements should be subject to strict scrutiny, as they could eventually lead to the commission of absolute monopolistic practices; for example, if the arrangement involves price-fixing between the patent holders or other prohibited conduct categorised as an absolute monopolistic practice (see Section III.i). As discussed above, absolute monopolistic practices are considered unlawful per se.

v Software licensing

Software is considered a copyright protected by the Federal Copyright Law (the Copyright Law). Under the Copyright Law, the economic rights over copyright (including software) may be licensed by its owner to third parties.

From an antitrust perspective, software licensing is not subject to any particular regulation under the IP Law, the Copyright Law or the FECL, different from the general regulation applicable to licensing of IP rights. Therefore, the restrictions described in Sections III.i to III.iii, above, are similarly applicable to software licensing for the purpose of determining the potential commission of a prohibited relative monopolistic practice.

vi Trademark licensing

Trademarks are protected under the IP Law and the various international treaties entered into by Mexico. Under the IP Law, the owner of a trademark may validly license its rights to the trademark to third parties, and the licensee shall be required to pay a licence fee to the licensor. Trademark licences must be registered with the IMPI.

From an antitrust perspective, the terms and conditions of trademark licensing are not subject to any particular regulation under the IP Law or the FECL. Therefore, the restrictions described in Sections III.i to III.iii, above, are similarly applicable to trademark licensing for the purpose of determining the potential commission of a prohibited relative monopolistic practice.

In any case, trademarks do not grant an exclusive right over a specific product or a specific market, but rather grant their holders the exclusive right to use those trademarks as a distinction of their products or services. Given that any market participant in any industry is able to create and develop its own trademark, and that the use of trademarks per se does not restrict access to other potential entrants to a particular market, the use and licensing of trademarks appears to pose a lesser concern from an antitrust perspective.

It is interesting to mention that the IP Law enables the IMPI to declare the mandatory use of a trademark on any product or service, or even to prohibit or regulate the use of trademarks (registered or not), among others, when the use of the trademark has been associated with monopolistic practices that cause serious distortions to the manufacturing, distribution or merchandising of specific products or services.

IV STANDARD-ESSENTIAL PATENTS

i Dominance

COFECE and IFETEL (if the matter is of a telecommunications or broadcasting nature) may determine that an economic agent is a dominant participant in the market. For these purposes, the relevant agency shall generally consider the following elements: (1) the ability of the agent to fix prices or restrict the offer in the relevant market, where competitors are unable to impede this activity; (2) the existence of entry barriers in the relevant market; (3) the existence and power of competitors; and (4) the conditions of access of the relevant agent and other competitors to input sources.

As discussed above, patents are protected under the Mexican Constitution, the IP Law and the international treaties to which Mexico is a party.
Pursuant to the applicable law in Mexico, the following are protected through patents: (1) inventions for industrial application; (2) technical improvements and the transfer of technological knowledge for manufacturing purposes; and (3) generally, all inventions that foster a higher quality of goods and services in the industry.

Standard-essential patents (SEPs) are inventions or improvements subject to protection where standards are essential for functionality of the relevant commercial items or merchandise. SEPs are particularly relevant in information and communication technologies (ICT), since mobile telecommunications companies are required to comply with standards to allow intercommunication with telecommunications networks and terminal devices, either through communication protocols, or through standards for operation of devices within specific frequencies of the radio spectrum.

Thus, the creation and protection of new communications standards (or their improvements) through patents could constitute a competitive advantage in the market, allowing an SEP holder potentially to control this essential input, inhibit the entry of new competitors, inhibit innovation and unduly displace existing competitors, given that harmonising standards for ICT development is essential to allow interaction between these companies; this is particularly relevant considering that, in many cases, there are no substitutes for these technologies.  

The potential outcome of the above is the SEP holder gaining a dominant position, which may itself act as an incentive, but with the result that it engages in a prohibited monopolistic practice.

In this context, around the world, various companies that develop mobile devices have through the protection of their SEPs used strategic litigation and injunctions as a means of strengthening their market position.

To our knowledge, there is no antitrust issue or litigation in Mexico in connection with the holding of SEPs. This may be because the antitrust disputes raised by SEP-holding manufacturers have primarily been filed in other jurisdictions, and have focused primarily on the United States, Germany, Japan, the United Kingdom and South Korea.

Mexico is in a particular situation regarding the final-consumer smartphone market, because of the existence of an economic agent (América Móvil) with substantial market power

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6 All regulatory agencies in the world establish standards for devices (mostly privileging the neutrality of the technology). In Mexico, the regulation is issued through enabling administrative regulation issued by IFETEL (following the recommendations of the International Telecommunication Union) and other enabling administrative regulation issued by other administrative government agencies.

7 For example, Case AT39895 resolved by the European Commission related to the Motorola Mobility Inc v. Apple Inc case, where Motorola sued Apple in Germany for an alleged violation of an SEP registered by Motorola regarding the ‘GPRS’ or 2G standard. Motorola sought an injunction to prohibit Apple from selling iPhones and tablets during the term of the trial. Given Apple's urgent need to sell its inventories in the German market – and given the dynamics of the smartphone industry and that inventories become rapidly dated – Apple had to compromise in various negotiations and enter into settlement agreements with Motorola that were disadvantageous to Apple. The European Commission resolved that this was anticompetitive conduct on Motorola's part, since Motorola abused its dominant position as an SEP holder, which allowed it to maintain a privileged position in the negotiation with its competitors in Germany, affecting the competition process and, ultimately, smartphone and tablet consumers; as a result, the European Commission obliged Motorola to enter into agreements that included fair, reasonable, and non-discriminatory (FRAND) clauses.
in the relevant market. América Móvil currently has approximately 72 million clients, which
in practice grants it high leverage in negotiations with other market participants, including
developers of mobile devices intending to distribute their devices to final consumers.

Given its dominant market position, América Móvil was subject to various stringent
antitrust measures by the antitrust authorities in 2014, since it had used contractual
exclusivities with developers, for periods of up to six months, for the distribution of
smartphones to final consumers.

Additionally, until 2015, final consumers had to mandatorily remain with their
telephone and mobile phone companies for at least 12 months; mobile phones were blocked
when delivered to final consumers, therefore the mobile phone could only be used with
the operator to which it was linked, which effectively inhibited competitors from selling
smartphones independently of the mobile phone concessionaires.

This may explain the lack of IP disputes in Mexico in connection with these matters
in comparison with other countries, since developer companies may not have had sufficient
incentive to file sham IP disputes.

ii Injunctions

Mexican commercial and IP law allow plaintiffs to seek injunctions from a court. Therefore,
it is possible that an SEP holder may eventually abuse the protection granted by the law to
seek an action similar to those filed in the Motorola Mobility, Inc v. Apple Inc and Samsung
Electronics v. Apple, Inc cases.

Nonetheless, we are not aware of any public information in connection with the
determination of an abuse of a dominant position in Mexico as a result of an SEP holder
seeking injunctions.

iii Licensing under FRAND terms

FRAND stands for ‘fair, reasonable and non-discriminatory’ licensing terms in the context of
an SEP. In the Samsung and Motorola cases, the European Commission clarified that, in the
standardisation context, where the SEPs holders have committed to (1) license their SEPs,
and (2) do so on FRAND terms, it is anticompetitive to seek to exclude competitors from
the market by seeking injunctions on the basis of SEPs, if the licensee is willing to take a licence
on FRAND terms.

Mexican law does not include any statute or regulation that requires an SEP holder to
license its patent under FRAND terms. Additionally, we are not aware of any information
regarding litigation or settlements in Mexico in connection with the application of FRAND
licensing terms. In any case, there is no provision in Mexican law that would prevent a
Mexican court from taking the position that the licensing of an SEP in Mexico should be
made under FRAND terms, consistent with international best practices.

The FRAND concept is an excellent tool to reach a ‘middle ground’, on the one
hand incentivising technological innovation by developers and fostering fair and reasonable
arrangements in the payment of royalties to SEP holders and, on the other hand, preventing
free raiding by competitors and the imposition of excessive royalties or limitations on sales
volumes, and preventing time delays for new entrants to the ‘pay-for-delay’ market, all of
which constitute anticompetitive conduct that ultimately affects consumers.
Anticompetitive or exclusionary royalties

As explained above, while there is no particular statute in Mexico that governs the terms under which royalties should be paid to an SEP or non-SEP holder, the existing conditions in certain markets in Mexico allow certain players with substantial power to impose certain conditions on their competitors that could be viewed as abusive. However, the framework established through the Constitutional Reform and the new FECL is expected to prevent and sanction these types of practices.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

Under the FECL, a merger is any concentration, control acquisition or any other act involving the concentration of companies, associations, shares, equity, trusts or assets in general, between competitors, suppliers, clients or any other economic agents.

This broad definition is designed to cover a wide range of transactions that involve the merger or concentration of any type of assets, thus covering both tangible and intangible property, such as trademarks and other IP rights.

Mergers that exceed certain thresholds set forth in the FECL shall only be effective if previously authorised by COFECE. The thresholds are established considering either the amount of the transaction, the amount of assets and sales of the parties involved in the transaction.

Therefore, a transaction that involves the transfer of IP rights that exceeds the thresholds set forth in the FECL will necessarily have to be previously authorised by COFECE to be effective.

ii Remedies involving divestitures of intellectual property

Prior to the enactment of the new FECL, the most relevant case in Mexico involving the divestiture of IP rights was the Nestlé/Pfizer transaction in 2013. In 2013, Pfizer entered into a worldwide agreement with Nestlé, whereby Pfizer would sell its infant formula business to Nestlé. The transaction involved the sale of all of the business assets, including real estate industrial plants, inventories, regulatory registrations and IP rights. The transaction was subject to the authorisation of the antitrust authorities of the various jurisdictions where the transaction would be effective.

In Mexico, COFECE found that the transaction could have anticompetitive effects in Mexico given Nestlé’s position in the relevant market. After negotiations with COFECE, the transaction was ultimately approved, subject to Nestlé complying with the following remedies: (1) Nestlé would enter into a 10-year exclusive licence with a third party over Pfizer’s infant formula trademarks; and (2) Nestlé would be subject to a 20-year blackout period in which Nestlé would not be able to use those trademarks in Mexico, to allow the licensee to consolidate its market position by developing its own infant formula trademarks in Mexico. The terms and conditions of the exclusive licence were not determined by COFECE’s decision, and therefore, the licence’s commercial terms (including royalty fees) were left to the commercial negotiations of the parties.

Under the new FECL, two recent precedents concerned remedies that, to our knowledge, involve IP rights.
The first one was in connection with the proposed sale by Sanofi of its consumer healthcare business to Boehringer. In December 2016, COFECE resolved not to authorise the sale, unless certain conditions were accepted by the parties. While the details of the resolution have not been made public, the conditions – among others – consisted in Sanofi refraining from acquiring certain trademarks then owned by Boehringer in Mexico (e.g., Bisolvon, Mucosolvan and Sekretovit), to maintain the existing pricing pressure in the chesty-cough over-the-counter market.

The second precedent concerned the proposed acquisition by ChemChina of assets by Syngenta, in the herbicide and fungicide markets in Mexico. COFECE considered that the full sale to ChemChina could result in that economic agent acquiring a substantial market position, and therefore conditioned the transaction upon the sale by Syngenta of five of its products to a third party pre-approved by COFECE. Again, the details of the resolution are not public, but arguably, the sale of these products would most likely also involve the divestiture of the IP rights associated with the products.

The above precedents, in addition to various other actions taken recently by COFECE on various fronts, show COFECE’s intention to fully enforce its powers and authority under the Constitutional Reform and the new FECL to fulfil its mandate to foster competition in Mexico.

VI OTHER ABUSES

i Sham or vexatious IP litigation

‘Sham litigation’ has been defined by the US Supreme Court through a two-tier definition:

a First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favourable outcome, the suit is immunised, and an antitrust claim premised on the sham exception must fail.

b The second tier, to be reached ‘only if challenged litigation is objectively meritless’, is ‘whether the baseless lawsuit conceals an attempt to interfere directly with the business relationships of a competitor through the use of the governmental process – as opposed to the outcome of that process – as an anticompetitive weapon’.

Mexican courts have not provided for a similar definition of sham litigation in the context of antitrust proceedings.

However, it is a common practice worldwide to use strategic litigation to obtain competitive advantages; therefore, even though, to our knowledge, there is no current litigation on the subject of SEPs or other non-SEPs that could have had anticompetitive effects (as was the case in Germany with the Motorola Mobility case and in other jurisdictions in the Samsung Electronics case), Mexican commercial and IP laws provide for the tools that could eventually provide a potential plaintiff to unduly seek injunctions, abusing its dominant position.

In this respect, a challenge for the new antitrust specialised courts will be to be cautious of potential anticompetitive effects resulting from sham litigation or patent protection, artificially filed with the sole purpose of obtaining an unlawful competitive advantage in the market.

In the past, the Mexican courts have stated that no person may claim an IP right to maintain unlawful competition conditions. Although this court precedent was issued under a previous industrial property law not currently in force, it is reasonable to maintain that this principle is still valid under the current IP law, and potential sham litigation on the basis of an IP right (such as patent rights) with the purpose of availing oneself of or maintaining unlawful competition conditions should be analysed by the new antitrust specialised courts with regard to the above principle.9

ii Misuse of the patent process

We have no knowledge of any particular recent patent process in Mexico that has been manipulated with the purpose of artificially extending the term or geographical scope of the patent protection, or for the enforcement of a patent obtained through fraud.

However, as discussed above, there could be incentives for patent holders in Mexico to use strategic litigation to unlawfully displace a competitor through the use of injunctions or other legal instruments available under Mexican law, with the purpose of hindering the competitor from entering the market, or by obliging the competitor to enter into a disadvantageous settlement agreement to be able to enter a particular market (as has been the case in other jurisdictions).

iii Anticompetitive settlements of IP disputes

International experience has shown that the majority of settlement agreements that establish excessive royalty payments and other ‘hold-up’ sale clauses have anticompetitive effects. To our knowledge, there is no recent experience in Mexico of this type of settlement agreement.

However, with the right incentives, an agreement to settle patent litigation may be pro-competitive, and can also create synergies to implement technology improvements for the ultimate benefit of consumers. A recent international example is the agreement between Apple Inc and Ericsson to settle approximately 40 disputes in various jurisdictions, which will cause both companies to share technology and jointly develop a new 5G platform for mobile phones.10

VII OUTLOOK AND CONCLUSIONS

As may be inferred from the discussion contained in this chapter, the interrelation between the exercise of IP rights and the enforcement of antitrust laws is a subject that is still to be fully developed and tested in Mexico. Mexican laws do not contain very specific or particular regulations with respect to the scope and terms under which IP rights may be licensed according to pro-competitive principles, and as the concept of SEPs and potentially monopolistic conduct of their holders is a subject that has not yet reached Mexican courts, they have yet to provide more insight as to its legal implications in Mexico.

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9 Court precedent: ‘Marcas. Ley de Invenciones y Marcas. Competencia desleal. Que debe entenderse por.’
However, as Mexico is an active member of the international community and, particularly, a party to most of the primary international treaties on IP matters, whenever these issues reach the Mexican courts, it is expected that the courts will follow the principles and guidelines established by those international treaties and best international practices.

The exercise of exclusive IP rights (such as exploiting an SEP or non-SEP) is not by its nature anticompetitive. The exploitation of a patent on an exclusive basis is the very nature of this right and is protected by law, as well as the right of its holder to license it to third parties. However, particular circumstances may render the exercise of the exclusive right anticompetitive, taking into consideration various circumstances such as the market power of the licensor, the relevant market, the type and scope of the patent, among other things.

The establishment of FRAND terms to ensure the pro-competitive effects of patent licences is a proven efficient tool to protect the interests of both the patent holder and licensees. While Mexican law and practice have not yet tested the imposition of FRAND terms in this context, the principles and public policy contained in the Constitutional Reform should be followed, which most probably will respect such a practice already tested in other markets.

As a final note, the telecommunications and antitrust regulations derived from the Constitutional Reform are beginning to foster competition and growth in the Mexican economy. The creation of IFETEL and COFECE as separate constitutional agencies independent from the executive branch was certainly a step towards ensuring that the goals of the Constitutional Reform are reached. However, in practice, the delimitation of jurisdiction between both agencies in certain ICT-related matters is still a matter of debate, and its definitive limits will have to be determined by the specialised Mexican courts created through the Constitutional Reform.
Chapter 13

PORTUGAL

Carlos Pinto Correia, João Pateira Ferreira, Raquel Galvão Silva and Gonçalo Hogan

I INTRODUCTION

There are few regulations or guidelines specifically addressing intellectual property (IP) and antitrust issues in Portugal; however, the past years have been marked by relevant decisions of the Portuguese Competition Authority (PCA) and the Portuguese Competition, Regulation and Supervision Court (the Competition Court) in areas related to intellectual property: (1) a decision of the PCA to apply a more than €10 million fine to the Portuguese National Association of Pharmacies (ANF) for abuse of dominant position; (2) a decision regarding anticompetitive agreements involving pharmaceutical companies; and (3) a request for a preliminary ruling before the Court of Justice of the EU regarding the concept of discrimination in abuse of dominance.

This chapter will mainly address these decisions and give a brief overview of the relevant IP and competition issues and rules in the field of antitrust and IP enforcement actions.

II YEAR IN REVIEW

With regard to antitrust, the past years were marked by three decisions of the PCA.

In Case 13/2009, ANF and two satellite companies, Farminvest and HMR, both controlled by ANF, were fined for abuse of dominance by refusing to provide other companies specialising in market studies with data related to the sales of medicines to final consumers at the pharmacy level. Although the data involved is not protected by IP, the information itself is used by the pharmaceutical industry and particularly by IP holders to monitor the market and possible infringements of their IP rights.

ANF is the largest association of pharmacies operating in Portugal and, through Farminvest, it controls a company named HMR that offers market studies in the healthcare sector and specialises in data related to sales of medicines to pharmacies.

The case was based on a complaint lodged in 2009 by IMS, an international company specialising in collecting the same type of data from both wholesalers and pharmacies, and Apifarma, the pharmaceutical companies trade association. After more than five years of investigation, the PCA reached the conclusion that ANF had breached Article 102 of the Treaty on the Functioning of the European Union, and the equivalent rule in the Portuguese Competition Act, by increasing the price for the supply of the data by pharmacies to IMS.

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Roughly at the time that the issues with access to data began, ANF incorporated HMR, a subsidiary company that had privileged access to the data and started to compete with IMS. The plaintiff alleged that, with the new prices, which were about 2.5 times the previous price, it was effectively excluded from the market.

Apifarma alleged that the strategy of ANF effectively created a monopoly for HMR and, in view of the importance of this type of data for the industry, this would put Apifarma members at a disadvantage.

The PCA imposed a fine of more than €10 million on ANF and its controlled companies. The case judgment was confirmed by the Competition Court, the specialised court with jurisdiction over competition enforcement cases. The Court found that the PCA was right in finding the alleged infringement, and concluded that ANF had indeed tried, through margin squeeze, to prevent potential or actual competitors from entering the market. The Court found that this behaviour would have made it impossible for any competitor, even one as efficient as ANF, to obtain a profit margin that would enable it to enter and effectively compete in the market with ANF. Nevertheless, on the basis of the size of the relevant market, the Court decided to reduce the fine from €10.3 million to €6.8 million. A decision by the Lisbon Court of Appeals is expected on this case.

In Case 2014/4, the PCA assessed an agreement between three pharmaceutical companies, AstraZeneca, Teva and Ratiopharm, relating to the sale of rosuvastatin generic products. The PCA concluded that the settlement agreement executed between the parties in the context of proceedings that had been filed by AstraZeneca against Teva and Ratiopharm claiming an alleged patent infringement following the launch of rosuvastatin generic products by the two defendants was not in breach of the applicable antitrust laws. The PCA considered that there was no evidence that the terms of the settlement agreement were outside the scope of the arbitral proceedings nor that Teva or Ratiopharm had received any advantages from withdrawing their rosuvastatin generic products from the market.

This was the first PCA decision on the issue of agreements between originators and generic producers based on a possible ‘pay-for-delay’ infringement. One significant aspect to highlight is that the case started with a request made by the Ministry of Health after being informed of a letter sent by Teva to its clients letting them know of the settlement agreement with AstraZeneca. This is a relevant fact, since the public administration has traditionally been reluctant to bring matters to the PCA and to invoke competition law issues in respect of its relations with private parties in general.

Lastly, in a recent case, a request for a preliminary ruling to the Court of Justice of the EU was submitted by the Competition Court in connection with a complaint of abuse of dominance in collective management of intellectual property rights. In June and October 2014, PT Comunicações (PT), one of the major Portuguese telecom companies, filed a complaint with the PCA against GDA, the only Portuguese entity engaged in collective management of IP and related rights. In essence, PT submitted that GDA charged excessive fees for access to the television signal in pay-TV, since it applied higher prices to PT than to one of its major competitors.

The PCA decided to close the case on the basis that the price difference per se did not jeopardise PT’s competitive position in the market and, as such, did not have anticompetitive effects. The PCA argued that the results of the assessment of the price differences applied by GDA could not set aside the possibility of PT being capable of absorbing the cost difference at stake, considering that the costs are of low significance in relation to PT’s profits and the cost-effectiveness of these services. In analysing the requirements for abuse
in discriminatory pricing, the PCA took into consideration the European Union Court of Justice's reasoning in *British Airways* and considered that the existence of a discriminatory practice does not necessarily involve a competitive disadvantage, and that concrete evidence of the discrimination being able to create such a disadvantage was required. Furthermore, it was stated that a different understanding would contravene the case law of the Court of Justice since it would result in every discriminatory practice by a dominant player entailing a violation of Article 102(2)(c) TFEU. In particular, the PCA concluded that it had not been demonstrated that competition between retailers could be influenced by the prices charged to wholesalers, such as PT.

On appeal, PT argued that the PCA had made an incorrect interpretation of EU law since it applied more stringent requirements. PT considered that the criterion established in EU case law for abuse in discriminatory practices was the simple demonstration that such practices are able to distort competition (i.e., to place a commercial partner of the dominant player at a competitive disadvantage).

The Competition Court then referred the case to the Court of Justice, as a preliminary ruling, since it noted that it was not clear from previous case law as to the concept of distorting competition for the purpose of assessing violations of Article 102(2)(c) TFEU. Considering that the decision of the PCA to dismiss the case was based on the small difference between the costs borne by PT and the results in the additional wholesale costs – which was demonstrated by the increase in PT market shares during the relevant period, showing it was able to bear the extra amount charged internally – the Court stressed the importance of the concept of distorting competition, as adopted in *British Airways*, in the PCA's reasoning. The Court further noted that the Court of Justice precedents were not clear concerning the concept of distorting competition for the purpose of applying Article 102 TFEU, especially in regard to the existence of evidence of such a distortion, and that there was no distinction as to the seriousness, circumstances or effects of distortions to competition in this area.

In fact, and according to the Court of Justice in *British Airways*, 'there is nothing to prevent discrimination between business partners who are in a relationship of competition from being regarded as being abusive as soon as the behaviour of the undertaking in a dominant position tends, having regard to the whole of the circumstances of the case, to lead to a distortion of competition between those business partners. In such a situation, it cannot be required in addition that proof be adduced of an actual quantifiable deterioration in the competitive position of the business partners taken individually,' which was restated by the General Court in Clearstream when concluding that 'the application to a trading partner of different prices for equivalent services continuously over a period of five years and by an undertaking having a *de facto* monopoly on the upstream market could not fail to cause that partner a competitive disadvantage'.

In this sense, the Court considered that it was reasonable to ask whether the reasoning for the PCA's decision was innovative in the sense it is not directly supported by the aforementioned EU case law.

The request for a preliminary ruling was submitted in July 2016 and included the following questions:

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3 Paragraph [145].
Does the concept of distorting competition for the purposes of Article 102(2)(c) TFEU depend on an additional assessment regarding seriousness, relevance or importance of its effects in the competitive position or capacity of the relevant company, namely considering its capacity to bear the difference of costs internally?

If the difference is of low impact, is a decision of lack of evidence of a distortion of competition compatible with the case law set forth in *British Airways* and *Clearstream*?

Is Article 102(2)(c) TFEU to be interpreted as requiring the disadvantage suffered by the relevant company to correspond to a minimum percentage of its cost structure?

Alternatively, should it be construed as requiring the disadvantage to correspond at least to a minimum difference between average costs incurred by competitors?

Could this provision be interpreted in such a way that would require the amount corresponding to the competitive disadvantage to be higher than the price difference applied by the dominant player?

If the answer to these questions is affirmative, how should the minimum amounts be defined?

Should the extra costs borne by the relevant company in each year be lower than the minimum amounts, as defined according to question (f), can the assumption made in *Clearstream* pursuant to which 'the application to a trading partner of different prices for equivalent services continuously over a period of five years and by an undertaking having a *de facto* monopoly on the upstream market could not fail to cause that partner a competitive disadvantage' be set aside?

Apart from the substantial issues at stake, it should be noted that this case is one of the first recorded instances where a complainant has appealed a decision by the PCA not to pursue an investigation under the new Portuguese Competition Act, enacted in 2012 (Law 19/2012 of 8 May), which substantially enhanced the rights of complainants in competition cases and introduced the right of a complainant to appeal against a decision not to pursue an investigation. More importantly – and as far as the authors are aware – this is the first request for a preliminary review by the Competition Court concerning national competition investigations. The request for a preliminary review by the European Court of Justice is a clear sign that the Competition Court, though formally a first instance of appeal, will not refrain from exercising its specialised remit by addressing directly the Court of Justice on matters of interpretation of EU competition law.

**III  LICENSING AND ANTITRUST**

The recent *GDA* case is one of the most relevant decisions regarding discriminatory licensing of IP rights in Portugal. The outcome of this case is of extreme relevance for the Portuguese market in the collective management of copyrights and related rights since it will determine how relevant entities are to deal with the fact that they are dominant in their respective markets.

As mentioned above, the outcome of the preliminary ruling submitted to the Court of Justice will be decisive in determining pricing practices in the collective management of copyrights and related rights, and their respective licensing arrangements.
Although price differences may be allowed under Article 102(2)(c) TFEU, if the Court of Justice supports the PCA’s reasoning in the GDA case, monopolistic entities engaged in the collective management of IP rights will enjoy more freedom in establishing discriminatory prices and licensing, and favouring close commercial partners.

In addition, although the ANF case is not based on a refusal to deal, the effect of the described increase in the prices of the sales data was, allegedly, equivalent to a refusal. The PCA identified a market for pharma-specific patient and prescription studies and a market for data with commercial value that is required to undertake those studies. Through its links with pharmacies, ANF enjoyed a dominant position in the provision of data, but it was also found to be dominant in the provision of studies through HMR. This reasoning was essentially upheld by the Competition Court.

The authority construed the case as margin squeeze and referred to the EU case law on that. It gave special emphasis to the fact that, on the basis of the pricing strategy ANF applied in the studies sold by HMR, the prices charged to IMS effectively prevented it from competing.

As is usual in margin squeeze cases, the analysis made by the PCA relies heavily on the economic assessment of the margin implicit in the prices charged.

Once it established that ANF was dominant in both groups of relevant markets (data and studies) the finding of abuse was essentially a matter of determining whether the price was too high, as claimed by the plaintiff. Thus, the ratio decidendi will probably not be followed in other cases.

IV STANDARD-ESSENTIAL PATENTS

One of the specificities of the Portuguese IP legal regime relates to patents in the pharmaceutical sector and, in particular, to disputes concerning industrial property rights, including preliminary injunctions, related to reference medical products or to generic medicines, which are subject in Portugal to ad hoc or institutionalised mandatory arbitration. According to the law, the industrial property right holder that wants to enforce its right has 30 days to present a request for arbitration following publication by the Portuguese National Authority for Medicines and Health Products (INFARMED) of notice that a marketing authorisation (MA) has been requested for a generic medicine. Although the arbitration will not suspend INFARMED’s analysis of the MA application, the idea behind this regime seems to be to allow IP disputes to be decided before generic medicines have obtained the necessary regulatory approvals to enter the Portuguese market, thus avoiding unnecessary delays in the marketing of generic medicines. As may be recalled, Portugal was singled out in the 2009 Pharmaceutical Sector Inquiry by the European Commission for having a high number of cases pending in the administrative courts filed by patent holders against regulatory authorities that were in the process of granting MAs and price approvals to generic medicines. These proceedings came to an end following the approval of the new arbitration regime.

In spite of the considerable attention that patents have been receiving over the past few years, so far no consideration has been given to statute, regulation or case law on the antitrust implications of the adoption of proprietary technologies in industry standards.

Furthermore, there is no relevant case law on the licence terms for such standard-essential patents.

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V INTELLECTUAL PROPERTY AND Mergers

Under Portuguese law, the concept of merger for the purposes of merger control includes the direct or indirect acquisition of control over the assets of a company, and as such, the acquisition of ownership, use or enjoyment of the assets of a company or parts of it.

In this sense, a transfer of IP rights may constitute a merger where the IP rights involve the ownership of assets of the previous holders.

In most cases, the relevant transaction will be an asset deal that includes IP rights, and notification obligations will arise in respect of the acquisition of the assets.

VI OTHER ABUSES

While the European Commission has for several years been monitoring the limits of legitimate IP protection and related litigation and, in particular, patent settlements and more broadly pay-for-delay arrangements, until recently the PCA had not started to actively investigate these types of agreement.

The AstraZeneca case concerned an agreement whereby Teva and Ratiopharm stopped selling rosuvastatin generic products in Portugal. Teva issued a notice to wholesalers informing them of the terms of the agreement, which became known to the Ministry of Health, which ultimately informed the PCA. This led the PCA to conduct dawn raids of several companies.

AstraZeneca has a patent over rosuvastatin, an active substance that is sold under the commercial names of Crestor and Visacor. The patent is due to expire in 2017, but Teva and Ratiopharm launched a rosuvastatin generic before the patent expiry date.

AstraZeneca filed patent infringement proceedings but the parties eventually settled and one of the conditions was that Teva would cease to sell its generic drug.

The assessment of the PCA concerned the issue of the possible scope of the agreement. On the basis of ECJ case law the PCA stated that settlement agreements that are limited to settling the patent litigation and do not go beyond what is required in that context are acceptable. The PCA highlighted that the payment of compensation by AstraZeneca to Teva would be problematic and would raise antitrust concerns. However, there was no evidence that the agreement would extend beyond the scope of the dispute nor that the defendants would receive any advantages from removing the generic product from the market.

The documents collected in the dawn raid were also reviewed with the aim of trying to understand if there was another agreement, or any sort of undertaking, that followed the settlements. Again, the PCA concluded that there was no evidence that such an extension of the agreement existed.

The decision provides valuable guidance on the position of the PCA on settlement agreements. If the terms of the settlement do not impose on the generics company more obligations than those that would arise from the patent rights owned by the originator, the agreement does not go beyond what is acceptable. This is a clarification that is very useful for companies, but it is submitted that it may be difficult to have a clear view of what rights the patent gives to both parties, in particular if the settlement allows certain rights to the generics company. The position of the PCA seems to rely on an understanding that such an agreement should only make impositions on those companies.

It also follows that where there is a payment to the generics company related to a decision to leave or not enter the market there will probably be an issue in terms of Portuguese
competition law. This is a clear and coherent position, but the complexity of the situations that arise from patent litigation in the pharma sector will probably test this interpretation of the law.

VII OUTLOOK AND CONCLUSIONS

The recent cases of the PCA mentioned above demonstrate a higher importance of IP-related matters in competition regulation in Portugal.

As shown, there is a high number of disputes arising from IP rights, especially in the pharma sector, and recent developments have demonstrated that the PCA is currently paying more attention to competitive concerns arising from not only the mentioned disputes but also from the activity of pharma associations.

The PCA recently issued its first decision concerning settlement agreements in patent disputes, which are very common in practice, and this may influence the outcome of future disputes.

On a different level, collective management of copyrights and related rights was also subject to the scrutiny of the PCA, by assessing possible abuse of dominance in this sector. The outcome of the preliminary ruling submitted in relation to GDA’s alleged discriminatory prices will dictate future behaviour of entities engaged in this market.

Although the recent PCA decisions are a result of complaints, more supervision of competitive constraints resulting from IP rights, and particularly in the pharma sector, is expected.
I INTRODUCTION

The interaction between antitrust and intellectual property (IP) is widely discussed by the business community and the Russian competition authority, the Federal Anti-monopoly Service (FAS). In general, IP matters are mainly scrutinised by the FAS and its regional offices within the framework of unfair competition cases, as well as in situations where the anticompetitive effect arising from the exercise of IP rights is considered. Thus, antitrust issues are primarily governed by Federal Law No. 135-FZ dated 26 July 2006 on Protection of Competition (the Competition Law), while liability for violations of the anti-monopoly regulations is mainly established (in addition to the Competition Law) by the Code on Administrative Offences and the Criminal Code.

Currently, the Competition Law contains a limited number of provisions envisaged to address IP issues. Apart from the clauses on unfair competition and transactions with an IP element subject to merger control, IP rights are specifically mentioned in the following instances: (1) further to Article 10(4) of the Competition Law the prohibitions on abuse of dominance do not apply to conduct associated with the exercise of exclusive rights to IP or equivalent means of individualisation of a company, products, works or services; and (2) similarly, under Article 11(9) of the Competition Law the prohibitions against anticompetitive agreements are not applicable to agreements on granting or transferring IP rights or equivalent means of individualisation of a company, products, works or services.

The FAS views the above immunities as obsolete and refers to the EU and US regulations; it seeks to exert control over unilateral conduct and contractual arrangements in the area of IP, and to look into existing practices in terms of their compliance with the Competition Law (in particular, in relation to the pharmaceutical industry and other markets of 'social importance'). Likewise, the competition authority remains a proponent of compulsory licensing and liberalisation of parallel imports, claiming that such a reform will ensure a level playing field. Although these initiatives are strongly criticised by many practitioners and right holders, the FAS is adamant about seeing these changes implemented. Most recently, a draft law aimed at dealing with the digital economy and removing the IP-related exemptions has been elaborated.

The FAS is entrusted with monitoring compliance with Federal Law No. 38-FZ on Advertising dated 13 March 2006: its practice regarding violations of the relevant provisions also includes interaction with IP.

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IP relations as such are dealt with in a comprehensive manner in Part IV of the Russian Civil Code, which includes an exhaustive list of IP rights and various legal methods for their protection. It stipulates some general requirements concerning their use and enforcement. Overall, the Russian legislation provides for civil, administrative and criminal liability for the infringement of IP rights.

Further, in line with the Competition Law provisions under Part IV of the Civil Code the protection of a trademark can, *inter alia*, be disputed or invalidated in full or in part if the actions of a right holder associated with granting protection to a trademark or to a different confusingly similar trademark are viewed as unfair competition.

Russia is a party to a number of the most important international treaties and conventions covering different IP aspects, including the Convention Establishing the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks and the Madrid Protocol, the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The Paris Convention in particular is often applied and referred to by the FAS in its decisions.

In addition to Part IV of the Civil Code, certain (mostly technical) IP issues are regulated by the orders of the Federal Service for Intellectual Property (Rospatent). Rospatent is the main body in the field of IP and is also responsible for the major registration formalities. In accordance with the Competition Law, the FAS’s decisions on violations of the Competition Law (unfair competition) are to be sent to Rospatent for the legal protection of trademarks.

The FAS and Rospatent cooperate on the basis of an agreement entered into in 2010 that defines the scope of interaction and information exchange between these bodies. For the most part Rospatent provides assistance and consultations to the FAS in the course of investigations involving IP. For example, as part of this cooperation FAS officials pointed out the need to review certain approaches to patenting to create opportunities for Russian generics to enter the market. According to Rospatent, however, the solution to this problem lies in the area of legislation on the circulation of medicines rather than patents. As to the key FAS legislative proposals (compulsory licensing in situations where the refusal to use certain IP rights results in violations of the Competition Law, as well as removal of IP exemptions from the Competition Law), Rospatent officials usually speak in favour of a more balanced approach, which would guarantee protection of IP rights and legitimate interests of right holders.

For completeness, the Russian Intellectual Property Court (the IP Court) was launched in 2013, which has led to an increase in professionalism and a sound legal approach with regard to judgments in IP cases, not only from the Court, but also across the Russian court system as a whole. To a certain extent, the practice of the IP court is related to the intersection of IP and antitrust: it considers appeals against the FAS’s decisions on unfair competition in cases relating to the acquisition of exclusive rights to the means of individualisation of a company, products, works or services.

## II YEAR IN REVIEW

### i Key legislative and policy developments

The correlation between IP and antitrust is definitely among the topical issues. The FAS always advocated the repeal of the exemption relating to IP (as mentioned above, IP matters
are formally outside the scope of the Competition Law), but this idea was not eventually reflected in the Fourth Anti-monopoly Package that came into effect on 5 January 2016. Still, the competition authority is committed to changing the current regime so that the Competition Law would be fully applicable to IP relations and potentially right holders’ anticompetitive practices.

The FAS has prepared a draft law (also known as the Fifth Anti-monopoly Package) introducing amendments to the Competition Law and the Code on Administrative Offences with a view to streamlining the application of antitrust rules to the digital economy and IT companies (in light of its fairly recent investigations). The document is now being discussed with industry experts. Naturally, the provisions that eliminate the existing IP immunities can be found in the draft law; many practitioners note that in this case an exhaustive list of anticompetitive and abusive practices should be drawn up to ensure the balance. As part of this initiative, the competition authority proposes to establish the status of internet platforms and aggregators enjoying market power (big data ownership is used as the basis), introduce an additional ground subjecting a transaction to merger clearance (transaction value) and introduce more detailed rules concerning the review of merger clearance notifications. IP-related remedies and compulsory licensing issues are also under discussion.

Still, for the time being, the legislative developments concerning the correlation between IP and antitrust were mainly in the area of unfair competition. The Competition Law contains a separate chapter devoted to this violation: it sets out seven instances that constitute unfair competition. The list is not exhaustive so other conduct and practices not expressly mentioned in the Competition Law may be considered as unfair competition. The rules on unfair competition became substantially more detailed and now contain some new provisions (for instance, provisions on disparaging statements and creating confusion with a competitor’s business or products).

These developments are in line with the existing trend in the law enforcement and judicial practices, as well as the FAS’s general intention to look up to the best global practices (e.g., EU practices). Unfair competition related to the unlawful use of IP is prohibited, which is a positive sign for many right holders whose IP rights are often infringed by their competitors in Russia. The unlawful use of trademarks, company names or commercial names on the internet in general and, in particular, in domain names amounts to unfair competition.

Copying or imitating the appearance of a product, its packaging, name, colour or other distinct characteristics is prohibited, if that may reasonably lead to confusion between products. By virtue of these provisions the undertakings can protect their interests in connection with the appearance of a product in respect of which no IP rights have been registered.

While the FAS and its regional offices are actively looking into unfair competition practices, the number of decisions establishing violation is lower (269 in 2017 against 841 in 2015) owing to the fact that in certain instances (particular types of unfair competition violations) the FAS is required to issue a warning: a specific request to terminate anticompetitive behaviour. If an undertaking complies with the requirements contained therein within the timeline set forth in the warning, formal proceedings cannot be initiated. Similarly, in this case a company cannot be held liable for an antitrust violation (i.e., no fines shall be imposed). This (relatively new) procedure allows the infringing party to deal with the antitrust risks in a relatively straightforward manner.
In the past, the practice of the FAS was not always consistent; as a result, its role was somewhat conflicting. The 2016 amendments gave additional leverage to the Russian competition authority in its fight against unfair competition. In parallel, Rospatent and the IP Court are creating a more uniform enforcement practice regarding the review of disputes associated with unfair competition practices related to trademark registration.

ii Recent case law

Recent cases support the FAS outlook on the interplay between IP and antitrust: as long as right holders can benefit from the existing exemptions provided for in the Competition Law, there is always room for abuse and anticompetitive conduct (i.e., according to the competition authority, IP rights should not create any benefits in terms of the circulation of the products in the market). Therefore, this practice suggests that antitrust restrictions can be applied to arrangements that are not directly related to agreements on granting IP rights.

In the highly publicised Google case, which was finally resolved in 2017, the FAS considered Google a dominant undertaking on the market of ‘pre-installed application stores on Android OS’ to be circulated in Russia. It is noteworthy that the non-Russian companies of the group (Google Inc and Google Ireland Limited), as the providers and right holders of Google mobile applications and services, were viewed as dominant undertakings.

Google provided the manufacturers of mobile devices with Google Play for pre-installation on Android OS mobile devices. In this respect the following actions of Google were viewed by the FAS as abusive: mandatory and exclusive pre-installation of other Google applications and services together with Google Play; mandatory and exclusive pre-installation of Google's search engine together with Google Play; mandatory placement of pre-installed applications on the screen of mobile devices (specific screen placement); and imposing a prohibition (or economic incentives) on the manufacturers preventing them from dealing with Google’s competitors and pre-installing competing products on Android mobile devices. Together with the decision the FAS issued a binding order prescribing Google to complete actions aimed at terminating the violation and restoring competition in the market, including by way of modifying all existing contractual arrangements with Google's partners and informing the customers (users of mobile devices) of the possibility of deactivating the pre-installed Google applications and search engine, and installing alternative competing applications as well as changing the placement of application icons on the screen.

The FAS’s decision was challenged by Google; however, after unsuccessful appeals the company decided to enter into a settlement agreement with the authority, pay a significant fine and comply with the FAS requirements. The intersection of IP and antitrust was specifically considered and addressed in the FAS’s decision. In the course of both the FAS administrative proceedings and the court proceedings, Google claimed that the IP exemption provided for in Article 10 of the Competition Law should apply to the conduct in question, as it essentially relates to IP licences. The FAS looked into the agreements entered into by Google and, inter alia, came to the conclusion that the restrictions imposed by Google went beyond the exercise of exclusive rights to separate applications by Google (considering that Google Mobile Services cannot be viewed as a single IP object). All contractual issues other than the use of IP are out of the scope of a ‘pure’ licence agreement and are not covered by the exemption. The FAS also mentioned that some of the restrictions established by Google were not in any way related to IP (e.g., prohibition on installing competitors’ products on the same
terms as those distributed by Google). The courts (confirming the FAS's conclusions) referred to the *Teva* case and stated that in the case of ‘mixed’ agreements that contain both licensing and other terms the ‘additional’ conditions must comply with the antitrust regulations.

Furthermore, in its landmark decision on parallel imports in the case of *PAG LLC* the Russian Constitutional Court established that while the national principle of exhaustion of IP rights (the regional exhaustion rule within the Eurasian Economic Union) is in line with the Russian Constitution, right holders do not enjoy absolute protection against parallel imports. The antitrust aspects were not directly considered; nonetheless, the Constitutional Court pointed out that the IP immunity provided for in the Competition Law cannot be invoked and used to justify the abusive or unfair conduct of right holders.

According to the Constitutional Court, a right holder exercises its IP rights in bad faith if it restricts imports of certain goods into Russia, establishes unfair (inflated) prices in the Russian market or prevents imports in compliance with foreign sanctions imposed against Russia (that alone is a sign of bad faith). Russian courts may refuse to apply (in full or in part) legal remedies associated with parallel imports if, as a result of the bad faith practices of a right holder, their application poses a threat to life, health or public interest.

The importation of counterfeit (fake) products and parallel imports (importation of original products without a right holder’s consent) shall be treated differently, so the actual circumstances of the case shall be considered by the courts. Ultimately, it is up to the federal lawmakers to amend the existing rules as to the legality of parallel imports and establish the differentiated liabilities and remedies for these instances. The Constitutional Court further clarified that the destruction of original products brought to Russia by parallel importers should only be possible if they are of improper quality or their destruction (removal from circulation) is required to ensure safety and protect life and health, the environment or cultural heritage.

This decision encapsulates a new outlook on parallel imports, so further developments may be expected in court practice (including in terms of assessing the good faith of right holders).

Several notable cases reviewed by the FAS in 2017 were related to issues of unfair competition. For instance, the FAS confirmed that a local company created confusion by distributing soy sauce in bottles having the same design as those of Kikkoman. The conclusions of the FAS were supported by the courts, and this was essentially the first case investigated under the relevant provisions of the Competition Law on unfair competition (Article 14.6(2)). In other instances, a local telecommunications services provider (*Tele2*) was found to be involved in unfair competition by making disparaging statements about the competitors on its website (alleging their dishonesty against customers). In a different case, the registration and use of the trademark ‘BLACK FRIDAY’ by a local entity *Black Friday LLC* was considered as unfair competition: by virtue of such actions this company wanted to foreclose the market for competitors and prevent other providers (platforms and aggregators) from using it.

In a way the IP-related aspects of merger control were considered when the competition authority reviewed the notorious *Bayer–Monsanto* deal: the FAS eventually prescribed Bayer to transfer certain technologies (molecular selection of specific crops) to Russian recipients and provide non-discriminatory access to the digital farming platform following the commercial launch of products in Russia.
III LICENSING AND ANTITRUST

i Anticompetitive restraints

As mentioned above, the prohibitions of the Competition Law are not supposed to apply to the actions and agreements relating to providing, granting or disposing of IP rights (including trademarks and patents). An undertaking granting exclusive rights to use its IP is entitled to control and impose restrictions on the licensee.

The parties enjoy certain discretion when drafting licence agreements as the Civil Code provisions as to their contents are rather broad. Clearly, the licence agreements that cover IP issues only will benefit from this exemption; nonetheless, in many situations it is rather challenging to establish whether the immunity is available and can be relied on by the companies involved. By way of illustration, agreements on the exercise of IP rights may contain extensive requirements for the products to be distributed in a particular manner and in this way give rise to competition concerns. The prevailing position supported by the FAS is that the IP exemption does not apply to the conduct and arrangements concerning the circulation of goods manufactured with the use of IP rights: the antitrust regulations will apply in full.

It is noteworthy that duly formalised franchise agreements do not fall under the antitrust prohibitions (for vertical agreements) and are considered admissible (notwithstanding the market share held by the parties to such agreements). Although, pursuant to the Civil Code, they may contain a range of restrictive clauses, including non-compete obligations, it is still possible that the FAS will seek to invalidate such clauses if it comes to the conclusion that competition is affected (taking into consideration the market situation and the parties’ position).

ii Refusals to license

Formally, there are no restrictions on the right holder’s ‘monopoly’: as mentioned above, the concept of abuse of dominance is not supposed to apply to the exercise of IP rights because of the exemption provided by Article 10(4) of the Competition Law. Nonetheless, the competition authority pays particular attention to the matter and wishes to address the problems associated with unsubstantiated refusal to license.

Generally, under the Civil Code compulsory licensing based on a court decision is available in relation to inventions, utility models, industrial designs and selection inventions. Still, it is rarely used and for the time being is not envisaged being used to address antitrust concerns. The right holders (patent owners) can be forced by a court decision to grant a compulsory licence if the IP is not used for a specific period or a different right holder cannot use its IP without infringing the rights in question. The applicable licensing terms are determined by the court. However, the law does not elaborate on how such terms shall be defined, apart from the requirement that they are non-exclusive and that the licence fee shall not be lower than fees payable in comparable circumstances.

This is, however, a civil remedy that is not immediately connected with infringements of the Competition Law. FAS officials state that in the absence of legislative mechanisms such licences have never been granted with a view to improving or restoring competition in the market. The competition authority is willing to change this situation (particularly, in respect of the pharmaceutical market) and has drafted a set of controversial amendments in this respect. The draft law, which may serve as the basis for the Fifth Anti-monopoly
Package, mentions the FAS’s right to seek compulsory licensing through court proceedings as a sanction for failure to comply with a binding order of the competition authority to that effect. However, it is unclear if (and to what extent) this proposal is going to be enacted.

iii  **Unfair and discriminatory licensing**  
The antitrust implications of unfair pricing or royalty terms have been considered to a limited extent, also in light of the IP exemptions.

iv  **Patent pooling**  
Russian legislation does not deal directly with the creation of patent pools; at present the Competition Law does not cover matters concerning patent pooling. In many situations such arrangements may contain provisions that go beyond the scope of licensing (e.g., pricing policies).

Consequently, they will be assessed in terms of compliance with the general requirements of the Competition Law as to anticompetitive agreements and, for this reason, should not create anticompetitive restraints. Taking into account the recent practice of the competition authority and the initiative to expand the scope of antitrust regulations to include IP arrangements, further developments can be expected.

In situations where a ‘quasi-pooling’ project is structured as a joint venture or a series of deals with assets or shares, the merger control rules may need to be considered.

v  **Software licensing**  
As suggested, for example, by the Google case, the FAS has not elaborated any specific approach applicable to software licensing: the general Competition Law prohibitions and exemptions apply.

vi  **Trademark licensing**  
The FAS exercises the same approach as outlined above to the trademark licensing. One of the key priorities of the FAS in relation to trademarks is the problem of parallel imports as the Russian legislation remains controversial. The authority has always viewed parallel imports as an efficient way of removing possible restrictions of competition and has already tried to implement the relevant principles into its practice; for instance, in 2017 it issued warnings to right holders (manufacturers of automotive parts and medical devices) that did not allow importation or ignored the request of a parallel importer. More importantly, the recent decision of the Constitutional Court on parallel imports will have a direct impact on the FAS’s analysis and review of right holders’ conduct.

**IV  STANDARD-ESSENTIAL PATENTS**

i  **Dominance**  
The Russian statutes, regulations and case law give very limited consideration to the adoption of proprietary technologies in industry standards and the associated antitrust implications, including potential dominance issues. There are no specific requirements that would provide for the availability of a proprietary technology to a market player that wishes to use the standard.
In light of the above, the issue of potential abuse of a dominant position in this particular context was not examined by the Russian competition authority.

Russian legislation does not provide for the concept of FRAND licences granted by the owners of standard-essential patents under competition laws and the rules of standard-setting organisations. Therefore, such licensing practices cannot be used as a defence in Russia. The antitrust regulations are equally silent on the matter. The Civil Code provides a general principle in accordance with which civil rights cannot be used to restrict competition or to abuse a dominant position. However, in the absence of rules on FRAND, this provision can hardly be applied in relation to standard-essential patents.

The Russian competition authority has not looked into the anticompetitive effect of royalties in this respect, and has never issued guidelines or clarifications on the impact of royalty provisions.

The incorporation of a company can be caught by the Russian merger clearance requirements if (1) its charter capital is paid up by the shares, participatory interests or fixed or intangible assets of another company (or a combination of participatory interests and assets); and (2) a new company, as a result, acquires: more than 25 per cent of the voting shares in a Russian joint-stock company; more than one-third of the participatory interests in a Russian limited liability company; or fixed or intangible assets located in Russia that amount to more than 20 per cent of the total book value of the fixed and intangible assets of the transferor (or a combination of shares, interests and assets). Practically speaking, such transactions are highly uncommon.

Under Article 28(1)(7) of the Competition Law, the acquisition of the fixed assets (except for land plots and non-industrial buildings or premises) or intangible assets (e.g., trademarks) of a company (or a combination of fixed and intangible assets) by virtue of a transaction or a series of related transactions is subject to merger clearance if the book value of the acquired assets located in Russia exceeds 20 per cent of the total book value of the fixed and intangible assets of the transferor (for companies not operating in the financial markets). The available decisions of the competition authority suggest that the cleared transactions mainly involve the transfer of fixed assets (rather than IP alone).

In certain instances the definition of the ‘location’ of intangible assets can be problematic: in the absence of any statutory provisions or guidelines in this respect it is generally assumed that the intangible assets are located in Russia if they are duly granted protection in Russia under Part IV of the Civil Code.

The following jurisdictional thresholds apply to the transactions involving the transfer of IP rights: (1) the aggregate worldwide value of assets of the acquirer’s group and the target’s group of companies exceeds 7 billion roubles and the aggregate worldwide value of assets of the target’s group of companies exceeds 400 million roubles; or (2) the aggregate worldwide
turnover of the acquirer’s group and the target’s group of companies from the sale of goods, works and services during the most recent calendar year exceeds 10 billion roubles and the aggregate worldwide asset value of the target’s group of companies exceeds 400 million roubles.

Deals relating to IP rights are reviewed and assessed by the FAS in the same way as all other transactions subject to merger clearance. The FAS remains the sole authority responsible for the enforcement of the merger control rules, also in the area of IP. Regardless of whether the transaction covers the transfer of IP rights or not, the general substantive test is used by the FAS. The authorities have not issued any guidance as to the application of the test to IP-related mergers. The ‘restriction of competition’ criterion lies at the heart of the substantive analysis: as a general rule, the transactions are not to lead to the restriction of competition (including as a result of creation or strengthening of a dominant position).

Finally, competitors are required to obtain the prior approval of the FAS for conclusion of agreements on joint activities (irrespective of whether IP rights are included in the transaction scope or not) in Russia if the following turnover or asset-based thresholds are exceeded: (1) the aggregate worldwide value of assets of the groups involved exceeds 7 billion roubles; or (2) the aggregate worldwide revenue of the groups for the past year exceeds 10 billion roubles. The concept of agreement on joint activities, in particular, covers the establishment of joint ventures. The term ‘agreement on joint activities’ is rather broad so in principle it may catch not only joint ventures, but also other commercial arrangements aimed at establishing cooperation.

**Remedies involving divestitures of intellectual property**

The Competition Law does not provide for any remedies aimed at addressing antitrust concerns in the context of transactions with an IP element. By way of background, structural remedies are not widespread in the FAS’s practice because of a number of factors, including administrative barriers (practical application), which are often cited by FAS officials. Behavioural remedies are clearly preferred by the competition authority.

Although the remedy of divestiture of assets is available to the FAS, a corresponding practice has not developed. Examples of other remedies that may be used by the competition authority include conclusion, amendment or termination of agreements, granting access to assets or sharing certain industrial property rights, and performance of various business, technical or other requirements. IP-related remedies may be introduced into the Competition Law should the proposed draft law be enacted (notably, divestiture is being discussed).

**VI** OTHER ABUSES

**Sham or vexatious IP litigation**

This concept is undeveloped in Russia: the antitrust implications of sham or vexatious IP litigation have not yet been analysed. The relevant matters are mainly considered from the general civil and procedural perspective as abuse of rights.

**Misuse of the patent process**

In certain instances anticompetitive conduct associated with the manipulation of the patent process can be considered as unfair competition, also in the light of the amendments that came into force in 2016.
Anticompetitive settlements of IP disputes

By way of background, settlement agreements similar to those available in the United States or the EU are not applied in Russia: as a consequence, their validity and enforceability as such are not obvious. In any case the settlements of IP disputes have not yet been analysed by the FAS and the courts from an antitrust perspective.

Thus, should an arrangement of this kind (e.g., providing for exclusion payments to potential generic entrants in the pharmaceutical sector) be scrutinised by the competition authority, the general provisions of the Competition Law prohibiting abuse of dominance and anticompetitive agreements will be applied. Patent disputes involving generic manufacturers, in particular, are somewhat uncommon and are mainly resolved outside Russia. The competition authority is focused on other matters concerning the Russian generics market, such as interchangeability (primarily, in relation to the public procurement) and possible introduction of compulsory licensing.

OUTLOOK AND CONCLUSIONS

As suggested by various comments made by FAS officials and the available draft law, additional amendments to the Competition Law can be reasonably expected and should, among other things, deal with more detailed rules in the area of merger control and the digital economy, as well as correlation between IP and antitrust regulations (abolition of the IP immunities and introduction of compulsory licensing).
Chapter 15

SPAIN

Rais Amils

I INTRODUCTION

In Spain, the main provisions regulating national intellectual property rights (IPRs) are the Patent Act 24/2015, the Trademark Act 17/2001 and the Copyright Act 1/1996.

For its part, antitrust law is regulated in the Antitrust Act 15/2007 (AA), which is aligned with the European Union antitrust provisions. Article 1 AA prohibits agreements between companies that restrict or could restrict competition in a similar way to Article 101 of the Treaty of Functioning of the European Union (TFEU), and Article 2 AA prohibits abuses of dominant position as Article 102 TFEU does. As for merger control, although there are procedural differences between the Spanish and the European provisions, the principles behind the merger control envisaged in the AA are also aligned to those of the European Commission and the Court of Justice of the European Union (CJEU).

The AA states that the prohibition of collusive conduct that may restrict or distort competition shall not apply to those agreements that comply with the provisions set out in the Community Regulations on the application of the current Article 101(3) of TFEU for certain categories of agreements, including when the corresponding conduct may not affect trade between EU Member States. When IPRs are involved, special mention should be made of Commission Regulation No. 316/2014 regarding Technology Transfer Agreements (TTBER), the Commission Guidelines developing it and Commission Regulation No. 1217/2010 regarding research and development agreements, which will also be of application in relation to agreements affecting only the Spanish market.

The interplay between IPRs and antitrust law has been expressly highlighted by the Comisión Nacional de los Mercados y la Competencia (CNMC), the Spanish antitrust authority, on several occasions. The CNMC has expressly recognised that IPRs and antitrust law have a common objective of promoting competition and innovation to promote consumer welfare and an efficient allocation of resources. Notwithstanding that, as IPRs confer a monopoly to use a certain invention, trademark or copyright, it is necessary to strike a balance between the

1 Rais Amils is a senior associate at Clifford Chance. The author thanks Miquel Montañá and Belen Irissarry for their useful comments.
3 Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements.
IPR holder’s right to be compensated for its contribution to the innovation and work and the collective interest in promoting competition on the market and avoiding any restrictions and abuse of it.

II YEAR IN REVIEW

Over the past year there have been some developments in Spain regarding trademark exhaustion, which have prompted the CJEU judgment on the Schweppes case clarifying the ownership doctrine developed in its former judgments Hag II and Ideal Standard.

There have also been some developments in the Oracle case on whether a refusal to continue developing a software application and licensing may constitute an abuse of dominant position.

Moreover, in relation to standard-essential patents (SEPs), there have also been some developments in injunction applications, basically within the context of the Mobile World Congress (MWC) that takes place in Barcelona yearly since 2006.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Under Spanish law, anticompetitive restraints included in licensing agreements are subject to the prohibition stated in Article 1 AA and Article 101 TFEU. In accordance with these provisions, those agreements, collective decisions or recommendations, or concerted or consciously parallel practices that have as their object, produce or may produce the effect of preventing, restricting or distorting competition in all or part of the national market (in case of Article 1 AA) or the EU market (in the case of Article 101 TFEU) are prohibited. Examples of these agreements relate to price-fixing, market share-out or limitation of production.

When analysing the compatibility of licensing agreements with antitrust laws, the Spanish antitrust authorities have considered the provisions stated in the TTBER. For instance, in the Haller case what was then the Comisión Nacional de Competencia (CNC) applied the former TTBERs of 1996 and 2004 to assess whether the licence agreements entered into by Haller with its distributors in Portugal and in Spain were in accordance with antitrust law. The licence agreements included an absolute restriction on passive sales, since the licensees were only authorised to produce and market the licensed equipment in the territories assigned to them. Although the companies held a small market share within the Spanish market and the TTBERs applicable at that time established a more benevolent treatment to passive sales restrictions to incentivise investment and efficiency, the former CNC concluded that these clauses constituted a hardcore restriction and could not benefit from the TTBER exemption. However, this resolution was reversed by the National High

5 CJEU judgment, 20 December 2017, C-291/16, Schweppes.
6 CJEU judgment, 17 October 1990, C-10/89, Hag II.
7 CJEU judgment, 22 June 1994, C-9/93, Ideal Standard.
8 CNC Decision, 22 July 2008, 634/07, MDC Ingeniería/Productos Haller.
by application of the de minimis rule, as Haller’s market share in Europe and in Spain was less than 4 per cent and 5 per cent, respectively, and, consequently, it was considered that its conduct was not sufficiently material to restrict competition in an appreciable manner.

Passive sales restrictions were also subject of analysis by the former CNC in the Carpa Dorada\textsuperscript{11} case, which referred to licences to exploit a Community plant variety right over a specific variety of mandarin named Nadorcott. The CNC analysed whether the passive sales restrictions included in the licensing agreements could be justified to form part of a selective distribution system in accordance with Regulation (EU) 330/2010 on vertical restraints.\textsuperscript{12} The CNC concluded that the tracking system included in the granting of exploitation licences of this plant variety infringed Articles 1 AA and 101 TFEU, as it allowed the control of the production and marketing of the Nadorcott mandarins. Moreover, this tracking system could not be justified as forming part of a ‘selective distribution system’ as it only affected the first level of the production chain (manufacturers and wholesalers) and did not continue through to retailer level.

ii Refusals to license

Refusal to license could be considered as an abuse of dominant position within the scope of Articles 2 AA and 102 TFEU if the IPR holder has a dominant position in the market. This conduct has been the subject-matter of the Oracle case, which is still ongoing before the Spanish antitrust authorities and courts. This case related to Oracle's decision to suspend the software developments for the Itanium processor of Intel Corporation and that was basically used by the Integrity services of Hewlett Packard.

The former CNC\textsuperscript{13} concluded that there was no evidence that made it possible to class Oracle’s conduct as an exclusionary abuse of dominant position and it closed the file. When reaching this conclusion, the CNC applied the principles stated by the European Commission\textsuperscript{14} on when a refusal to supply could be considered abusive. This decision was revoked by the National High Court,\textsuperscript{15} which considered that Oracle's decision had the aim of impeding the continuation of Hewlett Packard in the market of high-performance database servers and could not be justified by the fact that the Itanium processor was obsolete. This judgment has recently been revoked by the Supreme Court,\textsuperscript{16} which has ordered that the case be referred back to the CNMC. In this judgment, the Supreme Court has ruled that the National High Court was right in concluding that the former CNC should not have closed the case without properly assessing the evidence before it. However, the National High Court was wrong in attempting to replace the CNMC and decide the case by itself, by declaring that Oracle's conduct constituted an abuse of its dominant position. Thus, the CNMC will now

\textsuperscript{10} National High Court Judgment, 29 October 2009 (SAN 4556/2009).
\textsuperscript{11} CNC Decision, 4 July 2013, S/0312/10, Carpa Dorada, confirmed by National High Court judgment, 18 June 2015 (SAN 2449/2015).
\textsuperscript{13} CNC Decision, 26 February 2013, S/0354/11, Oracle.
\textsuperscript{14} Guidance on the Commission’s enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertaking (2009/C 45/02), paragraph 81.
\textsuperscript{15} National High Court Judgment, 24 September 2015 (SAN 3126/2015).
\textsuperscript{16} Supreme Court Judgment No. 583/2018, 10 April 2018 (STS 1362/2018).
have to reopen the case, reassess all the evidence in the file, obtain any additional evidence it
deems necessary and decide again on whether Oracle’s conduct breached Article 2 AA and
Article 102 TFEU.

When a refusal to license is deemed an abuse of dominant position, the new Patent
Act, in force since April 2017, envisages the possibility of granting a compulsory licence, in
line with Articles 8(2), 31(k) and 40 of the TRIPS Agreement and with the CJEU case law
stated in the Magill, IMS and Microsoft cases. According to this case law, in exceptional
circumstances the IPR holder can be obliged to grant a licence to a third competitor if the
refusal to grant constitutes an abuse of dominant position. The Patent Act establishes this
possibility when the competent authority has handed down a final decision (i.e., a decision
that cannot be further appealed) declaring the infringement of antitrust law by the patent
holder.

iii Unfair and discriminatory licensing
Unfair and discriminatory licensing could constitute an abuse of dominant position in the
sense of Article 2 AA or Article 102 TFEU. A good example of this is the Spanish Supreme
Court judgment in the Audiovisual Producers Rights Management Organization (EGEDA)
case. EGEDA’s conduct consisted of determining the import of the applicable tariffs based
on the hotel category (i.e. deluxe and five-star hotels were subject to higher tariffs, whereas
hotels of two or fewer stars were exempted from payment). By referring to the CJEU doctrine
of the Kanal 5 case, the Supreme Court concluded that EGEDA had committed an abuse
of its dominant position as the tariffs imposed were discriminatory and could not be justified
since they were neither related to the nature of the economic value of the services of public
communication of audiovisual productions rendered, nor to the effective use of these rights.

In October 2017, the CNMC opened an investigation, which is currently ongoing,
against another management entity, the Spanish Society of Authors, Composers and Publishers
(SGAE). The purpose of this investigation is to verify whether the SGAE has been fixing
unfair and discriminatory tariffs for hotels and restaurants, among others. When assessing
this case, it is likely that the CNMC will take into consideration the recent CJEU judgment
in the recent MEO case analysing when discriminatory prices applied by a dominant
company may result in a ‘competitive disadvantage’ in the sense of Article 2(2)(d) AA and
Article 102(c) TFEU.

iv Patent pooling
Within the scope of a cartel investigation regarding paper envelopes, the former CNC had to
analyse whether the constitution of a patent pool was compatible with the antitrust laws. The investigated companies created the ‘Open System’ patent pool, which was formed by
co-owned IPRs protecting a technology of easy-opening envelopes. By these agreements,

17 CJEU judgment, 6 April 1995, C-241/91P and C-242/91P, Magill.
18 CJEU judgment, 29 April 2004, C-418/01, IMS.
19 CJEU judgment, 27 June 2012, T-167/08, Microsoft.
23 CJEU judgment, 19 April 2018, C-525/16, MEO.
24 CNC decision, 25 March 2013, S/0316/10, Sobres de papel.
the companies transferred their IPRs and limited technological innovations, and they agreed not to licence their IPRs to companies outside the pool. The CNC concluded that these agreements to share their own technologies were similar to a price fixing cartel, in application of the TTBER 772/2004 Guidelines.25

v Software licensing
Software licensing agreements will be treated as vertical agreements, under the principles of the Vertical Block Exemption Regulation, when the purpose of the agreement is the mere reproduction and distribution of software copyright protected products. However, in those cases where the technology to produce the software is also licensed, then the software licensing agreement will fall within the scope of the TTBER 2014 (recital 7).

As pointed out before when referring to the Oracle case, depending on the particularities of the case, a refusal to license software could be considered a refusal to supply constitutive of an abuse of dominant position.

vi Trademark licensing
Trademark licensing and, in particular, exhaustion and territorial restrictions have been in vogue in recent years in Spain as a consequence of the Schweppes case, which even prompted the recent CJEU judgment dated 20 December 2017.

The Schweppes case arises from the fact that, since 1999, the Schweppes trademark was owned in Europe by two different corporate groups. The Coca-Cola group owned the Schweppes trademark in 11 Member States of the EU, the United Kingdom among them. Meanwhile, the Orangina Schweppes group owned the Schweppes trademark in the other member states of the EU, including Spain. In 2013, the Spanish affiliate of the Orangina Schweppes group became aware that parallel importers were introducing Schweppes tonic water basically from the United Kingdom into the Spanish market. As licensee of the Spanish Schweppes trademark in Spain, it brought several legal actions against these parallel importers on the basis that, as the tonic water imported had been manufactured by the Coca-Cola group (and not by the Orangina Schweppes group), the Schweppes trademark in Spain, owned by this latter group, was not exhausted.

As a result of these actions, several agreements were entered into with some of the parallel importers accused of infringing the Spanish trademark. These agreements were object of an investigation by the CNMC,26 which considered that the rights over the Schweppes trademark were not exhausted on the basis of the control doctrine developed by the CJEU in the Hag II and Ideal Standard cases. According to this control doctrine, each IPR holder should be entitled to oppose the import and marketing of products manufactured by the other holder provided that the products are designated by a similar trademark and this could cause confusion within the market, as these products have not been manufactured under its control. On this basis, the CNMC analysed the agreements entered by the Spanish affiliate and some parallel importers and accepted the undertaking to amend them to clarify that it only opposed the introduction of the Schweppes tonic water coming from the United Kingdom and manufactured by the Coca-Cola group into the Spanish market.

26 CNMC decision, 29 June 2017, S/DC/0548/15, Schweppes.
In parallel, Spanish courts also have handed down some decisions on this same case, mainly ruling in favour of Schweppes, SA. Of particular note is the ruling handed down by the Barcelona Commercial Court No. 8, which decided to refer some questions related to this Schweppes case to the CJEU. The CJEU has clarified the ownership doctrine developed in the Hag II and Ideal Standard judgments in the sense that the proprietor of a national trademark cannot oppose the import of identical goods bearing the same trademark originating in another Member State in which the trademark that initially belonged to that proprietor is now owned by a third party that has acquired the rights thereto by assignment, when, following that assignment, either of the following two circumstances takes place:

a. the proprietor has actively and deliberately continued to promote the appearance or image of a single global trademark, thereby generating or increasing confusion as to the commercial origin of goods bearing that trademark; or

b. there exist economic links between the proprietor and that third party, inasmuch as they coordinate their commercial policies or exercise joint control over the use of the trademark, so that it is possible for them to determine the goods to which the trademark is affixed and to control the quality of those goods.

As the CJEU explains, in either of these two scenarios the proprietor’s trademark no longer independently fulfils its essential function within its own territorial field of application, as the proprietor has itself compromised or distorted that function. Consequently, it may not rely on the necessity of protecting that function to oppose the import of identical goods bearing the same trademark originating in another member state where that trademark is now owned by that third party. The CJEU states that it is for the national courts to assess whether this is the case, taking account of all the features of the individual situation in question.

Thus, it is now the turn of Barcelona Commercial Court No. 8 to assess the particularities of the Schweppes case and decide whether or not it follows the same approach of the other Spanish courts dealing with a similar matter.

IV STANDARD-ESSENTIAL PATENTS

i Dominance

To the best of our knowledge, there is no case in Spain in which the antitrust authorities or the Spanish courts have expressly declared that a company holding a SEP has a dominant position on the market. However, it is likely that they will take this approach, in line with the considerations made by General Advocate Mr Wathelet in his conclusions to the Huawei case, in which he pointed out that there could be a rebuttable presumption that the owner of a SEP holds a dominant position.

27 For instance, the following judgments ruled in favour of Schweppes, SA: Valencia Provincial Court judgments, 17 June 2016 (SAP V 2794/2016) and 28 February 2017 (SAP V 1168/2017), Granada Provincial Court judgment, 13 July 2016 (SAP GR 1054/2016), Vitoria-Gasteiz First Instance Court No. 7 judgment, 22 February 2017 (SJPI 152/2017) and Santander Commercial Court No. 1 judgment, 21 March 2016 (SJM S 300/2016).

28 Barcelona Commercial Court No. 8 ruling, 17 May 2016 (AJM B 90/2016).

Spain

ii  **Injunctions**

When dealing with injunctions, Spanish courts will follow the *Huawei* doctrine,\(^{30}\) which has clarified when a request for an injunction based on a SEP could constitute an abuse of dominant position. This has been the case, for example, in the preliminary injunction applications brought before the Barcelona commercial courts specialising in patents within the scope of the MWC. What is more, these courts have applied the *Huawei* principles also in relation to patents that were not SEPs, but that protected a technology that was predominant on the market. The reasoning behind this is that the *Huawei* case law would provide guidelines and interpretation criteria that allow the courts to conduct a reasonable and equitable assessment of the rights and interests in place between licensee and licensor when infringement actions are brought while the negotiation of the licensing terms are taking place.\(^ {31}\)

Within the context of the MWC, the Barcelona Commercial Courts have established a protocol of conduct in order to deal without delay with any action brought (1) in relation to technological patents and industrial designs relating to products that are to be exhibited during the congress, (2) in defence of any trademark and copyrights that could be infringed, or (3) against unfair competition and unlawful advertising acts in relation to products and materials that are on display at the congress. The purpose of this protocol is to avoid, to the extent possible, adopting *ex parte* interim measures and, at the same time, to ensure the adoption of effective measures to protect the IPRs that may be affected. In accordance with the report published on the results of the MWC 2018, these courts dealt with a total of 35 matters relating to protective writs, applications of investigations of facts and *ex parte* interim injunctions.

iii  **Licensing under FRAND terms**

In the past year, several patent disputes have arisen in the telecoms sector regarding SEP patents owing to disagreements on royalty fees. However, the most interesting cases were finally settled, so there is no case law in Spain on them. Spanish courts have expressly recognised that the licensing of technologies protected by SEPs shall be granted on FRAND terms, that is, fair, reasonable, proportionate and non-discriminatory.\(^ {32}\) However, there is no guidance on how to determine these FRAND terms, apart from that found in the Commission Horizontal Guidelines,\(^ {33}\) which state that the royalty in FRAND terms should present a reasonable relationship to the economic value of the IPRs and suggest different methodologies to make this assessment.

iv  **Anticompetitive or exclusionary royalties**

To the best of our knowledge there are no precedents in Spain dealing with anticompetitive or exclusionary royalties and whether they could constitute an abuse of dominant position.

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31  Barcelona Commercial Court No. 5 ruling, 16 February 2018 (AJM B 34/2018)
32  Barcelona Commercial Court No. 5 ruling, 22 February 2016 (AJM B 22/2016).
33  Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, paragraph 289.
However, it cannot be ruled out that when the royalty to be paid for a SEP licence is not FRAND, but higher, this could be regarded as an exclusionary abuse of dominant position that would fall under Article 2 AA and Article 102 TFEU.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

According to the AA, in line with the EC Merger Regulation, a concentration takes place when a change of control on a lasting basis results from, for example, the acquisition by an undertaking of all or part of one or more other undertakings. In this respect, the Commission Consolidated Jurisdictional Notice clarifies that when the transaction is confined to intangible assets (such as trademarks, patents or copyrights) it may also be a concentration if those assets constitute a business with a market turnover. It also states that the transfer of licences for trademarks, patents or copyrights, without additional assets, would only fulfil these criteria if the licences are exclusive at least in a certain territory and the transfer of such licences will transfer the turnover-generating activity. However, in the case of non-exclusive licences, it is stated that they may not on their own constitute a business to which a market turnover is attached.

Considering the similarities between the definition of concentration in the EC Merger Regulation and the AA, we understand that the considerations made by the Commission in the Consolidated Jurisdictional Notice would also be considered by the Spanish antitrust authorities when analysing whether a transfer of certain IPRs constitutes a merger.

ii Remedies involving divestitures of intellectual property

Divestiture of IPRs can be a remedy in merger control in Spain. A recent example of this is the Bimbo/Panrico case. For many years, the Bimbo and Panrico trademarks have been competing trademarks in the packaged bread and bread substitutes and in the industrial cake businesses. The CNMC authorised the acquisition by the company Bimbo of part of its competitor Panrico’s business, including some of the well known brands owned by Panrico, such as Donuts, provided that all those actives owned by Panrico regarding the packed bread and bread substitutes business and the trademarks related to this business (such as the Panrico trademark) were previously transferred to a third party, namely Adam Foods. The result of the undertakings assumed by the parties is that the trademarks Bimbo and Panrico will continue competing in the packaged bread and bread substitutes market through Adam Foods.


36 CNMC decision, 21 June 2016, C/0748/16, Bimbo/Panrico II.
VI OTHER ABUSES

i Sham or vexatious IP litigation

To assess whether IP litigation can be deemed as sham or vexatious, the ITT Promedia doctrine,\(^{37}\) confirmed by the Protégé International case,\(^{38}\) will be taken into account by Spanish authorities and courts. According to the General Court case law, access to the courts, including by an undertaking in a dominant position, is a fundamental right and a general principle ensuring the rule of law. Therefore, it is only in wholly exceptional circumstances that bringing a legal action, by an undertaking in a dominant position against its competitor, could constitute abuse of a dominant position. In particular, two cumulative conditions must be met:

\[ a \] the action cannot reasonably be considered an attempt to establish the rights of the undertaking concerned and can, therefore, only serve to harass the opposing party; and

\[ b \] the action must be conceived in the framework of a plan whose goal is to eliminate competition.

These two criteria must be interpreted and applied restrictively in a manner that does not frustrate the general rule of access to the courts and it is the situation existing when the action is brought which must be considered in order to determine whether that criterion is satisfied. In the Protégé International case, the General Court added that the action brought by the dominant company could not be deemed abusive even if in other jurisdictions other authorities had decided against the same arguments that the dominant company was raising in that proceedings.

Although not referring to an IP litigation, this case law was applied by the Madrid Provincial Court\(^{39}\) within the scope of foreclosure proceedings in which the defendant alleged that the bank enforcing the loan was abusing its dominant position. We understand that the same principles should also be applicable in IP litigation. In fact, some years ago the Supreme Court\(^{40}\) already stated that the actions brought in defence of the Diesel trademark in that case were legitimate and in accordance with the antitrust laws, as it was contrary to competition to take unfair advantage of the reputation of a third-party trademark.

ii Misuse of the patent process

Misuse of the patent process could fall within the scope of the prohibition stated in Article 2 AA and Article 102 TFEU if the party holding the patent can be considered to have a dominant position.

The landmark case in Spain on misuse of the patent process is Pfizer – Xalatan, which related to Pfizer’s applications for a divisional patent, paediatric extension and a supplementary protection certificate (SPC) extending its patent protection for its medicinal drug Xalatan. The CNMC\(^{41}\) agreed to discontinue its investigation after considering that there was no evidence of anticompetitive practices in Pfizer’s conduct in Spain. The CNMC concluded that Pfizer’s conduct did not amount to an abuse of dominance, since Pfizer had merely

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\(^{38}\) General Court Judgment, 13 September 2012, T-119/09, Protégé International.

\(^{39}\) Madrid Provincial Court ruling, 19 May 2017 (AAP M 2643/2017).

\(^{40}\) Supreme Court Judgment, 22 June 2006 (STS 4605/2006).

\(^{41}\) CNMC Decision, 13 February 2014, S/0441/12, Pfizer.
defended its legitimate interests within the limits of the patent system. This conclusion was based after verifying that there were significant differences between Pfizer’s conduct in Spain and that found in the AstraZeneca case, basically:

- no misleading information was submitted to the patent authorities;
- Pfizer was not able to apply in Spain for an SPC for the parent patent as the Spanish market authorisation for Xalatan was granted prior to the enforceability of the SPC Regulation in Spain and there were no transitional provisions applicable to Spain;
- the divisional patent was applied for in accordance with the requirements and procedures to do so; and
- Pfizer’s conduct in Spain showed a lack of exclusionary intent, as could be seen from the fact that generic manufacturers entered the Spanish market in advance of patent expiration for Xalatan.

This decision from the CNMC regarding Pfizer’s conduct in Spain differed from that adopted by the Italian antitrust authorities in relation to similar conduct by Pfizer in Italy. In fact, in line with the decision adopted by the Italian Competition Authority, and revoking the decision handed down by the Administrative Court of Lazio, the Council of State concluded that Pfizer had committed an abuse of dominant position for misuse of the patent system.

Although the resolutions adopted in Italy and Spain could apparently be contradictory, we understand that there were differences between the facts and the regulation applicable in both member states that justified the CNMC not following the Italian antitrust authorities and discontinuing the investigation opened against Pfizer in Spain.

### III Anticompetitive settlements of IP disputes

Settling an IP dispute is quite a common way to terminate a dispute for many reasons, such as costs and legal certainty. Notwithstanding that, depending on the terms of these settlements, it cannot be ruled out that they are considered contrary to Article 1 AA and Article 101 TFEU. To the best of our knowledge there are no precedents before the Spanish antitrust authorities dealing with this kind of agreements. However, we understand that the Spanish authorities would follow the same criteria as would the European Commission, basically in light of its Final Report on the Pharmaceutical Sector Inquiry and its decisions on the Servier and Lundbeck cases.

### VII OUTLOOK AND CONCLUSIONS

The interplay between IP and antitrust is an open debate in relation to which there are not many precedents in Spain and which we can expect to have more prominence in the coming years. In this respect, any development taken at a European Union-level, whether by the Commission or the CJEU, in relation to this interplay will influence the approach that Spanish antitrust authorities and courts will take when dealing with this kind of matter.

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43 Commission Final Report, 8 July 2009, on its competition inquiry into the pharmaceutical sector.
45 Commission decision, 19 June 2013, AT.39226, Lundbeck.
Chapter 16

SWITZERLAND

Sevan Antreasyan, Benoît Merkt and Jürg Simon

I INTRODUCTION

The Federal Act on Cartels and other Restraints of Competition (CartA) aims at preventing the harmful economic or social effects of cartels and other restraints of competition. It applies to unlawful agreements (vertical and horizontal), to abuses of dominant position and to control of mergers.

With respect to intellectual property, the following acts are the most relevant in Switzerland: the Federal Act on Patents for Inventions (PatA), the Federal Act on the Protection of Trade Marks and Indications of Source, the Federal Act on Copyright and Related Rights (CopA), and the Federal Act on the Protection of Designs.

None of the above-mentioned intellectual property acts deals with the relation between intellectual property rights and competition law. Article 3(2) CartA provides: ‘This Act does not apply to effects on competition that result exclusively from the legislation governing intellectual property. However, import restrictions based on intellectual property rights shall be assessed under this Act.’ The first sentence of this Article should, however, not be construed as providing an exemption to the application of the substantive provisions of the CartA. It is generally viewed as meaning that authorities applying the CartA in cases where intellectual property rights are at issue should take into account the relevant intellectual property acts.2

Article 6(1) and (2) CartA provide that the Federal Council or the Competition Commission (Comco) may adopt, respectively, ordinances or general guidelines to set out the conditions under which certain agreements shall, in principle, be deemed justified on grounds of economic efficiency. Article 6(1)(d) CartA refers specifically to ‘agreements granting exclusive licences for intellectual property rights’. At present, no such ordinance or general guidelines have been adopted specifically in respect of intellectual property rights.3 However, in deciding cases involving intellectual property rights, Swiss authorities usually consult the relevant EU guidelines.4

It is important to point out that although they are not limitations per se imposed by competition law over intellectual property rights, the acts governing the latter provide for mandatory exceptions (i.e., exceptions that cannot be waived by contract), which have

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1 Sevan Antreasyan is an associate, and Benoît Merkt and Jürg Simon are partners at Lenz & Staehelin.
2 This restrictive approach has been confirmed by the Comco; see DPC/RPW 2011/1, p. 113.
3 The Comco’s general Guidelines on Vertical Agreements (the Vertical Agreements Guidelines; updated on 22 May 2017) may nonetheless be relevant for certain topics related to intellectual property rights agreements (e.g., licensing, distribution and franchising); see https://www.weko.admin.ch/weko/it/home/documentation/communications-notes-explicatives.html.
4 See, e.g., the decisions B-463/2010 and B-506/2010 of the Federal Administrative Tribunal (FAT).
been enacted, for example, to protect research and development activities. For instance, Article 9(1) PatA states that the effects of a patent do not extend to acts undertaken for research or experimental purposes to obtain knowledge about the subject matter of the invention, including its uses, acts necessary for obtaining marketing authorisation for a medicinal product or the use of biological material for the purpose of the production or the discovery and development of a plant variety. With respect to software, Article 21 CopA provides a mandatory reverse-engineering exception for the purposes of obtaining interface information for the development, maintenance and use of interoperable software (insofar as neither the normal exploitation of the program nor the legitimate interests of the owner of the rights are unreasonably prejudiced).

II YEAR IN REVIEW

The past year was marked by one important case involving competition law and intellectual property rights. It was also marked by the adoption of new guidelines by the Comco with respect to vertical agreements dealing with, among others topics, internet sales as well as the opening of an investigation in the market of sports broadcasting on pay TV.

On 21 April 2017, the Federal Supreme Court (FSC) published its reasoning for its landmark Gaba/Gebro decision of 28 June 2016 regarding the manufacturing and distribution of Elmex products. It is considered a landmark decision with respect to unlawful agreements, with the effect of strengthening the application of the CartA in the area of parallel imports. The facts underlying this case are the following: a Swiss licensor, Gaba, granted a licence to an Austrian company, Gebro, to manufacture and distribute Elmex products exclusively for and within Austria. Gebro was contractually prevented from exporting these products, directly or indirectly, to any other country.

In light of the effects doctrine set forth in Article 2(2) CartA, the FSC considered the CartA applicable to all situations, provided that they may have effects in Switzerland. It is neither necessary nor permissible to examine the significance of the effects. This means that agreements or unilateral behaviour of market-dominant companies, even outside Switzerland, can be covered by the CartA, regardless of how plausible any effects in Switzerland are.

Furthermore, the FSC decided that agreements pursuant to Article 5(3) and (4) CartA – including in particular those that allocate markets geographically – have, in principle, by virtue of their object, the effect of significantly restricting competition according to Article 5(1) CartA. They, therefore, constitute unlawful restrictive agreements if they cannot be justified on grounds of economic efficiency. There is no need for an actual impact on competition; a potential impairment is already sufficient, it being specified that ‘bagatelle’ cases are exempted. However, the FSC does not provide further explanations as to the applicable threshold. In particular, since the FSC is content with potential adverse effects on competition, it is unclear to what extent quantitative criteria can be taken into account at all.

5 With respect to patents, see the Message of the Federal Council, FF 2006 1, p. 3.
6 By way of example, this limitation has the effect of allowing the producer of a generic to manufacture, import and store samples containing a patented API (prior to the expiry of the patent) with a view to obtaining a marketing authorisation. This would allow the generic to enter the market faster after the expiry of the relevant patent. However, stockpiling the generic prior to the expiry of the relevant patent is unlawful.
7 FSC, 2C_180/2014 dated 28 June 2016.
The FSC also confirmed in this case that agreements pursuant to Article 5(3) and (4) CartA can be sanctioned regardless of whether the statutory presumption of the elimination of effective competition has been rebutted. If an infringement has been established, the FSC assumes as a rule an objective breach of the duty of care and, therefore, fault. In the case at hand, the FSC confirmed the fines of 4.8 million Swiss francs and 10,000 Swiss francs that the Comco imposed on Gaba and Gebro respectively.

Gaba/Gebro has already had an impact on other cases and on the practice of the Comco. Indeed, it prompted the Comco to amend its Vertical Agreements Guidelines (on 22 May 2017) and to adopt a related Explanatory Note (on 12 June 2017, updated on 9 April 2018).

The revision of the Vertical Agreements Guidelines implements the findings of the FSC in the Gaba/Gebro case. Specifically, Paragraph 12(1) of the Vertical Agreements Guidelines states that agreements under Article 5(4) CartA that do not eliminate effective competition are, in principle, significantly affecting effective competition according to Article 5(1) CartA. The term ‘in principle’ implies that bagatelle cases are exempted. Neither the Vertical Agreements Guidelines nor the Explanatory Note define what shall be understood as a ‘bagatelle case’. This applies not only to distribution agreements, but also to individual provisions related to the sale or resale of products that are set forth in other types of contracts (e.g., licence, franchise or technology transfer agreements).

The Explanatory Note provides useful guidance in the context of online sales. Interestingly – in particular in the luxury sector – the Comco took the view that qualitative criteria imposed on resellers for the sale of products on the internet are permitted in order to ensure that the distributors’ online activities are consistent with the supplier’s distribution model. A supplier can, for example, impose on distributors, as a condition to integrate its distribution system, the sale of its products in a bricks-and-mortar store. The Explanatory Note further specifies that, in the context of a luxury selective distribution system, the prohibition imposed on the online resellers to sell products through a third-party internet platform does not amount to a restriction on customers. In addition to providing some specific guidance, the Explanatory Note sets forth the general principle that the significance of bans and restrictions on internet sales as well as their justification based on economic efficiencies are subject to a case-by-case assessment.

In May 2017, the Comco opened an investigation against UPC Suisse SARL on suspicion of an abuse of a dominant position in the market of ice hockey broadcasting on pay TV. UPC Suisse SARL has acquired the exclusive rights to broadcast the ice hockey

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8 See in particular the BMW case (FSC, 2C_63/2016 dated 24 October 2017).
9 Note that the Vertical Agreements Guidelines do apply to agreements that include provisions related to intellectual property rights only to the extent that such agreements: (1) are directly related to the use, sale or resale of goods or services; and (2) do not have as their main object the assignment or grant of the right to use intellectual property rights (Article 8(4) of the Vertical Agreements Guidelines). They would thus typically apply to distribution and franchise agreements, as well as to certain licence agreements, but not, for example, to research and development agreements. For those agreements outside the scope of the Vertical Agreements Guidelines, the general provisions of the CartA apply.
10 Both the Vertical Agreements Guidelines and the related Explanatory Note will be discussed further in Chapter III (Significant restriction of competition). The Vertical Agreements Guidelines and the Explanatory Note are available (in French, German and Italian) on the Comco’s website: https://www.weko.admin.ch/weko/fr/home/documentation/communications---notes-explicatives.html.
11 See Paragraphs 18 to 25 of the Explanatory Note.
games of the Swiss superior leagues on pay TV for a period of five years as of the 2017/2018 season. Essentially, this investigation aims to assess whether this prevents competitors from broadcasting (or streaming) such matches through other means than cable network without justification. In the context of this investigation, the Comco has rejected interim measures requested by Swisscom.

III LICENSING AND ANTITRUST

There are no specific rules or general guidelines governing licensing agreements under Swiss competition law. In this respect, the general rules of the CartA would be assessed in each particular case: under Article 5 CartA (unlawful agreements affecting competition) and Article 7 CartA (unlawful practices of dominant undertakings).12

This chapter will not discuss the different rules on intellectual property rights exhaustion, to the extent that, pursuant to Article 3(2) CartA, the CartA is fully applicable to parallel import restrictions. However, as a matter of principle, international exhaustion applies to copyrights and trademarks; regional (i.e., countries of the EEA and Switzerland) exhaustion applies to most patent rights; and national exhaustion applies with respect to patent-protected goods whose price is fixed by the state in Switzerland (e.g., most pharmaceuticals) or in the country in which they are placed on the market.

Article 5 CartA regulates binding and non-binding agreements and concerted practices that have the effect of restricting competition in Switzerland. Such agreements are prohibited if they (1) eliminate competition or (2) significantly restrict competition on a market without being justified on grounds of economic efficiency:

i Elimination of competition

According to Article 5(4) CartA, agreements regarding fixed or minimum prices13 and the allocation of territories to the extent that sales by other distributors into these territories are not permitted (in particular forbidding passive sales to distributors or final customers in a given territory) are presumed to eliminate effective competition. Passive sales include sales made over the internet, except in cases where efforts have been made to specifically target customers in a particular territory (in which case these would be deemed active sales).14

ii Significant restriction of competition

The significance of the competition restraint is assumed for hardcore agreements, because of their nature, without the need to examine quantitative effects, such as market share. Pursuant to the Vertical Agreements Guidelines, the following shall in particular be considered as hardcore restrictions: (1) restrictions on the buyer freely setting its prices; (2) territory and

12 Although not binding or directly applicable under Swiss law, Commission Regulation (EU) No. 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements (TTBER) may be consulted by Swiss authorities and it would be advisable to take it into account when drafting agreements that may have an impact in Switzerland.

13 If an agreement provides price recommendations (which are, in principle, allowed under Swiss competition law) and if, in practice, it is shown that the recommendations are followed or enforced by the licensor, then this behaviour would fall within the scope of the price-fixing hardcore restriction.

14 See Paragraph 3 of the Vertical Agreements Guidelines.
customer restrictions (except in cases explicitly allowed under the Vertical Agreements Guidelines); (3) restrictions on sales to the final customer in a selective distribution system; (4) restrictions on cross-sales among members of the same selective distribution system; and (5) restrictions preventing suppliers from selling components or spare parts to customers other than the distributors designated in the agreement.  

In the context of internet sales, the following can, depending on the circumstances, be considered as hardcore restrictions on prices or territories: (1) direct or indirect influence of the supplier on the prices of resellers (e.g., through threats, warnings or delays in delivery); and (2) agreements providing that:  

a. resellers shall prevent Swiss customers from accessing their website;  
b. resellers redirect customers automatically to the website of the supplier or a different reseller in Switzerland; or  
c. online transactions from other territories are prevented as soon as the credit card allows the identification of an address outside of the allocated territory.  

For other restrictions, vertical agreements are assumed not to have a significant effect on the market if none of the parties thereto has a market share of over 15 per cent.

The restriction of parallel imports (as a hardcore vertical restriction) was the topic of the Gaba/Gebro case discussed above. Another recent decision related to parallel imports was rendered by the FAT in a case involving Nikon. Like the Gaba/Gebro case, the Nikon case demonstrates the broad territorial reach of the CartA, which was applied in this case to various international distribution agreements (including one for the United States) because they contained provisions capable of affecting parallel imports in Switzerland. Materially, the FAT considered in particular that two contractual provisions had the effect of preventing passive sales and, therefore, were unlawful: (1) sales were allowed only in the United States or in the EEA (in agreements with US and EU retailers respectively); and (2) the exclusive purchasing from a Nikon company imposed on Swiss Nikon retailers. The FAT did not recognise Nikon’s argument (i.e., that Nikon benefited from patent rights in Switzerland) and imposed a fine of approximately 12 million Swiss francs.

With respect to non-compete provisions, there are no specific rules set out for licence agreements. The Vertical Agreements Guidelines, however, provide some guidance: non-compete provisions are generally acceptable, provided that they are limited to a maximum of five years or one year after the end of the relevant agreement. Moreover, restrictions on the use or disclosure of know-how can be imposed for an unlimited period (after the end of the agreement), provided that the know-how is not in the public domain.

Among other provisions that may be problematic under Swiss law (identified as such mainly by legal scholars), the following are worthy of mention: (1) restrictions preventing a licensee from exploiting its own technologies or from undertaking research and development; (2) grant-back (by way of an exclusive licence or assignment to the licensor) of improvements.

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15 See Paragraphs 12 and 13 of the Vertical Agreements Guidelines.  
16 See Paragraphs 18 to 20 of the Explanatory Note.  
17 See Section II.  
18 See FAT, B-581/2012 of 16 September 2016.  
19 See footnote 9, regarding the limited scope of application of the Vertical Agreements Guidelines.  
20 Article 12(2)(f) and (g) of the Vertical Agreements Guidelines.  
21 Article 12(2)(g) in fine of the Vertical Agreements Guidelines.
made by the licensee; (3) no challenge against the licensed intellectual property; and (4) payment of royalties after expiration of the licensed intellectual property right (provided that royalties may still be justified with respect to know-how).

Article 7(1) CartA provides that dominant undertakings behave unlawfully if, by abusing their position in the market, they hinder other undertakings from starting or continuing to compete, or disadvantage trading partners. Article 7(2) CartA goes on to list certain practices that are deemed unlawful, in particular: (1) any refusal to deal; (2) any discrimination between trading partners in relation to prices or other conditions of trade; and (3) any imposition of unfair prices or other unfair conditions of trade.

In the Swiscom case, the Comco found that Swisscom and its subsidiaries benefited from a dominant position in the market of live broadcasting (using pay TV) of Swiss football championship matches, the Swiss hockey championship and some foreign football championships. This dominant position resulted from the fact that Cinetrade (a subsidiary of Swisscom) enjoyed long-term exclusive rights for sports broadcasting in Switzerland. The abuse was found because Swisscom: (1) refused to offer some of its competitors the right to broadcast these sports live on their platforms; and (2) granted certain other competitors the right to broadcast a limited number of sporting events and these competitors had to offer the broadcast within a bundled offer. The Comco found that this behaviour procured for Swisscom a competitive advantage over its competitors. This decision is the subject of an appeal before the FAT.

With respect to broadcasting rights, the Comco published an advice related to ‘right-of-first-negotiation’ and ‘matching-offer-right’ provisions. Within an exclusive broadcasting agreement, a sports association had granted a broadcaster a right of first negotiation (at the end of the term of the agreement). Failing an agreement between the parties at the end of the right-of-first-negotiation period, the broadcaster had a matching-offer right, whereby it could match any offer that was made by a third party to the sports organisation and, therefore, extend the benefit of the exclusivity of the broadcasting rights. The Comco advised that such provisions shall be considered unlawful if they cannot be justified on grounds of economic efficiency.

In the aforementioned Swiscom case, the Comco held that Swisscom and its affiliates had adopted the three above-mentioned practices either by refusing to grant the relevant broadcasting rights to some competitors or by imposing unfair terms on some competitors (i.e., the offer of the broadcasts was bundled with another offer).

In another case, the Comco imposed a fine of 7 million Swiss francs on SIX Multipay AG for an abuse of dominant position characterised by SIX’s refusal to provide competitors with interface information related to a new functionality (dynamic currency conversion or DCC) for credit card terminals, which allows customers to choose the currency they wish to pay in when at the terminal. The information was necessary for competitors to ensure the interoperability of their credit card terminals. Interestingly, SIX argued that Article 21(2) CopA does not oblige the copyright owner to provide interface information to competitors. The Comco considered that, by virtue of Article 3(2) CartA, intellectual property rights

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22 DPC/RPW 2016/4, 920 ff.
23 DPC/RPW 2016/2, 378 ff.
24 DPC/RPW 2011/1, 96 ff.
(such as copyrights) shall be taken into account in the assessment under the CartA, but that intellectual property rights do not override the CartA and in the case at hand the dominant position of SIX substantiated the obligation to provide interface information.25

With respect to the imposition of excessively high prices (e.g., milestone or royalty payments under a licence agreement) by a dominant undertaking, the Federal Price Supervisory Body has the authority to order a price reduction pursuant to Articles 4 and 10 of the Federal Price Supervision Act (FPSA). Before taking any decision, the Federal Price Supervisory Body shall first try to reach an amicable solution with the concerned undertaking (Article 9 FPSA).

Finally, patent pools have not been the subject of any decisions in Switzerland so far. However, antitrust concerns (price-fixing in particular) may arise in this context; for example, where the patents in the pool consist in substitute technologies.

IV STANDARD-ESSENTIAL PATENTS

No consideration has been given under Swiss competition law (whether in statutes, case law or guidelines) to standard-essential patents.

Nonetheless, the PatA sets forth restrictions on the rights of a patent owner that may apply to standard-essential patents, in particular Article 36 PatA (dependent inventions), and Articles 40 ff. PatA (licensing in the public interest).

Article 36 PatA provides that if a patented invention cannot be used without infringing a prior patent, the owner of the newer patent has the right to a non-exclusive licence to the extent required to use the new patented invention, provided that the invention is considered an important technical advance of considerable economic significance in relation to the invention that is the subject matter of the prior patent. The Bern Commercial Court has ruled that an important technical advance occurs, for example, when the new invention leads to a simplification of processes or increases their speed.26 The Court held that applying the CartA (the owner of the previous patent allegedly had a dominant position on the market) would in principle lead to the same result as under Article 36 PatA (i.e., the grant of a licence to the owner of the new patent) in cases where it would be justified under Article 36 PatA. In this case, it judged that the requirements of Article 36 PatA were not met.

Article 40 PatA provides that where public interest so dictates, the person to whom the owner of the patent has, without sufficient reason, refused to grant the licence requested, may apply to the court for the grant of a licence to use the invention. It is generally recognised by legal scholars that a public interest exists when the relevant patent is a technical standard (or used therein). Although not specified in Article 40 PatA, such a licence would be non-exclusive. Articles 40a to 40d PatA further provide for compulsory licences in specific cases and under specific conditions: in the field of semiconductor technology (40a), for research tools (40b), for diagnostic tools (40c), and for the export of pharmaceutical products (40d).

The scope and term of the licences that would be granted pursuant to the above-mentioned provisions are limited to the purpose for which they have been granted and may only be transferred with the business that uses the licence (i.e., typically in the context of an asset deal).

25 See DPC/RPW 2011/1, 96 ff, p. 115.
26 Bern Commercial Court, HG 03 9024 (BE), published in sic! 2006 p. 348.
V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

There are no specific provisions or guidelines under Swiss law with respect to the transfer of intellectual property rights in the context of merger control. The transfer of intellectual property rights may, however, be deemed a concentration under Article 4(3) CartA where the intellectual property rights constitute part of a business whose control is acquired by an independent undertaking.27 The means of acquiring control may involve, in particular, the acquisition of ownership rights or rights to use all or parts of the assets of an undertaking (Article 1(a) of the Federal Ordinance on the Control of Concentrations of Undertakings).

In practice, intellectual property rights are often part of a merger, share deal or asset deal.28

The sole transfer of intellectual property rights might also be construed as a concentration of undertakings within the meaning of Article 4(3) CartA. The Comco has already ruled that the mere transfer of immaterial assets (i.e., trademarks, know-how, clientele and goodwill in the case at hand) amounted to a concentration of undertakings.29

ii Remedies involving divestitures of intellectual property

The Comco may authorise a concentration of undertakings subject to conditions and obligations if it considers that the concentration (1) creates or strengthens a dominant position liable to eliminate effective competition; and (2) does not improve the conditions of competition in another market such that the harmful effects of the dominant position can be outweighed (Article 10(2) CartA). The CartA does not specify the types of obligations or conditions that can be imposed. In practice, the concerned undertakings will generally discuss the same with the Comco. The remedies usually involve divestments or behavioural undertakings.

In the Glaxo Wellcome/SmithKline Beecham case, the merger was authorised by the Comco subject to the out-licensing by the parties of either Vectavir or Zovirax for use in the topical treatment of HSV (the herpes simplex virus) in the market of topical anti-virals (D6D) in Switzerland.30 This remedy was inspired by the solution that was reached in the context of the same merger by the European Commission.31 As the European Commission explains in its decision: 'the market test has confirmed that a divestment [by way of out-licensing] of either of the products would remove the overlap between the parties activities and would, therefore, remove the serious doubts on this market.'32

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27 Article 4(3) CartA defines a ‘concentration of undertakings’ as (1) the merger of two or more previously independent undertakings; or (2) any transaction, in particular the acquisition of an equity interest or the conclusion of an agreement by which one or more undertakings acquire direct or indirect control of one or more previously independent undertakings or parts thereof.

28 See, e.g., DPC/RPW 2003/4, p. 786 (Emmi/Swiss Dairy Food), where the Comco held that the transfer of an operating site and related trademarks constituted part of a business that had been acquired.

29 See DPC/RWP 2011/3, p. 413.

30 DPC/RPW 2001/2, p. 338 (Glaxo Wellcome/SmithKline Beecham).

31 EC, Case COMP/M.1846.

32 EC, Case COMP/M.1846, paragraph 219.
VI OTHER ABUSES

i Sham or vexatious IP litigation
The concept of abuse under Article 7 CartA (unlawful practices by dominant undertakings) covers both exploitative and exclusionary practices. Sham or vexatious litigation is not included in the example list of practices considered unlawful under Article 7 CartA. Consequently, the general rules on the abuse of dominant position would apply to such practices, which may be considered as exclusionary practices.

ii Misuse of the patent process
There are no specific rules in Swiss competition law regarding the misuse or manipulation of the patent process (e.g., for the purpose of artificially extending the term or geographical scope of patent protection, or enforcing patents obtained through fraud). Such practices would, therefore, be assessed under Article 7(1) CartA.

iii Anticompetitive settlements of IP disputes
There is no relevant case law on this topic in Switzerland. To the extent that a settlement agreement does not amount to a market-sharing or market-foreclosure agreement, the settlement should, in principle, comply with Swiss competition law. Exclusion payments made by a pharmaceutical or biotech company to potential generic or biosimilar entrants on the relevant market may be construed as a market-foreclosure agreement and thus unlawful.

VII OUTLOOK AND CONCLUSIONS
As mentioned by the president of the Comco in its 2017 annual report, the Swiss competition authorities have been active in the past year in all areas of competition law and will continue to do so in the coming years under the leadership of a new president (as of 1 January 2018). This annual report notes that settlement agreements have increased in recent years and have proven an efficient tool to resolve cases. In this context, the Comco has published a note on settlement agreements, detailing their process and the assessment of fines’ reduction.

In the last edition, we mentioned a popular initiative (i.e., the initiative against the ‘Swiss island of high prices’) that was launched on 20 September 2016 and aimed at combating the practice of setting higher prices in Switzerland as compared with prices in neighbouring countries. Practically, this could lead to the introduction of the relative market power concept into the CartA. The scope of Article 7 CartA (unlawful practices of dominant undertakings) would thus be extended because of this new concept, whereby an undertaking would be deemed to have a relative dominant position on the market (e.g., if companies depend on it for the supply of goods or services necessary for their activities and where no reasonable and sufficient alternatives are available). In January 2018, this popular initiative obtained the public support required to submit it to a national vote. It was recently announced that a counter-proposal will be drafted by the Federal Council (and submitted to a national vote together with the initiative). It has not yet been published, but it is expected that certain aspects of the initiative may have found their way in this counter-proposal.
It shall also be noted that the Federal Council initiated work aiming at amending merger control rules in order to further align Swiss law with EU law. In particular, the current dominance test should be replaced by the ‘significant impediment of effective competition’ test, which would effectively lower the intervention threshold of the Comco.
Chapter 17

TURKEY

Gönenç Gürkaynak

I INTRODUCTION

As a result of the intensive work conducted throughout the years, a unified intellectual property law has finally been codified in Industrial Property Law No. 6769 (the IP Law), which entered into force on 10 January 2016 and collectively regulates in detail trademarks, geographical indications, designs and patents, in compliance with European Union regulations. Prior to the creation of the IP Law, the entirety of the intellectual property regime was implemented through separate statutory decrees. Competition in Turkey, on the other hand, is regulated by Law No. 4054 on the Protection of Competition (the Competition Law), published in the Official Gazette on 13 December 1994.

Following the introduction of the IP Law, the interaction between competition law and intellectual property law in Turkey still remains unregulated, and both regimes obey separate legislation. Turkish intellectual property law seeks to protect the owners’ exclusive control over their intellectual assets, and Turkish competition law aims to ensure effective competition in the marketplace and prevent anticompetitive actions such as cartels and abuse of dominance, etc.

Moreover, the recent Turkish IP Law and other existing legal regulations related to intellectual property rights (IP rights) confer exclusive rights on the right holders. The owner of intellectual property is entitled under the relevant legal regulations to exploit the subject of the right exclusively, to prevent illegal use of it by third parties and confer the right to use it by licensing it to third parties. The fact that legal regulations related to intellectual property grant exclusive rights of exploitation to right holders does not imply that IP rights are immune from the area of application of the competition law. Article 4 (restrictive agreements), Article 5 (individual exemption conditions) and Article 6 (dominance) of the Competition Law are also applicable to agreements whereby the holder of IP rights licenses another undertaking to exploit its IP rights. Overall, it would be prudent to consider intellectual property law and competition law as complementary rather than contradictory concepts.

As elaborated above, the main legislation for the competition law regime in Turkey is the Competition Law. The Turkish competition law regime consists of three main branches: (1) restrictive agreements, concerted practices and cartels; (2) dominance; and (3) merger control. The national competition authority for enforcing competition law in Turkey is the Turkish Competition Authority (TCA). Under the current Turkish competition law regime, the general competition law enforcement structure is also applicable for IP rights.

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Within the framework of competition law, the secondary law that relates to the interaction between antitrust and intellectual property law is as follows:

\( a \) Block Exemption Communiqué No. 2008/2 on Technology Transfer Agreements (Communiqué No. 2008/2), which provides a protective cloak for agreements involving the transfer of IP rights and in particular technology licensing agreements;

\( b \) Block Exemption Communiqué No. 2016/5 on R&D Agreements (Communiqué No. 2016/5), which provides a block exemption for research and development (R&D) agreements, including an exemption for R&D agreements that contain provisions relating to the assignment or licensing of IP rights to carry out joint R&D, paid-for R&D or joint exploitation, so long as those provisions are not the primary object of such agreements, but are instead directly related to and necessary for their implementation;

\( c \) Block Exemption Communiqué No. 2002/2 on Vertical Agreements (Communiqué No. 2002/2) applies to standardisation, franchise and contract manufacturing agreements to the extent they satisfy the conditions set out in the relevant communiqué; and

\( d \) Block Exemption Communiqué No. 2013/3 on Specialisation Agreements (Communiqué No. 2013/3) establishes the conditions for granting block exemptions to specialisation agreements between undertakings and extends this exemption to licensing or intellectual property transfer agreements that are directly related to, or necessary for, the functioning of the exempted specialisation agreements.

In terms of intellectual property law, there are a range of criminal, civil and administrative laws to protect IP rights that cover a range of fields, including copyrights, trademarks, patents and trade secrets, among others. Turkey is a signatory or a party to various international and bilateral agreements, conventions and treaties, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights, the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Agreement Concerning the International Patent Classification, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks, the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks, and the European Patent Convention.

II YEAR IN REVIEW

With respect to relevant legislative changes, the Turkish law regime has not witnessed any specific amendments that relate to both competition law and intellectual property law. Undoubtedly, the major and most recent change in terms of legislation has been the introduction of the IP Law, which consolidates all the separate regulations pertaining to intellectual property law.

As for case law, the Turkish Competition Board (the Board) has dealt with several cases that bear witness to the interaction between IP rights and competition law, and these are summarised below.

Most recently, in Music Associations (22 August 2017, No. 17-27/451-193), the Board evaluated the allegations that music associations violated Articles 4 and 6 of the Competition Law by concluding restrictive agreements on the use of musical pieces to be broadcast in public places and radio and television institutions. In the relevant decision, the Board provided detailed explanations on the relationship between competition law and Intellectual property
To that end, the Board stated that it is accepted by European Commission, Court of Justice of the European Union and World Intellectual Property Organization (WIPO) that competition law should be applied to the markets involving intellectual works. In this regard, the Board also referred to WIPO’s report titled ‘Copyright, Competition and Development’ and listed the exemplary situations set forth in the relevant report in order to show how competition law and intellectual property law may interact with each other. For instance, the Board stated that intermediaries in the areas of distribution and licensing of copyrights may abuse their dominant position by way of excessive pricing and similar practices. Accordingly, the Board concluded that these two practice areas support each other. In its substantive assessment, the Board evaluated the allegations involving the use of intellectual property rights within the categories of: (1) excessive pricing; (2) price discrimination; and (3) exemption. As a result of its assessment on the allegations, the Board decided not to impose an administrative monetary fine on the relevant music associations owing to the lack of evidence on the allegations and granted individual exemption to the protocols concluded between the relevant music associations on the distribution of music pieces.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

Article 4 of the Competition Law is akin to and closely modelled on Article 101(1) of the Treaty on the Functioning of the European Union. It prohibits all agreements between undertakings, decisions of associations of undertakings and concerted practices that have (or may have) as their object or effect the prevention, restriction or distortion of competition within a Turkish product or service market or a part thereof. Article 5 of the Competition Law (the ‘individual exemption mechanism’) provides that the prohibition contained in Article 4 may be declared inapplicable in the case of agreements between undertakings:

- that contribute to improving the production or distribution of products, or to promoting technical or economic progress;
- that allow consumers a fair share of the resulting benefits;
- that do not impose restrictions that are not indispensable to the attainment of these objectives; and
- that do not afford the undertakings the possibility of eliminating competition in respect of a substantial part of the products concerned.

This individual exemption test is conducted on a case-by-case basis.

The general provisions of Turkish competition law regulating anticompetitive agreements apply in cases of obtaining, granting or transferring IP rights, to the extent they fail to meet the conditions of a block or individual exemption (namely Block Exemption Communiqués No. 2002/2 and No. 2008/2 on Vertical Agreements and on Technology Transfer Agreements). Such agreements are likely to be deemed anticompetitive where they contain resale price maintenance, regional restraints, quantitative restraints on production or sales, customer allocation and selective distribution systems.

#### ii Refusals to license

There is currently no specific provision under the Turkish competition regime regulating unilateral conduct or refusal to license in relation to IP rights. Under Article 6 of the
Competition Law, all dominant undertakings are bound by the obligation not to abuse their dominant position. Therefore, the general provisions of Article 6 would also apply to refusal-to-license situations.

Refusal to license can be a form of abuse of dominance, as established by the landmark decision of *Turkcell/Telsim* (9 June 2003, No. 03-40/432-186). This decision sets out the basis of the criteria required to establish an abuse of dominance for refusal to supply in IP-related markets. The Board identified the following conditions that are necessary to establish an abusive refusal to supply:

- **a** the access to IP rights is essential to the competitors for entry into the market;
- **b** there exists sufficient capacity to supply the demand;
- **c** the undertaking controlling the essential facility is no longer able to supply the demand on the market or it impedes competition on existing or potential services and products;
- **d** the undertaking requesting access to the IP rights is ready to pay a reasonable and non-discriminatory indemnity for access; and
- **e** there exists no reasonable justification for denial.

Although over a decade has passed since the *Turkcell/Telsim* case, the Board's most recent decisions on this point reaffirm the position taken; see, for instance, the Board’s decisions *Türk Telekom* (9 June 2016, No. 16-20/326-146); *Krea İçerik Hizmetleri* (9 September 2015, No. 15-36/544-176); *Surat Basim/Zambak* (19 March 2013, No. 13-15/230-114); and *Digital Platform* (3 May 2012, No. 12-24/710-198).

The Board also reviewed the abuse of dominance with respect to tying and bundling practices, where the licensing of IP rights was tied to the licensing of other IP rights (*Logo Yazılım*, 28 April 2011, No. 11-26/497-154) or rebate systems in the sales of computer software (*Microsoft*, 13 June 2013, No. 13-36/481-211). In these cases, the Board applied the general provisions of Article 6 and did not adapt a particular standpoint as regards IP rights.

### iii Unfair and discriminatory licensing

As with refusal to license, the general provisions of Article 6 of the Competition Law on the abuse of dominant position would also be applicable to unfair and discriminatory licensing as there are currently no specific provisions under Turkish competition legislation regulating this area. An undertaking holding a dominant position would risk allegations of abuse of dominant position in the event of discrimination in connection with licensing fees, discrimination in providing the main IP rights required for a certain activity or through offering different terms to purchasers with equal status for the same and equal rights, obligations and acts. Similarly, refusal to license may be found to be abusive where it is discriminatory.

In any event, discriminatory conditions imposed by an undertaking holding a dominant position are governed under Article 6 of the Competition Law.

### iv Patent pooling

Patent pooling has been referred to as ‘technology pooling’ in the Guidelines on Technology Transfer Agreements, which define technology pools as agreements where two or more parties agree to assemble their technologies and create a pool and license them as a package. The concept of a technology pool also covers arrangements whereby two or more parties agree to license the package of technologies in question to a third party and empower that party to license the package. However, the Guidelines on Technology Transfer Agreements do not cover...
such arrangements and thus patent pools are subject to the general provisions of Article 4 of the Competition Law. If all the conditions of individual exemption are satisfied, patent pools may also benefit from the individual exemption under Article 5 of the Competition Law.

While there has been no prior case law dealing specifically with patent pooling or technology pooling arrangements, it can be said that the patent pooling arrangements would generally be viewed as creating pro-competitive efficiencies. That said, the patent pooling arrangements should not be used in an anticompetitive manner to fix prices, allocate markets or restrict output, which would be in violation of the Competition Law.

v Software licensing
Provided certain conditions are met, Communiqué No. 2008/2 provides for a protective cloak for agreements involving the transfer of IP rights and in particular technology licensing agreements. A technology transfer agreement is an agreement where a licensor authorises another party (licensee) to use its technology (patent, know-how, software licence) for the production of goods and services subject to the licence agreement. The exemption applies to sub-licensing as well, provided that they are granted to third parties by the licensee solely in relation to the licensed technology.

Communiqué No. 2008/2 is applicable only if certain market share thresholds are not exceeded: for licensing agreements between competing undertakings, the aggregate market share of the parties should not exceed 30 per cent in the affected technology market. The threshold is 40 per cent in the case of licensing agreements between non-competing undertakings. Hardcore restrictions, such as the restriction of a party's ability to determine the prices it charges third parties (i.e., resale price maintenance), territory or customer restrictions, or both, and non-compete obligations are also listed in Article 6 of Communiqué No. 2008/2 as clauses that exclude the application of the block exemption.

vi Trademark licensing
The Guidelines on Technology Transfer Agreements provide that a licensor may authorise a licensee to use its trademark on the products incorporating the licensed technology, as this trademark allows consumers to make an immediate link between the product and the characteristics imputed to it by the licensed technology. However, if the value of the licensed technology is limited because the licensee already uses the same or similar technology and the main objective of the agreement is the trademark, then the licensing agreement will not benefit from the block exemption provided under Communiqué No. 2008/2. That said, under Article 6 of the Competition Law, all undertakings holding a dominant position are bound by the obligation not to abuse their dominant position. The abuse of dominant position can occur in cases of discrimination in connection with trademark licensing fees, discrimination in providing the trademark licence and offering different terms to purchasers with equal status for the same and equal rights, obligations and acts, and if found to be abusive, in cases of refusal to license the trademark. Therefore, the general provisions of Article 6 of the Competition Law would also apply to the licensing of trademarks.

In Toshiba/Vestel (24 November 2016, No. 16-41/666-299), the Board evaluated an exemption request regarding the ‘brand licence agreement’, which concerns the trademark-use licence granted to Vestel by Toshiba for the production and distribution of Toshiba-branded televisions. In its evaluation, the Board held that the relevant agreement was a production and distribution agreement concluded among competitors, which falls within the scope of
Article 4 of the Competition Law. As the Block Exemption Communiqué No. 2002/2 on Vertical Agreements does not apply to such horizontal agreements, the Board proceeded to an individual exemption analysis under Article 5 of the Competition Law and decided to grant an individual exemption on the basis that the agreement contributed to the promotion of improvement of technical or economic progress with regard to consumers.

IV STANDARD-ESSENTIAL PATENTS

i Dominance

Standard-essential patents can provide substantial market power to their holders. Any abuse by an undertaking that is in a dominant position in a market for goods or services within the whole or part of Turkey is considered as abuse of dominant position under Article 6 of the Competition Law regardless of whether it is on the part of one or more undertakings, individually or through joint agreements.

The Board has not so far considered the issue of standardisation as far as its intersection with standard-essential patents and any potential abuse of dominant position claims. Nevertheless, general competition law provisions in Turkey would be applicable to any related issues, such as patent ambush, hold-up, refusal to license, etc. Hence, such arrangements and practices would be closely scrutinised under the relevant applicable provisions of Turkish laws.

ii Injunctions

Pursuant to Article 389 of the Turkish Civil Procedure Law, in the event of a suspicion that it would be very difficult or totally impossible to earn a right because of a change in the existing circumstances, or that a drawback or severe losses may arise because of a delay, an injunction may be established in connection with the issue under dispute. Requests for injunctions may be addressed to the competent courts.

In addition, pursuant to Article 9(4) of the Competition Law, where the occurrence of serious and irreparable damage is likely until the final decision is taken, the Board may take interim measures that maintain the situation as it was before the infringement and that shall not exceed the scope of the final decision.

As to seeking an injunction on the basis of standard-essential patents and any interplay with competition law, this issue has not been considered by the Board to date.

iii Licensing under FRAND terms

As standardisation generally occurs as a result of coordinated actions made by several undertakings, the issues would therefore fall within the scope of Article 4 of the Competition Law. As there is no specific legislation applicable to industrial standards as far as competition law is concerned, the Guidelines on Horizontal Cooperation Agreements would be relevant for determining the propriety of the industrial standards.

According to the Guidelines on Horizontal Cooperation Agreements, FRAND commitments are designed to ensure that any essential technology under IP rights protection incorporated in a standard is accessible to the users of that standard on a fair, reasonable and non-discriminatory basis. Further, according to the relevant guidelines, these commitments can prevent IP right holders from making the implementation of a standard difficult by
refusing to license or by requesting unfair or unreasonable (excessive) fees or discriminatory fees after the industry has been locked into a standard. The assessment of whether the agreement restricts competition must be based on the issue of access to the standard.

In *Digiturk* (10 February 2016, No. 16-04/82-36), where the Board assessed whether the agreement between the Turkish Football Federation and Digiturk satisfies the conditions for an individual exemption within the meaning of Article 5 of the Competition Law, the Board explicitly referred to FRAND terms for the first time. The Board provided that in licensing agreements the parties would need to comply with FRAND terms. Without proceeding to an assessment as to whether FRAND terms were satisfied in the case at hand, the Board decided to grant an individual exemption to the agreement on the grounds that it allows the licensees’ platforms to access several technical developments and provides a customer benefit.

As the Board has not so far considered the intersection of standard-essential patents and competition law (or IP rights in the standardisation process in general), the Board’s approach on standardisation agreements may be considered by analogy. In *Yonga Levha* (14 August 2003, No. 03-56/650-298), the Board evaluated the application of a negative clearance in regard to a standardisation decision made by the Turkish Particle Board Industrialists Association concerning setting a standard for particle boards that are subject to numerous patents registered with the Turkish Patent Institute. The Board considered the agreement as a standardisation agreement and evaluated the application pursuant to Article 4 of the Competition Law. The Board decided to grant a negative clearance for the Association’s application. This decision can be considered as the first decision ever where the Board has evaluated the concept of standardisation under the Turkish competition law regime.

In *Turkish Pharmacists’ Association* (15 November 2007, No. 07-86/1088-422), the Board evaluated, from a competition law perspective, the conformity certification, issued by the Turkish Pharmacists’ Association and granted to pharmacies, that regulates the formal standards that pharmacies’ signboards should satisfy. The Board examined the conformity certification in view of its purposes and decided that it is proportionate under the Turkish competition law regime. Accordingly, the Board rejected the complaint petition.

As indicated above, there are only a few instances where the Board has evaluated standardisation agreements. It is fair to say that the application of standardisation is not as common in Turkey as it is in other jurisdictions, such as the EU.

iv **Anticompetitive or exclusionary royalties**

Under the Turkish competition regime, there is no regulation on the royalty rates or the calculation elements of the royalty calculation. Nevertheless, according to the Guidelines on Horizontal Cooperation Agreements, the assessment as to whether the fees charged for access to IP rights in the standard-setting context are unfair or unreasonable would be based on whether there is a reasonable relationship between these fees and the economic value of the IP rights. Licensing fees charged for the same IP rights within the context of similar standards may also be used as an indicator for FRAND licensing fees. However, the guidelines do not include an exhaustive list of appropriate methods to assess whether licensing fees are excessive. Also, an independent expert analysis may be requested, stating that the relevant IP rights portfolio is objectively important and essential for the standard at issue. In certain cases, it may also be possible to refer to *ex ante* disclosures concerning licensing terms in relation to a specific standard-setting process.
In conclusion, where the royalty is so excessive so as to be contrary to FRAND commitments, then this could raise an issue under Article 6 of the Competition Law.

V INTELLECTUAL PROPERTY AND MERGERS

i Transfer of IP rights constituting a merger

Concentrations that result in a permanent change of control (either sole or joint control) are subject to the Board’s approval, provided they exceed the applicable turnover thresholds.

A transaction that involves the acquisition of IP rights such as brands, patents, designs or copyrights would be deemed a merger or an acquisition within the meaning of the Turkish merger control regime so long as the relevant IP rights constitute a business with a market turnover. In Mey/Anadolu Efes, the transaction concerned the acquisition of a certain trademark in the sector for beer (25 August 2009, No. 09-38/925-218). In this decision, the Board deemed the transaction as an acquisition within the scope of the merger control regime and approved it.

More recently, in WME/Perform (14 December 2017, No. 17-41/644-283), the Board evaluated the transaction on the creation of a joint venture that is planned to be active in the sale of commercial broadcasts, sponsorships and rights as well as the sale and marketing of commercial licensing of these rights. In its evaluation, the Board determined the licensing of football broadcasting rights to be a horizontally affected market and deemed the relevant transaction as an acquisition by way of joint venture under the merger control regime. Consequently, the Board granted approval to the relevant transaction.

Also, in FIH Mobile/Microsoft Mobile (Vietnam) (18 August 2016, No. 16-28/472-211), the Board approved the transaction regarding the acquisition by FIH Mobile of the entire share capital of Microsoft Mobile (Vietnam) and other assets related to the operation of the feature phone business that imply the transfer of IP rights. The Board proceeded to an examination as to whether the transfer of IP rights could be considered as a separate transaction requiring a separate merger control filing. To that end, and based on the information provided by the parties that no turnover could be attributed to the relevant IP rights, the Board considered the acquisition of share capital and assets as one single transaction.

ii Remedies involving divestitures of intellectual property

The Board is likely to challenge concentrations that create or strengthen a dominant position, which would result in a significant lessening of competition in a market for goods or services within the whole or a part of Turkey. The acquisition of IP rights would not be an exception to this rule, and thus would be evaluated under the same test to assess whether the competitive problems arise from a market position gained as a result of the relevant IP rights.

In (exceptional) cases where competition problems arise from a market position based on the superiority of owning a certain technology or IP right, the divestiture of the said technology or IP right may be considered a suitable remedy (Guidelines on Remedies Acceptable by the Turkish Competition Authority in Mergers/Acquisition Transactions). A divestiture package that includes only trademarks and relevant production or distribution assets may only be accepted as a suitable remedy if sufficient proof is adduced showing that at the hands of a suitable purchaser the said package would turn immediately into a competitive and viable asset (Guidelines on Remedies Acceptable by the Turkish Competition Authority
The Board is familiar with cases where the remedies partly involve divestiture of IP rights such as certain trademarks and brands (e.g., *Mey İçki* (17 August 2011, No. 11-45/1043-356)).

**VI OTHER ABUSES**

**i Sham or vexatious IP litigation**

While there has been no prior case law under the Turkish competition law practice dealing specifically with sham or vexatious IP litigation cases and competition law intersection, such arrangements and practices would be closely scrutinised under the applicable provisions of Turkish competition laws.

**ii Misuse of the patent process**

While there has been no prior case law under the Turkish competition law practice dealing specifically with a misuse of the patent process (e.g., misleading patent offices or misusing the patent system to gain a competitive advantage) and competition law intersection, such arrangements and practices would be closely scrutinised under the relevant applicable provisions of Turkish laws, especially under Article 6 of the Competition Law dealing with abuse of a dominant position.

**iii Anticompetitive settlements of IP disputes**

Turkish competition law is yet to witness the practice of manipulation of the patent process and its interaction with competition law, or other practices such as artificially extending the term or geographical scope of patent protection, or enforcing patents obtained through fraud or anticompetitive settlements of intellectual property disputes or pay-for-delay arrangements. Nevertheless, such arrangements and practices would be closely scrutinised under the relevant applicable provisions of Turkish laws.

**VII OUTLOOK AND CONCLUSIONS**

The Draft Competition Law, which was issued by the Turkish Competition Authority in 2013 and officially submitted to the Presidency of the Turkish Parliament on 23 January 2014, is null and void following the beginning of the new legislative year of the Turkish Parliament. At this stage, it remains unknown whether the Turkish Parliament or the government will renew the draft law. However, it could be anticipated that the main topics to be held in the discussions on the potential new draft competition legislation will not significantly differ from the changes that were introduced by the previous draft. Therefore, in this hypothetical scenario, the discussions are expected to mainly focus on: (1) conformity with the EU competition law legislation; (2) introduction of the EU’s SIEC (significant impediment of effective competition) test instead of the current dominance test; (3) adoption of the term of ‘concentration’ as an umbrella term for mergers and acquisitions; (4) elimination of the exemption of acquisition by inheritance; (5) abandonment of the Phase II procedure; (6) extension of the appraisal period for concentrations from the current 30 calendar-day
period to 30 working days; and (7) removal of the fixed turnover rates for certain procedural violations, including the failure to notify a concentration and hindering on-site inspections, and set upper limits for the monetary fines for these violations.

As for intellectual property law, the enactment of the IP Law is expected to bring a more solid framework for the application of the intellectual property rules. As the new IP Law does not regulate the intersection between the intellectual property rules and competition law, the Board’s case law will be of importance for further clarifications with respect to the competition law standards that apply to intellectual property matters.
Chapter 18

UNITED KINGDOM

James Flynn QC and Charlotte Thomas

I INTRODUCTION

The United Kingdom’s substantive rules governing the application of competition law to intellectual property are contained generally within two national statutes: the Competition Act 1998 (the CA 1998) and the Enterprise Act 2002 (the EA 2002). The CA 1998 contains two main prohibitions, modelled on (and, by virtue of Section 60 of the CA 1998, to be interpreted consistently with) the prohibitions contained in Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU).

The Chapter I prohibition (CA 1998, Section 2) prohibits any agreement or concerted practice that has the object or effect of restricting or distorting competition and that has or is capable of having an effect on trade within the United Kingdom, unless an exemption from the prohibition applies.

The Chapter II prohibition (CA 1998, Section 18) prohibits the abuse of a dominant market position that has or is capable of having an effect on trade within the United Kingdom.

Where there is additionally an effect on trade between EU Member States, the agreement or concerted practice or abusive conduct may also be prohibited by Articles 101 or 102 TFEU respectively and constitute a breach of statutory duty under Section 2 of the United Kingdom’s European Communities Act 1972.

EU block exemption regulations apply ‘in parallel’ in UK competition law (CA 1998, Section 10), and the CA 1998 also provides for domestic block exemptions (there are none specifically applicable to intellectual property rights).

UK merger control rules are contained in Part 3 of the EA 2002, insofar as transactions are not covered by the exclusive jurisdiction of the European Commission pursuant to Regulation No. 139/2004, the EC Merger Regulation.

Further sources of law include judicial decisions (both of the European Court of Justice and the General Court and of national courts, including in particular the specialist Competition Appeal Tribunal (CAT)), and principles derived from decisions of competition authorities, including the European Commission and the United Kingdom’s Competition and Markets Authority (CMA), and guidelines issued by those authorities.

II YEAR IN REVIEW

UK case law from the past year has seen the first rulings in the Apple v Qualcomm proceedings, part of the very substantial global litigation between the parties raising issues of patent and

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competition law (see Section IV.iii). Meanwhile, the CAT handed down its long-awaited judgment in respect of the appeal of the CMA’s decision to fine GlaxoSmithKline plc and two generic pharmaceutical companies for entering into alleged ‘reverse payment’ or ‘pay-for-delay’ patent settlements in early 2018; answers, however, remain elusive, since all key questions were referred to the Court of Justice (see Section VI.iii).

Policy debate in UK competition law has unsurprisingly been dominated by the result of the referendum of 23 June 2016, in which a majority of UK voters said that the country should leave the EU (Brexit). In consequence, and in accordance with Article 50(2) TFEU, on 29 March 2017 the prime minister gave notice to the European Council of the United Kingdom’s intention to leave the EU, triggering the two-year negotiating period under Article 50(3) TFEU, which may be extended by agreement. Those negotiations commenced on 19 June 2017 and continue at the time of writing.

The current draft of the European Union (Withdrawal) Bill indicates that EU block exemption regulations (which are currently applied ‘in parallel’) will be continued in UK domestic law, subject to modifications to be made by the relevant minister during a period of two years following the date on which Brexit occurs. Meanwhile, there is a strong prospect that the obligation under Section 60 of the CA 1998 to interpret UK competition law consistently with EU competition law will fall away, opening up the prospect of longer-term regulatory divergence. It is likely that there will be a significant degree of continuing cooperation between the CMA and the EU Commission, but the precise contours of the future regulatory relationship remain unclear.

In the short term, however, there is no change: the prevailing national UK and EU competition and intellectual property regimes both remain in full force, and, as already observed, UK courts continue to refer questions to the Court of Justice where appropriate. The United Kingdom continues to implement EU directives; for example, Directive 2014/104/EU on antitrust damages actions was implemented with effect from 9 March 2017.2

III LICENSING AND ANTITRUST

i Anticompetitive restraints

There are no UK-specific competition rules regarding technology licensing agreements. By the ‘parallel exemption’ route, the current EU Technology Transfer Block Exemption Regulation (Regulation (EU) No. 316/2014 (the TTBER 2014)) applies in a purely UK context in the same way as it does to agreements that may affect inter-state trade. The TTBER 2014 creates a ‘safe harbour’ for licensing agreements for patents, know-how or software copyright (or a mixture of these) concluded between no more than two companies with limited market power that respect certain conditions. Such agreements are deemed not to have an anticompetitive effect (or any such effect is deemed to be outweighed by their positive effects). The Commission Guidelines on the application of Article 101 TFEU to technology transfer agreements (2014) were released at the same time and contain guidance in respect of scenarios not covered by the TTBER 2014, including multilateral agreements.

The TTBER 2014 provides no protection where an agreement contains as its object (directly or indirectly and in whole or in part) a hardcore restriction: such restrictions

2 The Claims in respect of Loss or Damage arising from Competition Infringements (Competition Act 1998 and Other Enactments (Amendment)) Regulations 2017, SI 2017/385.

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preclude exemption. In the case of competing undertakings, hardcore restrictions include restrictions on a party’s ability to determine price in third-party sales, limitations of output (including disincentives to produce more) other than limitations imposed on the licensee in a non-reciprocal agreement or only one licence in a reciprocal agreement, allocation of markets or consumers, restrictions on the licensee exploiting its own technology rights, and restrictions on either party’s engagement in R&D unless the restriction is indispensable. Slightly different hardcore restrictions are identified in the case of non-competing undertakings. Certain individual obligations such as an obligation not to challenge the validity of EU intellectual property rights are also excluded from protection. Notably, non-compete obligations are permitted under the TTBER 2014, as long as the Regulation’s other conditions are satisfied.

Of course, where the safe harbour of the TTBER 2014 is not available and Article 101(1) is engaged by a licence condition because it results in significant foreclosure of third-party technologies, individual assessment under Article 101(3) remains available.

ii Refusals to license

A refusal by a dominant undertaking to license an intellectual property right or to supply information, products or services subject to an intellectual property right is not in principle an abuse of a dominant position: if it were, the right holder would be deprived of the very essence of the exclusive right. However, it can be abusive where certain criteria laid down in Court of Justice case law are satisfied:

a the refusal prevents others from using certain information or products subject to that right;

b the information or product is indispensable to the exercise of a particular activity on a neighbouring market (defined according to normal principles of market definition);

c the refusal excludes effective competition on the neighbouring market;

d the refusal prevents the appearance of a new product for which there is a potential consumer demand (a requirement unique to the intellectual property rights cases), or (in a more recent formulation) limits technical development to the detriment of consumers; and

e there is no objective justification for the refusal, in particular with reference to the dominant undertaking’s incentive to innovate.

In principle, there is a ‘refusal’ only where there has been a request. A response to a request that fails to address the specific matters requested may amount to a refusal, as may an agreement to license but only subject to unreasonable conditions (constructive refusal).

3 TTBER 2014, Article 4(1).
5 TTBER 2014, Article 4(2).
6 TTBER 2014, Article 5.
9 Microsoft v. Commission, paragraph 647; and see Guidance on Commission’s enforcement priorities in applying Article 82 to exclusionary conduct (2009), paragraph 81 (‘consumer harm’ is the enforcement priority).
10 Microsoft v. Commission, paragraphs 758 and 763; Guidance on Commission’s enforcement priorities in applying Article 82 to exclusionary conduct (2009), paragraph 79.
iii Unfair and discriminatory licensing

Where an undertaking has a dominant position on the market, further limitations on its licensing practices may come into play; for example, as to exclusivity, and royalty and other terms (see Section IV).

iv Patent pooling

According to its recitals and according to the European Commission, the TTBER 2014 does not apply to agreements establishing and regulating patent pools or providing for the licensing of pooled technology to third parties, because they fail the Regulation’s requirement in Article 1(1)(c) that the licence be for the purpose of production of contract goods by the licensee or its subcontractor. They are also generally multiparty arrangements.

Instead, the Commission provided detailed guidance for the assessment of technology pools in its 2014 Guidelines. The Commission recognises the benefits provided by technology pools (including reduction of transaction costs, setting a limit on cumulative royalties, and implementation of pro-competitive standards) but notes that there is a risk that they may amount to a price-fixing cartel or foreclose alternative technologies where they establish a de facto industry standard. Licences granted by pools are likely to be incompatible with Article 101 TFEU where they contain any hardcore restrictions listed in Article 4 of the TTBER 2014. Conversely, the creation and operation of the pool, including licensing out, will generally comply with Article 101(1) TFEU, irrespective of the parties’ market position, where participation in the pool is open to all, only essential technologies are pooled, the exchange of sensitive information is limited, pooled technologies are licensed in on a non-exclusive basis and licensed out on a FRAND basis, the participants in the pool are free to challenge the validity and essentiality of the pooled technologies, and the participants in the pool remain free to develop competing products and technology. Even where these conditions are not satisfied, it is possible to show that the pool is pro-competitive on a case-by-case basis.

v Software licensing

The TTBER 2014 applies to agreements for the licensing of software copyright for incorporation into contract products, but not to, for example, an agreement containing terms and conditions for downloading. Moreover, agreements for the reproduction and distribution of software copyright-protected products are expressly treated by recital 7 of the TTBER 2014 as falling into the category of distribution agreements. They must therefore be considered with reference to the Vertical Agreements Block Exemption Regulation (Regulation (EU) No. 330/2010) and the Commission Guidelines on vertical restraints (2010).

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11 See recital 7 of the TTBER 2014 and the Commission Guidelines on technology transfer agreements (2014), paragraph 56.
12 Commission Guidelines on technology transfer agreements (2014), paragraphs 244–73.
13 Commission Guidelines on technology transfer agreements (2014), paragraphs 244–47.
vi  Trademark licensing
The TTBER 2014 only applies to trademarks where the trademark is ancillary to a technology transfer agreement. The Commission has applied Article 101(1) to exclusive trademark licences; for example, in Davide CampariMilano SpA Agreement OJ [1978] L 70/69, Article 101(1) TFEU was engaged by a standard form agreement granting firms exclusive licences to use the Campari trademark within their own territory and requiring them not to pursue an active sales policy elsewhere, but the agreement was exempted following individual assessment under Article 101(3) TFEU.

IV  STANDARD-ESSENTIAL PATENTS
The competition law treatment of licensing practices of holders of standard-essential patents (SEPs) has been controversial for some time, and has recently become the subject of case law. A trickle of cases has slowly begun to clarify these principles at EU and national level, including in the United Kingdom.

On 29 April 2014, the European Commission adopted an infringement decision under Article 102 in respect of Motorola, finding that it had abused its dominant position by seeking an injunction against Apple in relation to its SEP, but, unusually, in its discretion imposed no fine because of the divergent views of Member States and absence of EU decisional practice and case law regarding whether a SEP holder abuses a dominant position when it seeks an injunction against a potential licensee who is not unwilling to enter into a licence agreement on FRAND terms.17

i  Dominance
In Case C-170/13 Huawei Technologies co Ltd v. ZTE Corp & ZTE Deutschland GmbH, AG Wathelet hinted in his Opinion of 20 November 2014 (ECLI:EU:C:2014:2391), at paragraph 58, that there could be a presumption that a SEP holder was dominant, rebuttable by ‘specific, detailed evidence’ to the contrary. The German court had, however, referred no question on dominance and the Court of Justice took no view on the point (Judgment of 16 July 2015, ECLI:EU:C:2015:477). The position, therefore, continues to be that the assessment of dominance in SEP cases will turn on the facts of each case and is a matter for the national court or authority.

Birss J addressed the question of whether Unwired Planet possessed a dominant position at paragraphs 630–670 of the main judgment in the Unwired Planet proceedings ([2017] EWHC 711 (Pat)), discussed further in Sections IV.ii and IV.iii. He held, on the facts, that Unwired Planet’s status as an SEP owner gave it a 100 per cent market share and hence gave rise to the inference that it was dominant. The market was covered by a FRAND undertaking to the European Telecommunications Standards Institute (ETSI), the institute that issued the relevant standards, which meant that licensees did have a possibility of holding

out and so it was possible that the SEP owner would not be dominant, but no economic analysis had been done that could justify that conclusion in the instant case. Unwired Planet is disputing that finding of dominance on appeal.

More recently, on 24 January 2018, the European Commission issued a decision in which it found that Qualcomm was dominant in the market for LTE baseband chipsets and had abused that dominance by making significant payments to Apple on condition that it would not buy from its rivals. The European Commission fined Qualcomm €997 million for abuse of dominance. Apple has amended its case in the UK Apple v Qualcomm proceedings to bring a follow-on claim arising out of this decision (see further Section IV.iii).

ii Injunctions

_Huawei v. ZTE (ECJ)_

It was also in _Huawei v. ZTE_ that the Court of Justice set out the circumstances under which the holder of a SEP who has agreed to license it on FRAND terms can obtain an injunction against a party infringing the patent who is a willing licensee without breaching Article 102 TFEU. Like AG Wathelet (at paragraphs 47–52 of his Opinion), the Court sought to strike a balance between excessive protection for the patentee (arguably evinced by the German approach) and excessive protection for the putative licensee (the Commission approach). There is now a protocol to follow (at paragraphs 59–73 of the 16 July 2015 Judgment), under which the SEP holder must make a written offer on FRAND terms to the willing licensee, who may then make a counter-offer. Both parties must act promptly and in good faith. In the absence of a good faith counter-offer on FRAND terms, no injunction will be granted.

The relationship between FRAND proposals and injunctions has further been considered by Birss J in each of the two significant recent cases on SEPs to have come before the English courts.

_Vringo v. ZTE (Birss J)_

In _Vringo Infrastructure Inc v. ZTE (UK) Ltd_, Vringo, the owner of a global patent portfolio of SEPs acquired from Nokia relating to wireless communications infrastructure, initially contended that its global portfolio offer was FRAND and it would be entitled to an injunction unless ZTE accepted it. Birss J suggested that he was ‘sceptical’ about this argument ([2015] EWHC 214 (Pat), paragraphs 101–112): even if the global portfolio licence offer was FRAND and it was not an abuse of a dominant position to make the offer, this did not appear to preclude ZTE from making a FRAND counter-offer for a licence in respect only of the SEP in question. Had Vringo itself made an offer of this type and ZTE refused to accept it, then an injunction might follow. Following the 24 April 2015 _Unwired Planet_ decision outlined below, Vringo modified its position, stating that it was willing to offer a licence solely within the United Kingdom of the single patent at issue. Vringo maintained that it was not obliged to do so and that this offer was made voluntarily.

This concession meant that the main disagreement subsisting between the parties concerned the proper royalty rate payable for that licence (see Section IV.iii).

_Unwired Planet v. Huawei & Samsung (Birss J and Court of Appeal)_

The _Unwired Planet International Ltd & ors v. Huawei Technologies Co Ltd, Samsung Electronics Co Ltd & ors_ litigation concerns patents transferred to Unwired Planet by Ericsson that
have been declared essential to telecommunications standards developed by ETSI, which encourages members to give an irrevocable commitment to grant licences on FRAND terms to any of their patented technology that is adopted as part of the standard.

In 2014, Unwired Planet sued the defendants (who included Huawei and Samsung) for infringement of its patents, contending that they were both infringed and (so far as relevant) essential. It also made two open licensing proposals to the defendants: a worldwide licence under all its patents, or a worldwide licence under its SEPs only. The court has found that least two patents in the Unwired Planet portfolio are valid, infringed and essential to ETSI’s standards ([2015] EWHC 3366 (Pat), affirmed [2017] EWCA Civ 266; [2016] EWHC (Pat)). One of the allegations made by the defendants against Unwired Planet was that in seeking an injunction it was acting contrary to Article 102 TFEU.

Birss J observed in the context of an application for summary judgment in this case (considered further at Section IV.iii) ([2015] EWHC 1029 (Pat)) that ‘the question of whether any given licence terms are FRAND is not simply a freestanding issue. It is closely connected to the question of injunctions’ (paragraph 20). In that decision, he explained (at paragraph 29) that this is a developing area of law and practice and that there are three legally relevant ways of considering whether licence terms are FRAND:

a. Are the terms compliant with competition law?
b. Are the terms compliant with the contractually enforceable obligation to ETSI?
c. Are the terms proposed by the claimant ‘equitably refusable’, such that an injunction would be granted if the defendant refused to accept them? Conversely, are the terms proposed by the defendant such that a claimant obliged to license on FRAND terms would be refused an injunction if it refused to accept them?

He explained that the third, injunction-related context is distinct ‘since it will also relate to the exercise of the court’s discretionary power to grant injunctive remedies. Even if a patentee is not contractually obliged to ETSI to accept FRAND terms offered by a defendant, perhaps a court might refuse to grant an injunction in such a case’.

As to the two proposals made by Unwired Planet, he thought the first ‘very likely to be equitably refusable’ because it bundled SEPs and non-SEPs together, and the second unlikely to determine the issue of whether Unwired Planet was entitled to an injunction because the defendants had made clear that they were willing to accept FRAND licences under any patents found valid and infringed and so the issue was likely to turn on patent-specific terms advanced by either party (paragraphs 75–76). He therefore gave directions that each party should be required to state whether it was willing to make an offer for a territorial licence of the five SEPs at issue on the assumption that they were valid and essential, and if so on what terms (paragraph 77).

In consequence, in June 2015, Unwired Planet made offers for a worldwide SEP portfolio licence, a UK SEP portfolio licence, and per-patent licences for any SEPs the licensee chose (with each of the latter two licences claiming a higher royalty rate than the worldwide licence); Huawei proposed a per-patent licence limited to the UK SEPs in suit ([2017] EWHC 711 (Pat), paragraphs 7–8). On 1 August 2016, Unwired Planet made further offers on the same terms, but at lower rates, following its settlement of certain competition law issues with Samsung (see Section IV.iii). Shortly before trial commenced, Huawei made an offer in respect of the whole of Unwired Planet’s UK SEP portfolio, as well as an increased offer in respect of per-patent rates ([2017] EWHC 711 (Pat), paragraphs 13–14).
At trial ([2017] EWHC 711 (Pat)), Birss J held that a patentee that refused to accept an offer made on FRAND terms would be in breach of its FRAND undertaking, and an English court would refuse to grant a patentee an injunction if it refused to accept FRAND terms; conversely, a defendant who has refused a FRAND offer will not be protected from injunctions (paragraphs 166–167).

In the remedies judgment ([2017] EWHC 1304 (Pat)), he granted what he called a ‘FRAND injunction’, explaining (at paragraph 20): ‘A FRAND injunction should be in normal form to restrain infringement of the relevant patent(s) but ought to include a proviso that it will cease to have effect if the defendant enters into that FRAND licence.’ Where, as had been agreed by the parties in this case, the FRAND licence is for a limited time (shorter than the lifespan of the relevant patent), and in any event where the FRAND licence ceases to have effect for any other reason, there will be an express liberty to apply to return to the court to address the position at the termination of the FRAND licence. If the defendant has entered into the FRAND licence, there is no need for any injunction at all (paragraph 21). The injunction was stayed pending Huawei’s appeal.

Birss J addressed the question of whether Unwired Planet had abused its dominant position by reason of its conduct relating to this dispute at paragraphs 671–791 of the main judgment ([2017] EWHC 711 (Pat)). One of the allegations made by Huawei (discussed at paragraphs 674–755) was that the litigation was premature, because Unwired Planet had not followed the conditions set out in Huawei v. ZTE, and so Unwired Planet was not entitled to an injunction. Referring to Unwired Planet’s contact with Huawei prior to the issue of proceedings, to the fact that Huawei is a sophisticated organisation that could be expected to, and did, negotiate with Unwired Planet following the commencement of proceedings, and to the fact that Unwired Planet did provide the key terms of a licence offer to Huawei a few weeks after commencing proceedings, Birss J held that the litigation was not premature and Unwired Planet was not on this ground barred from seeking an injunction. He observed that this case differed from Huawei v. ZTE because the FRAND issue was separately justiciable (by reason of the undertakings given to ETSI) and Huawei did not need Article 102 TFEU to have a defence to the injunction claim. Even if he had concluded that Unwired Planet’s commencement of proceedings had been premature, it would not automatically have followed that an injunction should be refused, given the lapse of time since that date (paragraph 795). Birss J has granted permission to appeal on this point ([2017] EWHC 1304 (Pat), paragraph 65).

iii Licensing under FRAND terms

The disagreement as to the proper royalty rate in the Vringo v. ZTE case considered in Section IV.ii was substantial. Birss J explained in a judgment following a case management conference in the proceedings on 8 June 2015 ([2015] EWHC 1704, paragraph 9) that ‘the difference between £3,000 and £2.40 per unit worth £120,000 characterises the difference between the parties in terms of the royalty rates’. Vringo’s position was that a FRAND royalty would be 2 per cent of the sale price of the unit. ZTE’s position was that a FRAND royalty should be calculated with reference to the smallest saleable compliant part of the product. The parties’ positions were therefore orders of magnitude apart and based on quite different principles of calculation. Guidance as to the appropriate starting point would have been welcome. However, the parties reached a global settlement at the end of 2015, under which ZTE received a perpetual non-exclusive licence of Vringo’s entire portfolio for a one-off payment of US$21.5 million.
Guidance has now arrived from Birss J in the form of the *Unwired Planet* judgment. However, in the course of those proceedings, Birss J had cause to give a series of preliminary rulings on the FRAND issue, one of which went the Court of Appeal. In his judgment of 24 April 2015 ([2015] EWHC 1029 (Pat)), he considered an application for strike-out and summary judgment by Huawei. Huawei argued that Unwired Planet’s proposals were not compliant with its FRAND obligation because it was obliged to offer (1) single patent licences on request, (2) a licence under all SEPs relevant to a particular standard only, and (3) a licence under its SEPs relating to a particular territory. Birss J considered that these issues could not be resolved by summary judgment.

In his judgment of 21 July 2015 ([2015] EWHC 2097 (Pat)), Birss J struck out a competition law defence raised by Samsung as disclosing no real prospect of success. Samsung had argued that the agreements under which the patents were transferred to Unwired Planet were prohibited by Article 101 TFEU and therefore void because they failed to fully transfer the FRAND undertaking given by Ericsson to ETSI. (Unwired Planet was not itself an ETSI member.) Birss J thought it was enough for Unwired Planet to make a FRAND declaration of its own. The Court of Appeal (Kitchin LJ, with whom Tomlinson LJ and Sir Timothy Lloyd agreed) overturned the judge’s conclusion on this point ([2016] EWCA Civ 489) because of the failure to ensure that Unwired Planet would respect the non-discrimination part of Ericsson’s FRAND obligation. Birss J and the Court of Appeal, recognising that this is a developing area of law that has received recent attention from the ECJ and the European Commission, both considered that Samsung had an arguable defence to the effect that it would be anticompetitive to enable Unwired Planet to charge royalties higher than those that Ericsson would have been able to charge, and that Ericsson had sought to circumvent its own FRAND obligation through strategic sale of part of its patent portfolio to a third party.

Samsung settled with Unwired Planet and Ericsson in the summer of 2016 and discontinued its competition law counterclaim. Pursuant to that settlement, certain provisions that Samsung had contended were anticompetitive, including a provision that arguably put a floor on the royalty rate that Unwired Planet could offer, were removed from the agreement between Ericsson and Unwired Planet ([2017] EWHC 711 (Pat), paragraph 10). Following that settlement, on 1 August 2016, Unwired Planet made new offers on the same terms as its June 2015 offers, but at lower rates ([2017] EWHC 711 (Pat), paragraphs 11–12).

Birss J addressed the ‘what is FRAND’ issue at paragraphs 83–626 of the main judgment in the *Unwired Planet* proceedings ([2017] EWHC 711 (Pat)). He held that the FRAND undertaking to ETSI was legally enforceable between the parties as a matter of French law and so, in this case, it was not necessary to rely on competition law to enforce the FRAND undertaking. He further held that a royalty rate may be higher than the FRAND rate but still not contrary to competition law (i.e., not excessive pricing for the purposes of Article 102 TFEU). That is, ‘for competition law to be engaged, it will be necessary but not sufficient for a rate not to be the true FRAND rate’ (paragraph 153). In an advance on the possibility he considered in the *Vringo* judgment, he has now reached the view that, in fact, there can only be one FRAND rate and set of terms in any given case – but a contract entered into on non-FRAND terms is not necessarily unenforceable, because it does not necessarily breach competition law. Moreover, the concept of FRAND applies not only to the licence terms, but to the process by which those terms are negotiated: taking an extreme or intransigent approach to negotiations would not be FRAND. However, making an offer that includes non-SEP patents, or otherwise not at the FRAND rate, is not in itself non-FRAND, as long...
United Kingdom

as it does not prejudice or disrupt the negotiation. Birss J has granted permission to appeal on the issue of whether only one FRAND rate exists in any given case ([2017] EWHC 1304 (Pat), paragraph 62).

As to the exercise of working out what is and is not FRAND, he held that determining what a willing licensor and willing licensee would have agreed on without holding out or holding up was likely to assist in deciding the question; evidence from the parties of negotiations in the industry, of comparable licences and of decisions of other courts would all be relevant. Considering comparable licences, which at least in this industry inevitably involved a degree of ‘patent counting’, aimed at assessing the value of relevant (as opposed to merely declared) SEPs, enabled a benchmark figure to be identified. Birss J examined in detail the different patent counting methodologies proposed by the parties’ experts. This benchmark figure could then be ‘cross-checked’ using a ‘top-down’ approach looking at the total royalty burden (see [2017] EWHC 711 (Pat), paragraphs 475–476). Birss J has granted permission to appeal to Unwired Planet in respect of his treatment of the benchmark rate ([2017] EWHC 1304 (Pat), paragraph 68).

Birss J further held that the goal is to determine the FRAND rate by reference to the value of the patents being licensed, and so the rate does not vary depending on the identity of the licensee. However, there is no ‘hard-edged’ non-discrimination undertaking such that Unwired Planet was obliged to offer to Huawei the same rate it had offered to Samsung: the Samsung rate was relevant only in that it was a comparable licence ([2017] EWHC 711 (Pat), paragraphs 481–521). Birss J has granted permission to appeal on this point ([2017] EWHC 1304 (Pat), paragraph 64). Of course, if it could be shown additionally that the patentee was offering different rates in a manner that distorted competition, then the defendant in any event might rely on Article 102 TFEU in the usual way.

As to the territorial scope of the licence, Birss J held that a worldwide licence was FRAND and Unwired Planet were entitled to insist upon it ([2017] EWHC 711 (Pat), paragraphs 524–572). Unwired Planet’s portfolio was sufficiently large and had sufficiently wide geographical scope that a licensor and licensee acting reasonably and on a willing basis ‘would regard country-by-country licensing as madness’ (paragraph 543). Nonetheless, if the result would amount to unlawful bundling under competition law, then it would not be FRAND. In this case, however, given the prevalence of worldwide licensing and of assessment based on patent families, Birss J was not prepared to assume in the absence of analysis of actual effects that the tying of a SEP licence in one country to a SEP licence in another had by its nature a foreclosure effect (paragraph 550). Birss J has granted permission to appeal on this point ([2017] EWHC 1304 (Pat), paragraph 62). Birss J was plainly frustrated with Huawei’s failure to engage with Unwired Planet’s worldwide licence proposals, which required him to deal with the terms of the injunction at a separate hearing ([2017] EWHC 711 (Pat), paragraphs 581 and 794, and ([2017] EWHC 1304 (Pat), paragraph 4).

Finally, the FRAND licence would include a term providing for back royalties, from an effective date of 1 January 2013 (when the Huawei–Ericsson licence ended), to cover proven infringements up to the date of the trial ([2017] EWHC 711 (Pat), paragraph 593). Given Huawei’s failure to agree to a FRAND licence, Unwired Planet was entitled to damages, calculated on the compensatory principle (i.e., on the basis of the FRAND rate (paragraphs 796–802)).

The appeal from Birss J’s judgment was heard in the Court of Appeal in May 2018 before Kitchin, Floyd and Asplin LJJ. Guidance from the Court of Appeal in this area can, therefore, be expected in the coming year.
The *Unwired Planet* decision has, however, already been followed by important decisions in respect of jurisdiction.

Carr J in *Conversant Wireless Licensing v. Huawei Technologies & ors* ([2018] EWHC 808 (Pat)) referred heavily to Birss J’s approach. Carr J retained jurisdiction in England and Wales over a claim for jurisdiction of UK patents seeking the determination of a global FRAND rate. The Court held that the *forum conveniens* for the claims was England, since the claims were for infringement of UK patents, despite the fact that the Court might determine, in accordance with *Unwired Planet*, that the licence terms under which it would be FRAND for the parties to conclude would be on a global or portfolio-wide basis. Carr J observed that a requirement that the claimant should bring separate proceedings in each jurisdiction would be a ‘hold-out charter’. Permission was given to serve out of the jurisdiction. Carr J has granted permission to appeal ([2018] EWHC 1216 (Ch)).

The *Apple v Qualcomm* proceedings have also seen an initial jurisdictional ruling from Morgan J ([2018] EWHC 1188 (Pat)). On that occasion, the High Court declined to allow Apple to bring its case alleging breach of Qualcomm’s FRAND undertaking. Morgan J determined that: (1) affiliates of those who make declarations of essential patents to ETSI are not liable for breach of the terms of ETSI’s IPR Policy, as a matter of the proper construction of the relevant provisions by reference to French law; (2) a claim for a declaration as to the exhaustion of rights concerns a ‘claim form relating to a registered right’ that may be served on a foreign party without permission at a registered service address in the UK; and (3) Gateway 4A of paragraph 3.1 of Practice Direction 6B is only available where another claim has in fact been served in reliance on one of the other stipulated gateways. The jurisdictional problem essentially arose from Apple’s reliance on UK subsidiaries of Qualcomm as ‘anchor’ defendants entitling them to bring proceedings in the UK, even though those subsidiaries did not own the relevant patents. The effect of Morgan J’s judgment is that (subject to appeal) Apple’s central FRAND claim will not be allowed to proceed, although related claims will – including, for now, Apple’s follow-on claim based on the European Commission’s decision.

iv Anticompetitive or exclusionary royalties

In the main *Unwired Planet* judgment ([2017] EWHC 711 (Pat)), Birss J rejected (at paragraphs 756–784) a suggestion that Unwired Planet had abused its dominant position under Article 102 TFEU by making offers that significantly exceeded the FRAND rate and constituted an attempt to impose an unfair selling price. Birss J held that a FRAND rate would not be abusive, but a rate can be higher than the FRAND rate without being abusive too. Further, even the making of offers significantly higher than the FRAND rate that would, if imposed, constitute excessive pricing was not abusive, since those offers ‘were obviously made as a step in negotiation and did not prejudice or disrupt it’ (paragraph 784). Similarly, it was not contrary to the law on tying and bundling to make a first offer that put SEPs and non-SEPs together, in the absence of evidence on the facts of the case that the patentee was trying to use the market power given by the SEPs to secure a licence under the non-SEPs (paragraphs 785–791. It may be noted that there was no disagreement between the parties on the royalty base, and so Birss J was not asked to rule on whether the FRAND rate should be calculated by reference to the smallest saleable unit, a live controversy in other jurisdictions that may feature in future UK cases.
V  INTELLECTUAL PROPERTY AND MERGERS

i  Transfer of IP rights constituting a merger

Under EU law, there may be a ‘concentration’ where only part of an undertaking is acquired, as long as that part constitutes a business with identifiable market turnover; that part can consist of the acquisition or exclusive licence (for a duration sufficient to effect a structural change in the market on a lasting basis) of intellectual property rights.18 UK regulatory guidance likewise acknowledges that intangible assets can in theory constitute an enterprise where it is possible to identify turnover directly related to the transferred intangible assets that will also transfer to the buyer.19 That concentration must then be assessed by asking whether it would significantly impede effective competition in the common market or a substantial part of it, in particular as a result of the creation or strengthening of a dominant position.20 For example, the combination of intellectual property assets in a concentration may make expansion or entry by (potential) competitors more difficult and thereby impede effective competition.21

ii  Remedies involving divestitures of intellectual property

Under both EU and UK law, proposed concentrations that raise concerns may obtain clearance through the implementation of or the commitment to implement modifications or remedies addressing the concerns.

The policy objective is that any proposed divestiture remedy should be effective in that it sufficiently enhances the acquirer’s ability to compete with the merger parties and so addresses the substantial lessening in competition caused by the merger. The applicable guidance suggests that intellectual property remedies pose particular risks in this regard. There may be ongoing uncertainty where what is proposed is a licence of intellectual property rights, as opposed to an outright divestiture of intellectual property assets or of a business including intellectual property assets. Licensing may be accepted instead of divestiture where divestiture would be impossible or would impede ongoing research. However, the licensee must have the necessary resources such as sales networks to be able to use the licence to enable effective competition.22 Other intellectual property remedies include rebranding23 and, where it is at least as effective as divestiture or part of a package of other remedies, and where ongoing dispute resolution problems are adequately addressed, the grant of access to intellectual property rights (such as patents, interoperability information, or access to new releases or upgrades of technology) to competitors.24 Intellectual property remedies of this type, which may require ongoing monitoring, are more comparable to ongoing behavioural commitment remedies, which are generally regarded by the authorities as being riskier.25

18 See generally the Commission’s Consolidated Jurisdictional Notice (2007), paragraph 24.
19 OFT1254, ‘Merger Assessment Guidelines’ (2010), paragraph 3.2.4.
20 Merger Regulation, Articles 2(2) and 2(3).
21 OFT1254, ‘Merger Assessment Guidelines’ (2010), paragraph 5.8.5.
22 Commission’s notice on remedies (2008), paragraph 38; CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), paragraph 3.29.
23 Commission’s notice on remedies (2008), paragraph 39.
24 Commission’s notice on remedies (2008), paragraphs 61–66 and 130.
Because of the risks posed by intellectual property remedies, the guidance suggests that outright divestiture of a business (including intellectual property assets and the resources needed to make use of those assets) is the preferred remedy where it is feasible.\textsuperscript{26}

The UK regulator notes that international coordination with other competition authorities may be particularly important in the case of mergers critically dependent on intellectual property rights.\textsuperscript{27}

VI OTHER ABUSES

i Sham or vexatious IP litigation

There remains very little case law in the area of vexatious litigation, and what case law there is sets a very high bar for what counts as abuse of a dominant position. In Case T-111/96 ITT Promedia NV v. Commission [1998] ECR II-02937, both the Commission and the General Court considered that the mere act of entering into litigation could not constitute an abuse of a dominant position, unless a dominant firm brings an action that is ‘manifestly unfounded’ and brought with the aim of eliminating competition. Each of these criteria should be construed restrictively, since restraining a dominant firm from engaging in litigation constitutes a limit on its fundamental right of access to the courts.

The General Court further endorsed this approach in Case T-119/09 Protégé International Ltd v. Commission ECLI:EU:T:2012:421. Pernod Ricard had a trademark for a drink called Wild Turkey and brought proceedings against Protégé in respect of its application for registration of the Wild Geese trademark. The General Court held that this conduct was not abusive since there was a potential risk of confusion between the two brands and so Pernod’s case was not manifestly ill-founded.

It might be said that these rulings cast some doubt on the approach taken by the European Commission in its Motorola decision (see Section IV).

ii Misuse of the patent process

Case C-457/10 P AstraZeneca AB v. Commission ECLI:EU:C:2012:770 remains the leading case. The Commission had made an infringement decision against AstraZeneca, finding that it had breached Article 102 TFEU by: (1) obtaining supplementary protection certificates in respect of its omeprazole-based medicine (Losec) by submitting deliberately misleading information to the patent authorities; and (2) withdrawing its marketing authorisation for Losec in the form of capsules so that generic pharmaceutical companies could not commercialise their generic omeprazole capsule products. The General Court and then the Court of Justice substantially upheld the Commission’s findings. As to (1), the Court of Justice made it clear that a misleading statement will not suffice on its own, but the consistent conduct in this case did (paragraphs 61–100). As to (2), the Court of Justice explained that

26 CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), paragraph 3.30. However, for a recent example where the CMA ordered a lengthy (eight years, including a one-year ‘blackout’) exclusive licence of a brand including all associated intellectual property rights to allow the licensee to transition the existing brand to its own, see the CMA’s acceptance on 20 June 2016 of final undertakings from Reckitt Benckiser (the owner of the ‘Durex’ brand) in respect of its acquisition of the ‘K-Y’ brand of personal lubricants from Johnson & Johnson: accessible at www.gov.uk/cma-cases/-reckitt-benckiser-johnson-johnson.

Article 102 functions as a constraint on dominant undertakings’ conduct even where they are otherwise acting within their rights under the regulations (paragraphs 114–56). The regulations underlying both (1) and (2) have now changed. However, this judgment does provide some guidance, even though it leaves the Article 102 concept of ‘competition on the merits’ unelucidated.

The European Commission identified misuse of the patent process as an area of concern in its Pharmaceutical Sector Inquiry Report of 8 July 2009 (e.g., paragraphs 507–22) and recommended the strengthening of competition law action (paragraphs 1,564–1,577).

iii Anticompetitive settlements of IP disputes

In common with other jurisdictions, there has in recent years been greater scrutiny in the United Kingdom of the potential for anticompetitive effects of the settlement of patent disputes, in particular where an originator company makes a ‘value transfer’ to a generic company to avoid or delay the entry of generics onto the market. The European Commission has issued two pay-for-delay decisions. In 2013, it imposed fines of nearly €150 million on the Danish pharmaceutical company Lundbeck Ltd and several generic pharmaceutical producers in relation to what it found were deals to delay the market entry of cheaper generic versions of Lundbeck’s branded anti-depressant medicine citalopram, which imposed an unlawful restriction by object under Article 101 TFEU. In 2014, it fined the French pharmaceutical company Servier SAS and five generic pharmaceutical companies a combined total of €427.7 million, finding that towards the end of the life of Servier’s patent protection for its bestselling blood pressure medicine, perindopril, Servier implemented a strategy to delay entry onto the market of generic versions of perindopril by purchasing technology that would have assisted generics producers and then by initiating and settling patent litigation with generics producers by making certain payments and other ‘value transfers’ to them.28 The Commission found that the agreements breached Article 101 TFEU (both as to their object and as to their effect) and that Servier’s conduct also breached Article 102 TFEU. Both decisions have been appealed and judgment from the General Court is awaited in both cases.

On 12 February 2016, the CMA made its own infringement decision (Paroxetine) against GlaxoSmithKline plc (GSK) and two generic pharmaceutical companies, Generics (UK) Ltd (GUK) and Alpharma Ltd, in an alleged ‘value transfer’/pay-for-delay/reverse payment case.29 The companies were fined £45 million in total. The £37 million fine imposed on GSK was at the time the second-largest ever levied on a single company.

The decision related to conduct and agreements between 2001 and 2004 concerning GSK’s branded paroxetine-based anti-depressant medicine (Seroxat), which was at the time one of GSK’s bestselling medicines. During this period GSK held certain patents in relation to paroxetine. The CMA found that in 2001, various generic pharmaceutical companies, including Norton Healthcare Ltd (IVAX), GUK and Alpharma, were taking steps to enter the market with generic versions of paroxetine. GSK considered that its patents would be infringed if the generic companies brought their products to the market. It settled its differences with IVAX without commencing litigation and with GUK and Alpharma after litigation had commenced. The CMA found that these settlements involved payments and other ‘value transfers’ that induced the generic companies to delay their entry as competitors

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into the UK market for paroxetine, and that: (1) GSK and GUK thereby breached Article 101 TFEU and the Chapter I prohibition, by both object and effect; (2) GSK and Alpharma thereby breached the Chapter I prohibition, by both object and effect; (3) there was no breach of the Chapter I prohibition in respect of the settlement with IVAX because it was excluded by virtue of the then-applicable CA 1998 (Land and Vertical Agreements Exclusion Order) 2000, SI 2000/310; and (4) GSK thereby breached the Chapter II prohibition through its conduct in relation to all three settlement agreements.

GSK, GUK and Alpharma appealed to the CAT against this decision. Each disputed both liability and the size of the fine. The five-week trial took place between 27 February and 31 March 2017. The CAT handed down its judgment on 8 March 2018, indicating that it had decided to refer questions to the Court of Justice in respect of each of the central issues. It made its Order for a preliminary reference to the CJEU on 27 March 2018 (including a length statement of facts), covering the following central issues:

- potential competition: The CAT expressed the provisional view that the decision was correct to find that the generic companies were potential competitors of GSK, but it decided that it was necessary to refer a question to the CJEU on this point (see [90]–[159] and [413]–[419] of the judgment);
- infringement by object: One of the most controversial issues on the appeals was whether the agreements could be characterised as ‘pay-for-delay’ agreements and, if so, whether they gave rise to an infringement of competition law by object. A further layer of complexity was how to analyse the benefits of the agreements. The CAT considered that the question of whether the agreements had the object of restricting competition was of wide importance and the law was not free from doubt, so that a reference to the CJEU needed to be made (see [160]–[326] of the judgment);
- infringement by effect: The CAT decided that it was necessary to refer a question to the CJEU asking whether a real possibility that the generic companies would have succeeded against GSK in the patent litigation was sufficient to establish an infringement by effect (see [327]–[349] of the judgment);
- market definition: The CAT disagreed with the approach taken by the CMA in its decision, but expressed a provisional view that the decision could be supported on the alternative basis advanced by the CMA’s expert at the hearing, that the expected competitive constraint of generic entry can be taken into account once such entry becomes a realistic possibility, in circumstances where the alleged abuse was targeted at those generic companies. It recognised that this approach to market definition was ‘novel’ and, therefore, referred a question to the CJEU on this point (see [379]–[409] of the judgment); and
- abuse. As the question of whether GSK had committed an abuse depended in part on the same issues as arose in the questions concerning the agreements, the CAT decided that it was also necessary to refer questions to the CJEU on abuse (see [420]–[426] of the judgment).

Finally, the Tribunal also dismissed the appellants’ arguments in relation to the exclusion order for vertical agreements, block exemption, individual exemption, breach of the rights of defence and attribution of liability.

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30 The judgment, order for reference and other key documents including appeal summaries and transcripts of the hearing are accessible at www.catribunal.org.uk/237-9158/1252-1-12-16-GlaxoSmithKline-PLC.html.
VII OUTLOOK AND CONCLUSIONS

Prior to the general election on 8 June 2017 (in which the Conservative Party lost its outright majority in Parliament), the government had indicated in a White Paper that Brexit would involve leaving the European Economic Area (EEA) (a ‘hard Brexit’).31 The consequences of such a course of action for UK competition law would be profound, with the most immediate effects being on matters of procedure and enforcement. In the long term, it may be that UK competition policy, no longer bound by the need to promote the EEA’s single market, would move in a different direction from EU competition policy, so that there would be divergence on substantive law.

Speculation as to the likely outcome of the Brexit negotiations and the consequences of a hard Brexit is, however, beyond the scope of this chapter. The reader is referred to the valuable work that has been undertaken by various organisations and working groups in this regard.32

More concretely, there is the prospect in the coming year of additional judicial guidance, in particular in the important and hitherto relatively underdeveloped area of licensing under FRAND terms (the forthcoming appeal to the Court of Appeal on various important points of principle in the Unwired Planet litigation, and the related issues arising out of the Conversant v. Huawei and Apple v. Qualcomm cases). The Court of Justice judgment concerning pay-for-delay patent settlements (further to the reference made by the CAT in the Paroxetine appeal) may also be expected to provide important guidance when it arrives, albeit that it is not expected to do so in the coming year owing to the fact that the reference is still at an early stage.

31 ‘The United Kingdom’s exit from and new partnership with the European Union’ (Cm 9417) (2 February 2017).

32 The work of the Brexit Competition Law Working Group, including its final conclusions and recommendations reached in July 2017, is accessible at www.bclwg.org. See in particular the views of Sir John Vickers, the Group’s chair (Warden of All Souls College, Oxford, and former Director General/Chairman of the Office of Fair Trading (the CMA’s predecessor)), on the possible future direction of UK competition policy: ‘Consequences of Brexit for competition law and policy’, 7 December 2016, accessible at www.bclwg.org/wp-content/uploads/2016/12/Vickers-British-Academy-7-Dec-16.pdf. See also the helpful summary by Sir Peter Roth (the current president of the CAT) of the effects on the enforcement and substance of competition law, including transitional provisions, likely to arise from a ‘hard Brexit’: ‘Competition law and Brexit: the challenges ahead’ [2017] Comp Law 5, accessible at www.jordanpublishing.co.uk/system/froala_assets/documents/1580/CLJ_2017_01_Sir_Peter_Roth.pdf.
UNITED STATES

Garrard R Beeney and Renata B Hesse

I INTRODUCTION

In the United States, antitrust law and intellectual property (IP) law are two complementary bodies of law, each designed to promote innovation, market competition and consumer welfare. However, holders of intellectual property rights (IPR) are not exempt from the application of US antitrust laws, and may not protect or enforce their rights in a manner that unfairly eliminates competition.

Antitrust law in the United States is primarily federal law, codified in three main statutes under Title 15 of the United States Code (USC), namely: the Sherman Act, the Clayton Act and the Federal Trade Commission Act (the FTC Act). The Sherman Act prohibits agreements in restraint of trade and bars unilateral conduct that monopolises or constitutes an attempt to monopolise a given market. The Clayton Act, which governs mergers and acquisitions, prohibits mergers and acquisitions that substantially lessen competition or tend to create a monopoly. Finally, the FTC Act broadly prohibits the use of any unfair methods of competition and any unfair or deceptive acts or practices that affect commerce. In the United States, the Department of Justice (DOJ) and the Federal Trade Commission (FTC) (together, the Agencies) share jurisdiction for enforcing federal antitrust law.

In addition to the antitrust statutes and the case law interpreting them, the DOJ and FTC have released the Antitrust Guidelines for the Licensing of Intellectual Property to help IPR holders comply with their antitrust obligations when licensing IP (the Guidelines). In January 2017, the Agencies released an update to their original Guidelines, published in 1995, which included recent precedent cases and incorporated certain sections of the 2010

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1 Garrard Beeney and Renata Hesse are partners at Sullivan & Cromwell LLP. The authors wish to acknowledge the valuable contribution to this chapter by Franklin Liu.
3 2017 Guidelines, Section 2.1.
Horizontal Merger Guidelines. The 2017 Guidelines, like the original 1995 Guidelines, emphasise three main principles: (1) for antitrust purposes, the Agencies apply the same framework for analysing IP as they do for tangible property; (2) an IP right does not by itself confer market power on its recipient, within the meaning of antitrust law; and (3) licensing IP can enable firms to achieve more efficient production and is generally viewed as pro-competitive. However, the updated Guidelines do not address several important and controversial topics, such as the Agencies’ approach to patent assertion entities (PAEs), standard-essential patents (SEPs) and the evaluation of fair, reasonable and non-discriminatory (FRAND) terms under the antitrust laws.

The federal antitrust statutes, their associated case law and the Agencies’ Guidelines are the primary resources with which practitioners who operate at the intersection of US antitrust and IP law should be familiar. This chapter provides a high-level overview of those authorities and highlights some of the key issues specific to the juncture of antitrust and intellectual property law in the United States.

II YEAR IN REVIEW

The 2017 calendar year marked the first year of President Trump’s administration, and was a busy one for both the courts and the Agencies with respect to antitrust and IP matters.

In January 2017, shortly before President Trump’s inauguration, the FTC filed a complaint against Qualcomm alleging that the company, the world’s largest supplier of baseband processors for cellular devices, engaged in unfair competition in violation of the FTC Act by, among other things, requiring its customers to pay royalties under a licence agreement with Qualcomm before Qualcomm would agree to sell processors to device manufacturers (known as the ‘no licence, no chips’ policy), refusing to license SEPs to its competitors and requiring Apple to agree that it would exclusively source processors from Qualcomm in exchange for reduced royalties. The complaint spurred numerous follow-on suits against Qualcomm from Samsung, Intel and others. In June 2017, the court denied Qualcomm’s motion to dismiss the FTC’s complaint, holding that the FTC adequately alleged that: (1) the ‘no licence no chips’ policy forced Qualcomm’s device manufacturer customers to pay above-FRAND rates and harmed competition; (2) Qualcomm, under the facts alleged, had an antitrust duty to license its patents to its chip-manufacturing competitors; and (3) Qualcomm’s exclusive dealing arrangements with Apple violated the Sherman and FTC Acts.

Subsequent to the inauguration, the president nominated a new head of the DOJ’s antitrust division and a new FTC chairman. Assistant Attorney General Delrahim at the DOJ has repeatedly commented that antitrust policy in the Agencies had swung too far

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12 FTC v. Qualcomm Inc., No. 17-CV-00220, 2017 WL 2774406 (N.D. Cal. June 26, 2017). Following President Trump’s inauguration, his new acting FTC chair Maureen Ohlhausen (who had previously been the only FTC Commissioner to vote against suing Qualcomm) stated that she was worried that the case would fuel attacks on US IP rights by antitrust agencies in Asia and elsewhere. This led to speculation that the FTC might consider settling or dropping the action, but so far it has not done so.
in favour of technology implementers; that standard-setting behaviour by patent owners can be adequately addressed under contract and fraud principles and does not implicate antitrust law; and that antitrust enforcement policy must adequately protect innovation and the legitimate interests of patent owners. In November 2017, he announced a new approach within the DOJ for SEPs that the patent owner has committed to license on FRAND terms, stating that: (1) FRAND is not a compulsory licensing scheme; (2) unilateral refusals to license should be per se lawful; (3) patent ‘holdout’ by implementers is a more serious problem than ‘holdup’ by patent owners; and (4) standards-setting organisation (SSO) rules that ‘skew the bargain in the direction of implementers warrant a close look to determine whether they are the product of collusive behavior’.\(^\text{13}\) The position of recently affirmed FTC chair Joseph Simons on these matters is not yet known. Notably, however, as director of the FTC Bureau of Competition during the G W Bush administration, he oversaw a number of enforcement actions against patent owners involved in SSO proceedings, including an action against Rambus Inc.\(^\text{14}\)

In December 2017, a district court in California Issued a long-awaited decision determining worldwide FRAND royalty rates for a wireless SEP portfolio. The court used both a ‘top-down’ patent counting approach, and an analysis of the patent owner’s comparable licences, to determine FRAND royalty rates for its portfolio of more than 100 patent families essential to one or more of the 2G, 3G or 4G wireless standards. The top-down approach generally attempts to determine the value to the accused device of the universe of all SEPs and then asks what share of that total value the patent owner should obtain as a result of its numerical share of all SEPs. After determining the FRAND rate, the court held that while the patent owner’s prior offers to the potential licensee were not FRAND, it had not negotiated in bad faith, and the court refrained from ruling whether the patent owner had been obliged by its FRAND declarations to the relevant SSO to offer a FRAND rate from the start of licence negotiations.\(^\text{15}\)

The courts were also busy in 2017 with a number of decisions revamping the contours of US patent law with implications for cases also raising competition issues. The Supreme Court was particularly active, issuing decisions that: (1) upended 30 years of patent venue law and restricted patent owners to filing suit only where the defendant is incorporated or has a substantial place of business;\(^\text{16}\) (2) eliminated laches (unreasonable, prejudicial delay in filing suit) as a defence to patent infringement;\(^\text{17}\) and (3) held that any authorised sale of a


patented product, foreign or domestic, ‘exhausts’ the patent owner’s rights, and overturned
long-standing precedent that had allowed patent owners to preserve rights through otherwise
lawful post-sale restrictions. 

Finally, the United States Court of Appeals for the Federal Circuit, the first line of
appeal for patent cases in the US, issued decisions cutting back on the ability of the US Patent
and Trademark Office to invalidate previously issued patents through the agency’s inter partes
review procedure, which has been described as a patent ‘death squad’.

III LICENSING AND ANTITRUST

Licensing intellectual property can help lead to efficient combinations of inputs and thereby
benefit both licensees and consumers, who gain access to new products and less costly
goods and services. Notwithstanding its pro-competitive virtues, the process of licensing
intellectual property can, however, also be exploited to harm competition; for instance, by
eliminating actual or potential competitors who would have existed if not for a restrictive
licensing arrangement. While the Agencies and courts have held that a firm’s unilateral
refusal to license IP to a competitor is not by itself a violation of the antitrust laws (noting
that such a rule could sharply diminish the incentives firms have to invest in ex ante research
and development), IPR holders are not exempt from the application of the antitrust laws and
thus must avoid engaging in conduct that may have anticompetitive effects.

As noted, the DOJ and FTC issued a modest refresh to their original Guidelines in
early 2017 to reflect intervening developments in statutory and case law. The Guidelines
emphasise that, in evaluating licensing agreements, the Agencies adopt an effects-based
framework with a focus on the actual or likely effects the licence will have on competition.
Since licensing is generally viewed as pro-competitive, most restrictions in licensing
arrangements are evaluated under the ‘rule of reason’ (simplified, a balancing between the
pro-competitive and anticompetitive effects of the alleged conduct) rather than the ‘per
se’ rule (under which the conduct at issue is deemed anticompetitive without proof that the
conduct had an adverse effect on competition). Perhaps the most notable change in the 2017
Guidelines was to reflect the Supreme Court’s June 2007 holding in Leegin Creative Leather

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19 See, e.g., Wi-Fi One, LLC v. Broadcom Corp., 878 F.3d 1364 (Fed. Cir. 2018) (allowing appeal of a
broad class of patent office decisions); Aqua Prods., Inc. v. Matal, 872 F.3d 1290 (Fed. Cir. 2017) (en banc) (making it easier for a patentee to amend claims during an inter partes review to avoid invalidity);
EmeraChem Holdings, LLC v. Volkswagen Group of Am., Inc., 859 F.3d 1341 (Fed. Cir. 2017) (requiring
additional notice to patent owner before invalidating patent); Ultratec, Inc. v. CaptionCall, LLC, 872 F.3d 1267 (Fed. Cir. 2017) (raising bar for consideration of expert testimony to invalidate patent in inter partes review).
20 2017 Guidelines, Section 2.3.
23 2017 Guidelines.
24 Id. at Section 3.1.
25 Id. at Section 3.4.
Products v. PSKS that minimum resale price maintenance, the practice of setting a minimum price at which a good can be resold, is not \textit{per se} illegal (as had been reflected in the 1995 Guidelines), but must instead be analysed under the rule of reason.\textsuperscript{26}

The 2017 Guidelines also clarified the parameters of the antitrust ‘safety zone’, a doctrine intended to aid business planning. The safety zone provides that, in the absence of ‘extraordinary circumstances’, the Agencies will not challenge a restraint contained in an IP licence provided (1) the restraint is not anticompetitive on its face (for instance, one that facilitates price-fixing or output restrictions), and (2) the licensor and the licensee’s combined shares for the relevant affected market is below 20 per cent.\textsuperscript{27} Practitioners should be aware that, while particular licence conditions or restraints may not necessarily run afoul of the antitrust laws, these licence provisions must also be evaluated under other doctrines such as the judicial doctrine (in the case of patents) or the statutory provisions (in the case of copyright) governing exhaustion.

\textbf{IV STANDARD-ESSENTIAL PATENTS}

Collaboratively setting standards for technologies is important to a variety of industries, as the practice facilitates the creation of follow-on inventions while promoting future innovation and interoperability of products.\textsuperscript{28} However, standard setting may also raise antitrust issues, such as when a patent gains additional market power when the patented technology becomes adopted as part of an industry standard and the patent becomes an SEP. In such an event, the patent’s value may increase because it can be used to block implementation of the standard, and the patent owner may attempt to exploit this newly acquired leverage by refusing to license the standard-essential technology unless licensees agree to excessively high royalties (a practice commonly referred to as ‘patent holdup’).\textsuperscript{29} In essence, the adoption of patented technology into a standard may confer market power on the patent holder that would otherwise not have existed, and that market power may then be abused if not constrained. If many holders of SEPs engage in patent holdup, the aggregate royalties for patents essential to a given standard may actually be greater than the value of the actual feature, or indeed the product incorporating the feature.\textsuperscript{30}

In response to these issues, and to minimise exploitative licensing, many SSOs ask that patent holders who wish to have their technology considered for incorporation into the industry standard voluntarily pledge to license their patents on FRAND terms. FRAND commitments serve several salutary purposes: linking patent holders with those who incorporate and implement patented technologies; ensuring royalties more closely reflect the actual value of the patent by minimising the surplus attributable solely to adoption of the patented technology into the standard; and incentivising patent holders to put forth their best technology to be standardised. Of course, SSO participation is voluntary and SSO

\begin{align*}
\text{26} & \quad \text{Id. at Section 5.2, see \textit{Leegin Creative Leather Products, Inc. v. PSKS, Inc.}, 551 U.S. 877 (2007).} \\
\text{27} & \quad 2017 \text{ Guidelines, Section 4.3.} \\
\text{29} & \quad \text{\textit{Ericsson, Inc. v. D-Link Sys., Inc.}, 773 F.3d 1201, 1209 (Fed. Cir. 2014).} \\
\text{30} & \quad \text{Id.}
\end{align*}
FRAND principles address only the constraints on participating patentees. Other doctrines, including the fact that the patent statute allows for damages in an amount of a ‘reasonable’ royalty, have been used to curtail royalty demands based on factors other than the actual value of the patented technology to the allegedly infringing device.

SSOs typically do not ‘set’ a FRAND rate or other terms. In most cases, the SEP holder and licensee attempt to agree on what would constitute FRAND terms and then execute a licence agreement reflecting those terms after successful negotiations. However, the FRAND commitment to the SSO generally is considered a binding commitment that runs with the patent, and may be enforced by a prospective licensee as a third-party beneficiary of the SSO commitment. A breach of a commitment to license on FRAND terms may constitute grounds for an antitrust suit by one injured as a result of the breach. When it comes to policing compliance with FRAND commitments, US antitrust law operates more as a backstop than a primary check on SEP licensing, with the Agencies primarily acting as competition advocates that assist SSOs through a variety of Agency programmes to craft clear guidance for patent holders. Indeed, the Agencies generally refrain from intervention in private licence negotiations unless a patent holder’s failure to honour its FRAND commitment is deliberate and rises to the level of an antitrust violation under Section 2 of the Sherman Act.31 Indeed, former Assistant Attorney General Bill Baer in a September 2015 speech at the 19th Annual International Bar Association Competition Conference emphasised that the Agencies, in line with their European counterparts, will not intervene in basic commercial disputes over royalty rates in the absence of bad conduct by the patent holder or improper use of market power.32

Exactly what ‘fair, reasonable and non-discriminatory’ means in the licensing context, however, remains sometimes controversial and largely unsettled. Although jurists and agencies in Europe have been more active in defining both what constitutes a FRAND rate and the process parties should engage in to get there,33 currently there is less guidance in the United States. While several district courts – most recently in the 2017 TCL decision34 – and one appellate court have directly addressed the issue, determinations of FRAND terms are highly fact-specific and may vary widely depending on the patents, standards and products at issue. Thus, the Agencies have been mostly silent on what specifically constitutes FRAND licensing, and the courts have avoided applying bright-line tests. Instead, US courts defining FRAND have considered the rates in ‘comparable’ licences for similar technologies and patents, the rates for patent pools with respect to standards, the objective value of the patent to the standard, the availability of alternatives and their quality, whether the patent covers the core features of the standard, the possibility of royalty stacking and the number of essential patents that may read on a particular standard.

In 2015, the US Court of Appeals for the Federal Circuit decided Commonwealth Science and Industry Research Organisation (CSIRO) v. Cisco Systems, a case involving certain

31 Broadcom Corp. v. Qualcomm, Inc., 501 F.3d 297 (3d Cir. 2007). However, in Amphastar Pharms., Inc. v. Momenta Pharms., Inc., the First Circuit Court of Appeals reconfirmed that the Noerr-Pennington doctrine does not immunise conduct before an SSO from antitrust scrutiny. 850 F.3d 52, 56 (1st Cir. 2017) (citing Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492 (1988).
32 See note 31.
34 No. SACV 14-341, 2017 WL 6611635.
technologies incorporated into the IEEE 802.11 Wi-Fi standard. The Federal Circuit held that, while the smallest saleable patent-practising unit is one appropriate base for calculating damages, it is not the exclusive method for apportioning the value of a patent to the allegedly infringing product, especially if the record indicates that the parties actually negotiated a different base in reality. The CSIRO decision also emphasised that, in determining whether a given royalty is excessive, the actual cumulative royalty paid by the implementer must be proven and the implementer may not rely on abstract recitations alleging royalty stacking or qualitative assertions of the value of inventions without some quantitative evidence. The CSIRO decision’s focus on actual quantitative evidence is thus consistent with the Federal Circuit’s 2014 decision in Ericsson v. D-Link. D-Link involved the adjudication of whether Ericsson had complied with its obligation to license a patent essential to the IEEE 802.11 Wi-Fi standard on FRAND terms, and held that in determining FRAND damages, concerns about patent holdup must be proven using specific facts from the case, rather than on the basis of theory or general probability.

V INTELLECTUAL PROPERTY AND Mergers

In the United States, all mergers and acquisitions, whether or not they involve transfers of IP rights, must comply with Section 7 of the Clayton Act, which prohibits mergers and acquisitions that substantially lessen competition or tend to create a monopoly. In addition, practitioners need to be aware that certain transactions that exceed a certain minimum dollar amount in value must be reported to the FTC and the Antitrust Division of the DOJ before consummation, pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act). The HSR Act establishes a waiting period before acquisitions that exceed the threshold may close to give the Agencies sufficient time to scrutinise more closely mergers of a certain size.

Furthermore, the 2017 Guidelines state the Agencies’ position that complete sales of intellectual property rights and transfers of exclusive IP licences will be treated as analogous to mergers and thus are subject to the guidance contained in the 2010 Horizontal Merger Guidelines (another DOJ and FTC joint release). Importantly, such ‘mergers’ will not be eligible for treatment under the safety zone for licensing restraints set out in Section 4.3 of the 2017 Guidelines.

As for substantive evaluations of acquisitions, the 2017 Guidelines again emphasise that in evaluating conduct, the Agencies adopt an effects-based framework with a focus on the actual or likely effects on competition and not the potential harms to any individual competitor. For example, the Agencies have approved certain acquisitions subject to certain conditions aimed at restoring the competition eliminated as a result of the transaction, such

36 Id. Assistant Attorney General Delrahim has stated that ‘while the so-called “smallest saleable component” rule may be a useful tool among many in determining patent infringement damages for multi-component products, its use as a requirement by a concerted agreement of implementers as the exclusive determinant of patent royalties may very well warrant antitrust scrutiny’. AAG Delrahim Speech, note 13.
37 Id.
38 Ericsson v. D-Link, 773 F.3d 1201, 1234 (Fed. Cir. 2014).
41 2017 Guidelines, Section 5.7.
as requiring the acquirer to agree to divest certain IP rights. In March 2009, in connection
with the 2007 acquisition of Wild Oats by Whole Foods, the FTC agreed to a settlement
with Whole Foods that required Whole Foods to sell 32 Wild Oats stores and divest related
Wild Oats IP, such as the rights to the Wild Oats brand. Similarly, in July 2016, the DOJ
agreed to a settlement with Anheuser-Busch InBev (ABI) as part of ABI’s acquisition of
SABMiller, requiring ABI to, among other things, divest itself of SABMiller’s US business
and the worldwide brand rights to Miller beer.

VI OTHER ABUSES

Sham litigation and pay-for-delay cases in the pharmaceutical industry continued to gain the
attention of the Agencies and courts in 2017. Given the different marketing approval processes
for brand-name and generic drugs in the United States, brand-name drug manufacturers have
a government-granted monopoly in the market for their drug until a generic competitor is
eligible to receive FDA approval and actually receives it. Both private parties and the Agencies
have alleged that certain brand-name drug companies from time to time seek to limit the
onset of generic competition; for example, by offering generic competitors payments to delay
filing their Abbreviated New Drug Application for their generic (reverse payments) or by
filing sham patent infringement lawsuits and citizen petitions in an effort to delay the onset
of generic competition.

In March 2016, the FTC filed a complaint against Endo Pharmaceuticals Inc and
others, alleging the companies violated antitrust laws on a pay-for-delay theory, which had
the effect of blocking consumers’ access to lower-cost generics. Specifically, the complaint
alleges that Endo not only paid Impax Laboratories and Watson Laboratories – which
market Opana ER and Lidoderm respectively – not to file for FDA approval of their generic
equivalents, but also agreed as consideration not to market their own generic (known as an
authorised generic, or AG) to compete with Opana and Lidoderm, once the generic versions
finally did hit the market. The case was notable not only because Impax and Watson were
the first generic companies to file for marketing approval, but also because it marked the first
time the FTC has sought to challenge a ‘no-AG commitment’ as an anticompetitive reverse

42 FTC Consent Order Settles Charges that Whole Foods Acquisition of Rival Wild Oats was
ftc-consent-order-settles-charges-whole-foods-acquisition-ri

43 Justice Department Requires Anheuser-Busch InBev to Divest Stake in MillerCoors and Alter Beer
justice-department-requires-anheuser-busch-inbev-divest-stake-millercoor

44 See Apotex Inc. v. Acorda Therapeutics, Inc., 823 F.3d 51 (2d Cir. 2016). Former Acting FTC chair
Ohlhausen has reiterated the FTC’s commitment to policing pay-for-delay settlements. However, because
the number of such settlements is declining, she suggested that the FTC may move resources into other
potentially anticompetitive activities in the brand name/generic context, including abuse of the FDA’s
regulatory and ANDA approval processes. Maureen K Ohlhausen, Remarks at the ABA’s Fall Forum,
reported in Law360 (16 November 2017), available at https://www.law360.com/articles/986119/ftc-
s-ohlhausen-sees-light-at-end-of-pay-for-delay-tunnel.

45 FTC Sues Endo Pharmaceutical Inc. and Others for Illegally Blocking Lower-Cost Generic Versions
of the Branded Drugs Opana ER and Lidoderm, Federal Trade Commission Bureau of Competition,
inc-others-illegally-blocking-lower.

46 Id.
payment. In early 2017, the FTC settled the case against Endo with a consent judgment prohibiting Endo from engaging in similar conduct in the future, but it has maintained the cases against Ipax and Watson.

As a general matter, any payments to generic manufacturers by brand-name producers are evaluated under the rule of reason because this conduct can have pro-competitive effects. While petitioning the government to enforce one’s patents is generally considered to be ‘speech’, protected by the US Constitution under the Noerr–Pennington doctrine, infringement litigation can lose this protection and become subject to antitrust scrutiny when the asserted patents are obtained by fraud, or the litigation claims are objectively baseless and asserted to protect a monopoly.

VII OUTLOOK AND CONCLUSIONS

While still too early for a definitive conclusion, it appears that the election of Donald Trump has led to the possibility of a more favourable position than previous administrations toward patent holders.

Globally, the trend in recent years towards harmonisation of competition laws as they are applied to IP has continued, with new focus on the meaning and consequences of the patent owner’s FRAND commitment by courts in the US, UK, Germany, Japan and China.

In the year ahead, we look forward to continued development of the law at the intersection of antitrust and IP, either through agency guidance and litigation, private litigation or both.

47 Id.
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Rais Amils joined Clifford Chance in 2001. She holds a degree in Law from Pompeu Fabra University and was awarded the ‘Extraordinary Prize for Graduation in Law’ for the top-ranked student when finishing her studies in 2000. She specialised in industrial property and competition matters during her master’s degree in European studies at the College of Europe (Belgium, 2000–2001). In 2005, she obtained her diploma of advanced studies (DEA). She has published various articles on a wide array of intellectual property and competition law topics. She was featured in The Legal 500 in the category ‘Next generation lawyers’.

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In addition to trying patent and antitrust cases, Mr Beeney has argued appellate cases in various courts, including in the US Supreme Court, the Federal Circuit and the Second Circuit Courts of Appeal, and the Supreme Court of Arkansas. He represents both plaintiffs and defendants in infringement actions, and advises plaintiffs on patent selection in pre-suit due diligence. Mr Beeney also frequently advises on licensing issues and IP monetisation, and has represented patent holders in the formation of licensing pools, including those related to the AVC, MPEG-2, MPEG-4, DVD, LTE, ATSC, VC-9, IEEE 1394 and other technologies.

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Maxim Boulba heads the competition group at CMS Russia and advises clients on competition law issues, such as merger control, as well as antitrust, behavioural and regulatory matters and IP issues. Maxim has been practising competition law since 2000.

Maxim has handled a large number of difficult merger clearances in Russia and the other CIS countries. As part of M&A transactions and corporate reorganisations, Maxim advises foreign investors on Russian merger control requirements and obtaining merger clearance in relation to the acquisition of companies and assets located in Russia and the CIS.

He has also successfully represented corporate clients in various administrative proceedings, inspections and dawn raids by the antitrust authorities, and has worked on projects related to antitrust compliance.

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About the Authors

instruments and economic competition obligations, among others (2010 to date). In areas of antitrust other than the telecommunications and broadcasting sector, Antonio has led the representation of various economic agents in defending their interests in the poultry industry, decorative painting and the aeronautical and financial services sectors. Mr Cárdenas became a local partner at White & Case, SC in January 2017.

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Mr Cen is attentive to antitrust rule updates and trends in China, in industry sectors such as automobiles, pharmaceuticals, energy and natural resources, TMT, etc., which enables him to keep clients abreast of legal developments in a timely fashion. He has represented or provided legal counsel for for several global Fortune 500 companies in dealing with legal affairs related to regulatory compliance, import and export control, and antitrust practice such as government investigations, civil litigation and merger filings. Mr Cen is also an experienced litigator in antitrust civil cases, having been responsible for several monumental cases, such as the Rainbow v. Johnson & Johnson antitrust litigation, and he has provided legal counsel for leading companies in their IPR and antitrust-related disputes with other companies.

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His experience includes advising FIFA and UEFA (the international and European football associations, respectively) on the protection of their IP rights in Portugal, and Portucel (now The Navigator Company) – the biggest paper and pulp producer in Portugal and an important player in Europe – on its negotiations with Hewlett-Packard on the licensing of the Colorlock patent and trademark.
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Between 2006 and 2015, João lectured on EU and competition law at the University of Lisbon School of Law, and he now lectures on the same subjects on postgraduate courses at the University.

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James Flynn QC is a leading competition law litigator at the London Bar. His wide experience at the Bar builds on his years of practice at a magic circle law firm in London and Brussels, together with his work as a legal secretary at the European Court of Justice. Current high-profile cases in London include acting for GSK in the United Kingdom’s first reverse payment pharmaceutical patent settlement proceedings. He has considerable expertise concerning the interface between competition and intellectual property law, particularly on the licensing of standard-essential patents and FRAND terms (acting for Qualcomm, IPCom and Samsung). Significant Competition Appeal Tribunal appeals in recent years include acting for Sky in the long-running pay-TV litigation; for BMI in relation to the private healthcare market investigation; for Aer Lingus in its long-running dispute over Ryanair’s hostile shareholding; and for Asda in the successful appeals against the OFT’s tobacco decision. His considerable experience of competition damages cases embraces follow-on and stand-alone actions in the High Court, including acting for Cardiff Bus in the first follow-on damages action to come to trial and to lead to a damages award. He also appeared in the leading cases on the interaction between criminal law and competition law. Recent appearances in competition cases in Luxembourg include cartel appeals and the interchange fees litigation. Notable previous EU cases include the leading authority on legal privilege in competition proceedings (Akzo Nobel) and the landmark Microsoft appeal.

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Ms Hesse joined Sullivan & Cromwell following a distinguished career in government, including leading the Antitrust Division at the Department of Justice, twice as acting assistant attorney general and serving that division for more than 15 years. During her time at the Division, Ms Hesse worked on a number of high-profile transactions, as well as other key initiatives related to the licensing and enforcement of standards-essential patents. She also had oversight of the criminal programme as the principal deputy assistant attorney general, where she was a decision-maker on a range of significant criminal matters. Ms Hesse was previously chief of the Networks and Technology Section (now the Technology and Financial Services Section) and a trial attorney in two Division sections, and she has worked extensively with antitrust and competition law enforcement agencies at the highest levels across Asia, Europe, Australia and Latin America.

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Florence also represents companies in competition law litigation before competition authorities and national courts (in cartel investigations, abuse-of-dominance, state aid and private enforcement matters).

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David Por is a partner in Allen & Overy’s intellectual property and litigation team. David is an experienced litigator specialised in all areas of intellectual property. His practice concentrates primarily on complex and cross-border intellectual property disputes, with a particular focus on patent cases, in which he also advises on validity and freedom-to-operate issues. David has notably represented leading actors in the patent wars in the telecommunications sector, as well as numerous pharmaceutical companies in proceedings against generics.

David has become a specialist in the interplay between intellectual property and competition law, notably in the field of standardised technologies.

His expertise extends to complex litigation, including unfair-competition and private-enforcement matters.
David recently authored the sections of the training manual for UPC judges on the patentability of pharmaceutical and biotechnological inventions and on Articles 123(2) and 123(3) EPC. He has also become a specialist in the interplay between intellectual property and competition law.

RAHUL RAI
AZB & Partners

Rahul is a partner in the competition team at AZB. Rahul has worked with the Competition Commission of India (CCI) on its advocacy initiatives and was part of the working group responsible for formulating the CCI’s merger control regulations. He has also represented the CCI in its major litigation at various courts and tribunals, including the Supreme Court of India. Rahul has been involved in formulating competition policy for sovereign governments and was part of the team engaged to review and redraft competition law for the Islamic Republic of Afghanistan. He has represented private companies from a wide range of sectors, including airlines, telecommunications, pharmaceuticals, automobile, cement, steel and tyres in proceedings before the CCI. Rahul has earned high praise from clients for his role in resolving high-stakes competition matters, including most recently for negotiating and securing the CCI’s approval on behalf of Syngenta AG on its sale to ChinaChem, Roche AG in an abuse of dominance case and in one of the largest cartel investigations in the auto-parts industry. Rahul earned his BA LLB with honors at NUJS in India in 2007 and his LLM in international economic law, business and policy from Stanford Law School in 2012.

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Diego Ramirez Mesec is admitted to practise in Ecuador. He is a partner at Fabara & Compañía Abogados, co-head of the competition/antitrust practice group and active in the finance and commercial practices. He has been practising law for over 10 years and previously he was a trade negotiator and a member of the Foreign Service. Diego is married and has two children.

MONICA RIVA
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Monica Riva is a counsel at Clifford Chance Italy. She is responsible for the intellectual property practice, which is part of the litigation and dispute resolution department. With a PhD in intellectual property, Monica specialises in patent, know-how, trademark, design, copyright and related competition issues. She has been an editorial staff member of the Italian periodical review Giurisprudenza Annotata di Diritto Industriale since 2004 and is the author of numerous publications in the field of intellectual property (focusing especially on trademarks and patents); Monica is a frequent speaker at IP seminars and conferences. In May 2015 she was admitted to practise before the Italian Supreme Court.

Monica is a ranked lawyer in the most recent editions of Chambers Global and Chambers Europe.
About the Authors

RAHUL SHUKLA
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Rahul is an associate in AZB’s competition law practice and is based in Mumbai. He has advised and assisted in several ongoing antitrust cases before the CCI and other appellate courts for cartel and abuse-of-dominance cases in various sectors including pharmaceuticals, automobiles and information technology. He has advised and assisted in the notification of several joint ventures, mergers and acquisitions in various sectors, including banking, finance and media and entertainment. He has also assisted in preparing competition compliance programmes for clients. Prior to joining AZB & Partners, Rahul worked as a consultant in the legal department of an IT company in New York. Rahul earned his BLS LLB at Government Law College, Mumbai in 2015. He completed his LLM in international business and economic law from Georgetown University Law Center, Washington, DC in 2016.

RAQUEL GALVÃO SILVA
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Raquel Galvão Silva is a managing associate in the Linklaters dispute resolution department in the Lisbon office, which she combines with her practice with the IP group. Her focus recently has been on litigation and arbitration, particularly in relation to contractual, construction, public law and intellectual property disputes.

Raquel has an LLM in international arbitration from the School of Law at Queen Mary University of London, a master’s degree in company law from the Faculty of Law at the NOVA University of Lisbon and she completed a postgraduate course in intellectual property at the University of Lisbon School of Law. She is also a member of the Portuguese Arbitration Association and of the Commission on Intellectual Property of the ICC.

Raquel is the author of several publications and regularly takes part in conferences related to international commercial arbitration and intellectual property.

JÜRG SIMON
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Professor Doctor Jürg Simon is considered a leading lawyer in intellectual property and related fields in Switzerland (forensic and non-forensic work). Before joining Lenz & Staehelin, he was director at the Swiss Intellectual Property Institute and partner in an IP boutique firm. He teaches intellectual property law, among other subjects, at the University of St Gallen.

CICELY SYLOW
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Cicely Sylow is a senior associate at Bird & Bird, based in Sydney, Australia, where she is a key senior member of the firm’s competition practice in Sydney and its Asia-Pacific competition law practice.

Ms Sylow advises and represents clients on all aspects of Australian competition and consumer protection law. This includes applications for merger clearances to the ACCC; applications to the ACCC for authorisation and notification of anticompetitive conduct; investigations and disputes; advising on and drafting agreements and documents to ensure
compliance with competition laws; and drafting and implementing regulatory compliance programmes.

CHARLOTTE THOMAS

*Brick Court Chambers*

Charlotte Thomas is a junior barrister at the London Bar whose practice, encompassing EU and competition law, builds on her experience as a judicial assistant at the United Kingdom Supreme Court and knowledge of French, German and Spanish. She acted for GSK in its appeal against the fine levied by the Competition and Markets Authority in the United Kingdom’s first reverse payment patent settlement litigation. Her experience in pharmaceutical work also includes the successful representation of two pharmaceutical companies in interim injunction proceedings in the General Court against the European Medicines Agency, and of an originator company in UK judicial review proceedings concerning the global marketing authorisation concept. She is acting in numerous ongoing cartel damages cases, and has appeared in an important appeal to the Court of Appeal clarifying the operation of the Civil Liability (Contribution) Act 1978 (in the context of a cartel damages settlement).

THOMAS VINJE

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Thomas Vinje is partner and chair of the global antitrust group at Clifford Chance LLP, as well as the co-chair of the firm’s public policy practice and head of its global technology practice. He specialises in European Union antitrust and intellectual property law, especially in technology matters. Thomas graduated with high honours from Columbia University Law School in 1982. He is the author of numerous articles on intellectual property and competition issues, and lectures at the Universities of Amsterdam and Zurich. He sits on the board of editors for *Computer und Recht International* and *European Intellectual Property Review*. He is also a frequent conference speaker and commentator in the press on competition and intellectual property matters. Thomas has been widely recognised as a leading competition expert by publications, including *Chambers and Partners*, *The Legal 500* and Legal Media Group’s *Expert Guide: Competition and Antitrust*.

JÖRG WITTING

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Dr Jörg Witting specialises in German and European competition law and heads Bird & Bird’s German EU and competition law practice. His practice covers all aspects of EU and competition law including EU state aid law and private enforcement.

Jörg has particular expertise at the interface between IP law and competition law, where he represents well-known international and German corporate clients in court and before antitrust authorities and advises on licensing and cooperation agreements.

He has represented a multitude of clients before the German Federal Cartel Office and the European Commission, as well as before German courts and the European Court of Justice.

Clients represented by Jörg include major international players in the mobile phone industry, the personal computer and digital entertainment products industry, the
semiconductor industry, large pharmaceutical companies and public entities in the healthcare sector, as well as the German federal government.

Jörg was assistant lecturer with the Institute for German and European Business, Competition and Regulatory Law at the Free University of Berlin and publishes regularly. He is co-author of the renowned *Munich Commentary on European and German Competition Law*, the *Cologne Commentary on Cartel Law* and he has published a handbook on cartel investigations and risk management for undertakings. Jörg is member of Studienvereinigung Kartellrecht e.V., the German association of leading competition law experts, and of GRUR, Deutsche Vereinigung für Gewerblichen Rechtsschutz und Urheberrecht e.V. (German Association for the Protection of Intellectual Property), where Jörg is active in the subcommittee on cartel law.

Jörg is a German native speaker, fluent in English and French.
Appendix 2

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