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CONTENTS

PREFACE........................................................................................................................................................... v
  Thomas Vinje

Chapter 1   ARGENTINA........................................................................................................................................1
  Marcelo A den Toom

Chapter 2   AUSTRALIA.........................................................................................................................................13
  Thomas Jones, Jane Owen and Cicely Sylow

Chapter 3   CHINA...............................................................................................................................................23
  Zhaoqi Cen

Chapter 4   ECUADOR..........................................................................................................................................37
  María Rosa Fabara Vera, Diego Ramírez Mesec and Daniel Castelo

Chapter 5   EUROPEAN UNION......................................................................................................................44
  Thomas Vinje

Chapter 6   FRANCE............................................................................................................................................73
  David Por and Florence Ninane

Chapter 7   GERMANY........................................................................................................................................84
  Jörg Witting

Chapter 8   INDIA..............................................................................................................................................97
  Samir Gandhi, Aditi Gopalkrishnan, Gaurav Bansal and Arunima Chatterjee

Chapter 9   INDONESIA......................................................................................................................................108
  Daru Lukiantono, Mochamad Fachri and Wiku Anindito

Chapter 10  ITALY...............................................................................................................................................118
  Luciano Di Via and Monica Riva

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<table>
<thead>
<tr>
<th>Chapter</th>
<th>Country</th>
<th>Contributors</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Japan</td>
<td>Tomoki Ishiara</td>
<td>138</td>
</tr>
<tr>
<td>12</td>
<td>Mexico</td>
<td>Antonio Cárdenas Arriola and Carlos Mainero Ruiz</td>
<td>152</td>
</tr>
<tr>
<td>13</td>
<td>Russia</td>
<td>Maxim Boulba and Maria Ermolaeva</td>
<td>164</td>
</tr>
<tr>
<td>14</td>
<td>Spain</td>
<td>Rais Amils</td>
<td>175</td>
</tr>
<tr>
<td>15</td>
<td>Switzerland</td>
<td>Sevan Antreasyan, Benoit Merkt and Jürg Simon</td>
<td>186</td>
</tr>
<tr>
<td>16</td>
<td>Turkey</td>
<td>Gönenç Gürkaynak</td>
<td>195</td>
</tr>
<tr>
<td>17</td>
<td>United Kingdom</td>
<td>James Flynn QC and Charlotte Thomas</td>
<td>205</td>
</tr>
<tr>
<td>18</td>
<td>United States</td>
<td>Garrard R Beene and Renata B Hesse</td>
<td>223</td>
</tr>
<tr>
<td>Appendix 1</td>
<td></td>
<td>ABOUT THE AUTHORS</td>
<td>233</td>
</tr>
<tr>
<td>Appendix 2</td>
<td></td>
<td>CONTRIBUTORS’ CONTACT DETAILS</td>
<td>245</td>
</tr>
</tbody>
</table>
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 fourth 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 fourth edition of *The Intellectual Property and Antitrust Review*.

Thomas Vinje
Clifford Chance LLP
Brussels
June 2019
Chapter 1

ARGENTINA

Marcelo A den Toom

I  INTRODUCTION

Intellectual property rights (IPR) in Argentina are protected under the Federal Constitution, which states that ‘every author or inventor is the exclusive owner of its work, invention or discovery, for the term provided under the law’.

Competition is equally protected. The Federal Constitution establishes that the authorities will provide for ‘the defence of competition against any method of market distortion, and the control of natural and legal monopolies’.

In spite of the potential tensions between these two areas, up to the present they have largely developed independently from one another.

Law No. 27,442 of 2018 (the Competition Law) applies to individuals, corporations and other legal entities engaged in economic activities either in Argentina or outside the country, to the extent that their activities have effects in Argentina. It prohibits conduct related to the manufacture and sale of goods and services that have the object or effect of limiting, restricting or distorting competition or entry into a market, or that constitute an abuse of a dominant position, only if such conduct may harm the general economic interest, a concept associated to economic efficiency and consumer welfare. Hardcore cartels are considered per se illegal, while all other conduct is subject to a rule of reason analysis.

The Competition Law is regulated by Decree No. 480/2018, as well as by certain guidelines (notably, those related to abuse of exclusionary dominance and the control of economic concentrations).

IPRs are locally protected by the following regulations:

a  the Federal Constitution, in the terms mentioned above;

b  the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (WTO TRIPS Agreement), incorporated through Law No. 24,425 of 1995;

c  the Berne Convention, incorporated through Law No. 25,140 of 1999; and

d  various provisions in the Civil and Commercial Code.

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1 Marcelo den Toom is a partner at Bomchil. Acknowledgement is made to Gabriela Castillo Areco, María Florencia García Morato and Nadine Bengtsson, for their contributions to this chapter.
In addition, specific laws regulate different areas, as follows:

- **a** patents and utility models are regulated by Law No. 24,481 and amendments thereof, as consolidated by Decree No. 260/1996 of 1996 (the Patent Law);
- **b** specific to the agricultural sector, Law No. 20,247 of 1973 regulates seeds and phytophagenic creations;
- **c** copyright is regulated by Law No. 11,723 of 1933 and complementary regulations passed by Decrees Nos. 41,233 of 1934, 746 of 1973 and 124 of 2009, and amendments thereto (the Copyright Law);
- **d** software protection is regulated by Decree No. 165/1994 of 1994;
- **e** trademarks and trade names are regulated by Law No. 22,362 of 1980 (the Trademark Law); and
- **f** trade secrets are regulated by Law No. 24,766 of 1996.

Law No. 22,426 of 1981 (the Transfer of Technology Law) applies to all transfer, assignment or licensing of foreign technology or trademark agreements signed between a licensor domiciled abroad and a licensee domiciled in Argentina, which have effects in Argentina. These agreements must be filed with the National Institute of Industrial Property (INPI) for information purposes only. There are no specific limitations concerning the amount of royalties, terms of duration, level of exports or excluding the licensor’s product liability, submission to foreign jurisdiction, etc. However, terms and conditions of the agreements between related parties (mainly between controlling and controlled companies) should be in accordance with the arm’s-length principle.

The INPI is the agency responsible for the enforcement of the Patent Law, the Trademark Law and the Transfer of Technology Law.

IPRs are not subject to any tailored exemption under antitrust regulations.

## II YEAR IN REVIEW

On 9 May 2018, the Competition Law was enacted. The law substantially increases the fines, incorporates a leniency programme for cartel practices and will create a new, independent agency whose formation is expected to occur later in 2019.

In addition, the current antitrust agency, the National Commission for the Defence of Competition (CNDC),\(^2\) issued several guidelines and draft guidelines on matters such as merger control, exclusionary abuse of dominance and leniency.

Few cases have been resolved under the Competition Law in the past 12 months. However, a number of cases have been decided based on the former competition law, Law No. 25,156 of 1999. Among those, the most notable is *Sadaic*, in which a collective rights organisation was found to abuse its dominant position in the granting of authorisations for the broadcasting of musical and audiovisual works by engaging in abusive and discriminatory pricing.

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\(^2\) Until the formation of the antitrust agency created by the Competition Law (the National Competition Authority), the CNDC acts as an advisory agency to the Secretariat of Domestic Trade, which adjudicates decisions on antitrust matters.
On the merger control front, two significant transactions, the international merger of Anheuser-Busch InBev and SabMiller and the acquisition by Molinos Río de la Plata of the dry pasta business of Mondelez Argentina and Intercontinental Brands, involved the transfer of IPRs in the context of divestment undertakings. Both concentrations are discussed in Section V.ii.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Generally, the terms of a licence agreement are within the scope of the IPRs owner’s exclusive rights.

Consistent with Section 40(1) and (2) of the WTO TRIPS Agreement, the Patent Law provides that licensing agreements may not contain restrictive commercial clauses that:

- affect production, commercialisation or the technological development of the licensee;
- restrict competition;
- require exclusive grant-back conditions or mandatory joint licensing; or
- prohibit challenges to the validity of the licence or any other conduct contemplated under the Competition Law.3

In addition, the Patent Law provides for the possibility of granting compulsory licences on antitrust grounds.4

From an antitrust perspective, anticompetitive restraints imposed on licensing agreements will generally be considered as unilateral conducts, and as such, subject to a rule of reason analysis.

Some of the debatable clauses are discussed below.

Downstream products restrictions

The use of price limitations (in particular, the establishment of minimum resale prices) regarding a licence could be considered an anticompetitive practice under Section 3(a) of the Competition Law.5 In certain cases, maximum price restrictions are imposed as a consequence of a merger filing; see, for example, the Grupo Clarín case, in which the parties capped the nationwide retail price at the same price charged in the city of Buenos Aires and its metropolitan area, where they faced increased competition.6

Other types of restrictions, such as contractual quantity limitations and field-of-use restrictions, may have an anticompetitive effect to the extent they are deemed to limit output (particularly if they are combined with territorial restrictions). Territorial and customer

---

3 Patent Law, Section 38 (referencing Law No. 22,262, now replaced by the Competition Law).
4 id., Section 44.
5 In fact, the use of minimum resale prices has been found to be anticompetitive by the CNDC; see In re Tele Red Imagen SA, Televisión Satelital Codificada SA, Video Cable Comunicación SA, Multicanal SA and Cablevisión TCI SA, Secretariat of Competition, Deregulation and Consumer Protection, Resolution No. 28 (26 September 2002), available at http://cndc.produccion.gob.ar/sites/default/files/cndcfiles/353.pdf.
restrictions generally do not raise antitrust concerns, as long as they do not involve a horizontal division of territories, markets or clients (e.g., as in a cross-licensing between effective or potential competitors), or the existence of any other anticompetitive goal or effect.7

**Non-assertion restrictions and no-challenge clauses**

The inclusion of non-assertion restrictions in licence agreements may lead to the imposition of sanctions under the Competition Law, depending on their impact on the market.8 No-challenge clauses are considered restrictive clauses under the Patent Law.

**Restrictions on research and development**

In an illustrative list of conduct patterns that may be considered anticompetitive, Section 3(e) of the Competition Law addresses potential restrictions on the market through agreements to control or limit research and technological development. Similar conduct patterns affecting licensees are forbidden under Section 38 of the Patent Law.

Research and development (R&D) agreements, generally of an extended duration, may take the form of a cooperation joint venture (ACE) under the Civil and Commercial Code. Agreements creating ACEs must be registered with the Public Registry of Commerce and reported before the antitrust agency, which may examine these under the merger control provisions or as a horizontal cooperation agreement.

**Grant-back or feedback provisions**

Section 38 of the Patent Law specifically states that these types of clauses shall not be included in licence agreements. Even though they are not particularly addressed in the Competition Law, they could be analysed as a restriction to R&D, considering that they may eliminate the licensee’s incentives to develop technology.

**Tying arrangements, package licensing and bundling**

Section 3(f) of the Competition Law prohibits tying the sale of a good or service to the acquisition or use of another good or service, if the general assumptions provided for in Section 1 (restriction to competition and injury to the general economic interest) are met. The scope of the provision is broad enough to include not only tying agreements but also package licensing of patents and copyrights. Further, Sections 38 and 44 of the Patent Law prohibit clauses that include compulsory package licensing.

Local case law includes a number of cases concerning broadcasting rights to specific football matches that were sold in combination with other football matches or sports events.

In *Servicios de Radio and Televisión de la Universidad Nacional de Córdoba v. Durford Commercial Corporation*, the defendant was the exclusive licensee of TV rights for pre-World Cup football matches, and was allegedly charging excessive prices for those events to a free-to-air (FTA) channel and tying them to the sale of different matches, selling them in a package format only.9

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8 Patent Law, Section 44; see also footnote 7, pp. 303, 327 and 328.

The CNDC concluded that the licensor had a dominant position, as substitutability of rights to such football events was quite low. Nevertheless, the CNDC approved the packaged licences, concluding that its prices could not be considered excessive, given that it had to pay substantial sums to purchase the rights from the sports leagues and that the defendant could make a reasonable return on its investment by licensing the events to cable companies (which were willing to buy the entire package, and at a price much higher than that offered by FTA systems). Thus, the CNDC held that the defendant’s refusal to license individual matches to the complainant was reasonable.

Also, In re MSO Supercanal and others v. Telered Imagen SA and others, the National Commercial Appeal Court confirmed the lower court’s decision that stated that the defendants (programmers) abused their dominant position by tying unwanted events to football events (over which they had broadcasting rights) and ordered the unbundling of the programmes and required the licence fee to be set based on the football events alone.10

ii Refusals to license

Companies have the right to choose freely with whom and under what conditions to market their products, and thus, refusing to sell a certain good or service (or to grant a licence) to a certain customer is not usually a practice that will be considered a violation of the Competition Law.11 Nevertheless, if the refusal is unjustified or implies an abuse of said right and restricts competition, affecting the general economic interest, it will be prohibited. Unjustified refusal to satisfy particular licensing requests is specifically considered under Section 3(i) of the Competition Law and under Section 42 of the Patent Law.

In light of the above, the INPI may authorise the use of a patent without a licence if the potential user has unsuccessfully attempted to obtain a licence from its owner under reasonable commercial terms for 150 consecutive days. The INPI must notify the situation to the CNDC. It is debated whether this disposition applies only to those situations in which the refusal constitutes an abuse by the patent owner, or any time the latter refuses to deal. Even when a literal interpretation of the Section would suggest the latter alternative, legal scholars support the former option, as it is the one in accordance with the TRIPS Agreement and the Competition Law. A patent in and of itself does not necessarily create market power because substitutes for the patented products may well exist.

If the adjudicatory agency of the Competition Law determines that the patentee has engaged in anticompetitive practices, it shall inform the INPI, which then publishes a notice in the Official Gazette, informing third parties that they can make an offer for a licence. The INPI will then consider the offers and decide whether or not to grant a compulsory licence.

Several cases considered under former competition laws examined the issue of refusals to license in an IPR context. For example, in Pramer SCA, a programming company was ordered to continue its commercial relationship with a local cable-TV operator.12 The defendant (who provided approximately one-third of the programming offered in the relevant market),

---

had terminated the contracts due to the plaintiff’s failure to pay. The plaintiff filed a claim with the CNDC, alleging that the refusal to license was directed at benefiting an affiliate of the defendant, who was the plaintiff’s main competitor in the cable-TV market. The CNDC granted an injunction in favour of the plaintiff, and the parties ultimately reached a commercial agreement.

In order to prevent refusals to license similar to that described above, in some merger cases (e.g., that of Grupo Clarín), the parties were instructed not to refuse the licensing of programming of their affiliates (under normal commercial conditions) to competitors in the pay-TV market.

In the particular case of football events, Law No. 25,342 of 2000 establishes the obligation of football associations and owners of broadcasting rights to matches involving the national team to sell rights to those matches so as to guarantee they will be broadcast nationwide.

Exclusive licensing of sought-after products has been disfavoured by the CNDC. For example, in HBO Ole Partners, the CNDC ordered a programming company to continue supplying its channels to a cable company pending a commercial dispute between the companies, to prevent potential massive transfers of consumers to a rival of the latter.13

In several cases, prospective buyers have argued that the requested price was so high as to amount to a refusal to deal. For example, in MSO Supercanal SA and Supercanal Holding SA v. Dayco Holdings Ltd,14 the defendant held exclusive broadcasting rights to certain football matches of the Argentinian team during the 2002 World Cup. The plaintiff, a broadcasting company, filed a claim with the CNDC arguing that the defendant had refused to accept its offer for the purchase of a non-exclusive broadcasting licence for one particular match. Additionally, the plaintiff requested injunctive relief that would have required the defendant to permit the broadcasting, at market prices, of that match as well as subsequent ones in which the Argentinian team participated.

The CNDC ordered the rights holder to license on ‘non-discriminatory terms’. This order was insufficient from the plaintiff’s perspective because the parties could not reach an agreement on price. No sanction was ultimately imposed because the court found that the refusal was based on the existence of unpaid debt of the cable company to the programmer rather than any abuse of dominance.

iii Unfair and discriminatory licensing

A behaviour that directly exploits customers or suppliers, as, for example, through excessively high prices or price discrimination, may be found abusive if performed by a party with a dominant position. This conduct was the subject matter of the SADAIC case.15 SADAIC is a collective rights association that has a legal monopoly to collect royalties from the broadcasting of musical and audiovisual works. The plaintiff, an entity grouping all hotels and restaurants in Argentina, accused SADAIC of arbitrarily increasing the royalties charged

15 Federación Empresaria Hotelería Gastronómica de la República Argentina for request for intervention of the CNDC (Case No. 1302), Secretary of Trade, Resolution No. 371, 26 June 2018, available at www.argentina.gob.ar/sites/default/files/resolucion_371-2018_0.pdf.
to the plaintiff's members for the reproduction of musical works in hotels. The complaint also alleged that SADAIC had discriminated between the hotels, as, in some cases, agreements including substantial discounts had been entered into with some establishments.

SADAIC was ultimately imposed a fine of over 42 million Argentine pesos, representing 10 per cent of its total turnover for secondary reproduction of musical works during the period from 2009 to 2014.

In its final decision, the competition agency recommended the Executive Power to establish a new royalty system based on reasonableness, non-discrimination, transparency and equity criteria. It also recommended a further review of royalty tables or regulations applicable to users carrying out public execution of works and related rights, especially in cases where the same user, category or group of users must pay duties to more than one collective rights association, and the disparity of royalties or their associated formula, or their accumulation, may have an unreasonable impact on economic activity.

iv Patent pooling
Generally, cross-licensing and patent pools will not infringe the Competition Law. They might even enhance competition, as patent pools may increase the number of competitors with the right to use particular inventions. Certain terms cannot be imposed, however, as provided for in Section 38 of the Patent Law. Furthermore, depending on market circumstances, on whether the patents complement or compete with one another, and on the manner in which such conditions are implemented, such arrangements may run afoul of the Competition Law in particular cases.

v Software and trademark licensing
We are not aware of relevant case law involving antitrust issues in software or trademark licensing in Argentina, other than the trademark licensing cases previously mentioned.16

IV STANDARD-ESSENTIAL PATENTS
i Dominance
We are not aware of regulations addressing standard-essential patents in Argentina. Notwithstanding this, if a dominant position was identified due to an essential patent holding, a rule of reason approach would be followed by the authority.

Conduct encompassing both exclusionary and exploitative dominant position is under the scope of the Competition Law and, as anticipated, both cases are analysed by the rule of reason approach. Some authors are of the view that the type of exclusionary abuse produced in these cases could be examined under the 'essential facility doctrine'.17

Additionally, under Section 44, the Patent Law lists conduct that, if verified, can lead to the issuance of mandatory licences by the adjudicatory authority.

Decree No. 1474/94 establishes a National System of Quality Standards and Certification, structured in a National Council of Standards, Quality and Certification with two technical bodies under the auspices of the Secretary of Industry: (1) the standardisation

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16 See footnotes 5, 12 and 13.
body (IRAM), which centralises the analysis and approval of the standards applicable in Argentina; and (2) the certification body (OAA). Notwithstanding this, at present, IRAM has no specific disposition addressing the relationship between the normalisation system created by Decree No. 1474/94 and the IPR system.

A case worth mentioning involving standards is Quilmes, where a brewing company accused its largest competitor of exclusionary abuse of dominance after said company decided to launch a new proprietary returnable bottle to the market. The plaintiff claimed the existence of a de facto industry standard for 970cm³ glass bottles, which were freely interchangeable among brewers, and that the launching of a new format by the dominant player increased the costs to consumers to switch to competing brands (consumers obtained a cash credit by redeeming empty glass bottles of the existing industry standard variety). The CNDC ultimately approved a complex settlement between the parties, whereby, inter alia, both companies agreed to: (1) launch their own proprietary bottles; (2) not transfer the cost of separating and exchanging containers to the sale price; (3) prioritise the interchangeability of standardised containers; and (4) educate and inform retailers.¹⁸

ii  
**Injunctions**

Under Section 44 of the Competition Law, the the National Competition Authority (ANAC) has the power to adopt injunctions at any stage of an investigation. Similar measures can be issued by a court at the request of the agency.

iii  
**Licensing under FRAND terms**

Fair, reasonable and non-discriminatory (FRAND) terms are not specifically established in any regulation. However, these terms can be deduced from Section 44 of the Patent Law. Also, several cases, especially those related to vertical mergers, include FRAND-type provisions in the form of behavioural undertakings.

iv  
**Anticompetitive or exclusionary royalties**

There are no specific provisions regulating anticompetitive royalties in the standard-essential patent context. Section 44 of the Patent Law, however, expressly considers excessive or discriminatory royalties as anticompetitive acts leading to compulsory licensing. Such royalties may also be considered in violation of the Competition Law as a type of exploitative or exclusionary abuse of dominance.

V  
**INTELLECTUAL PROPERTY AND Mergers**

i  
**Transfer of IP rights constituting a merger**

Mergers and acquisitions must be mandatorily reported for review and approval where the enterprises involved in the transaction (the target company, the acquiring company and companies with a relationship of control with it) have a turnover in excess of 100 million ‘mobile units’ (each unit currently has a value of 26.40 Argentine pesos) in Argentina, unless a specific exemption applies.

¹⁸ *Cervecería y Maltería Quilmes SAICA y G for infringement of Law No. 25,156 (Case No. 1412), Secretary of Domestic Trade, Resolution No. 49, 22 May 2013, available at http://cndc.produccion.gob.ar/sites/default/files/cndcfiles/775.pdf.*
In particular, the CNDC has been of the view that the transfer of a trademark constitutes an economic concentration (as long the other requirements established by the Competition Law are fulfilled) when the same is being used at the time of the transfer – as it is associated with a certain turnover\(^\text{19}\) – or, even if the brand is not active by the time of the transfer, if it is deemed to have a market value.\(^\text{20}\)

### Remedies involving divestitures of intellectual property

The Merger Control Guidelines (approved by Resolution No. 208/2018 of the Secretariat of Trade) establish that, for the purpose of determining market power, the authority will mainly analyse competition through prices; however, it also leaves space for the analysis of other non-price variables, such as product variety, innovation, additional services or quality of the product or service.

Sometimes, the approval of a merger involves the transfer of IPRs. This was the case in the *Bayer/Aventis* transaction, where the CNDC recommended that the parties transfer and license IPRs over certain active ingredients and brands, on top of the divestment obligations imposed in other jurisdictions.\(^\text{21}\)

A more recent case, involving the merger of Anheuser Bush Inbev (ABI) and SabMiller, was approved upon ABI entering into an agreement with its main competitor in Argentina, which had opposed the merger, whereby ABI would transfer to said competitor all SabMiller brands plus some of ABI’s own brands, in exchange for the payment of cash and the early termination of a pre-existing manufacturing and licensing agreement between ABI and said competitor regarding Budweiser, one of ABI’s flagship brands.\(^\text{22}\)

Similarly, in the acquisition of the dry pasta business of Mondelez Argentina and Intercontinental Brands by Molinos, comprising four brands and two production plants, the acquirer was ordered to sell one of the brands, which it did, to a viable competitor.\(^\text{23}\)

### VI OTHER ABUSES

#### i Sham or vexatious IP litigation

Even when there is no specific provision addressing sham or vexatious IP litigation as an antitrust infringement, this practice can be considered anticompetitive as a type of exclusionary abuse (Section 3(d)) of the Competition Law.

---

\(^\text{19}\) Advisory Opinion No. 10.

\(^\text{20}\) Advisory Opinion No. 84, 10 January 2001.


\(^\text{22}\) *Anheuser-Busch InBev NV, SA/SabMiller PLC* for notification of Article 8 of Law No. 25,156 (Case No. 1375) and *Anheuser Busch InBev NV, SA, SabMiller, Compañía de Cervecerías Unidas SA and Compañía Cervecerías Unidas Argentina SA* for proposed analysis and divestment of brands, Secretariat of Trade, Resolution No. 136, 14 March 2018, available at http://cndc.produccion.gob.ar/sites/default/files/cndcfiles/CONC-1375.pdf.

One case dealing with this conduct in IP litigation is *Productos Roche*.\(^{24}\) The complaint was brought by a competitor who claimed that Roche, presumably dominant, had deployed a strategy of administrative, judicial and commercial harassment, with the objective of preventing the access and permanence of the plaintiff’s competing drug in the market.

In its defence, Roche submitted that it had justified claims on the plaintiff’s drug safety, as it had not undergone clinical trials before obtaining the relevant regulatory approval. Given the fact that both the plaintiff’s and the defendant’s drugs were substitutes, and that doctors might prescribe the drug by identifying its active ingredient and not its trade name, in the event of a harm caused to a patient from the indistinct administration of any of the two products, it would be impossible to determine which drug caused the harm and, therefore, Roche could be subject to potential claims that might also jeopardise its image and prestige.

In its review, the CNDC stated that what characterises sham litigation is the way the exclusionary conduct is carried out; namely, resorting to judicial or governmental mechanisms without a legitimate interest. Furthermore, it stated that, for a conduct to constitute sham litigation, there is no need for the commencement of multiple proceedings, given that is the anticompetitive intention and the claimant’s knowledge of the illegitimacy of its claim is what characterises this conduct.

The CNDC suggested that, when the conduct implies the commencement of only one proceeding, the criteria used by US courts could be used; namely:

\(a\) the claim should lack basis, meaning that no reasonable claimant could expect to succeed considering the substance of the matter; and

\(b\) the claim should reflect the subjective intention of using the proceeding as an anticompetitive weapon.

The first requirement would not be configured if there is at least a probable cause to litigate. Only when the probable cause is not present, the claimant’s intention should be analysed.

The CNDC understood that the legitimacy of Roche’s claim was based on potential economic or reputational damage, in addition to the fact that there have not been clinical trials performed on Novex. Therefore, the CNDC concluded that Roche’s resort to the administrative and judicial proceedings was not abusive, given that it was trying to protect not only its assets and image but also the health of potential patients.

Another interesting case in this area was brought by the CNDC as a consequence of an *ex officio* investigation against Monsanto, wherein, due to a refusal of a validation of a patent in Argentina over which the soy producers ceased paying the royalties related to the use of this technology, the company filed lawsuits in certain EU jurisdictions aiming to obtain samples of different soy and soy by-product shipments from Argentina in order to determine whether the crop effectively contained the RR gene. Consequently, the respective product fell under the scope of Monsanto’s European patents, and was therefore subject to the payment of royalties.

The CNDC initiated an investigation of Monsanto’s conduct under the Competition Law, as it deemed Monsanto’s judicial claims to be potential anticompetitive practices consisting of sham litigation.\(^{25}\)

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\(^{24}\) *Productos Roche SAQ e I* for infringement of Law No. 25,156 (Case No. 1578), Secretariat of Trade, Resolution No. 449, 14 December 2016, available at http://cndc.produccion.gob.ar/sites/default/files/cndcfiles/C-1578.pdf.

The Federal Civil and Commercial Court of Appeals of the city of Buenos Aires reversed the CNDC decisions. The Court pointed out the existence of a dilemma between the legitimate constitutional right to petition the government put forward by Monsanto and the constitutional duty of the authorities to protect competition against all forms of market distortion, and decided that there were no grounds to conclude, even on a *prima facie* basis, that Monsanto’s filing of lawsuits was, in fact, conduct that could be deemed as anticompetitive under the Competition Law.26

**ii Misuse of the patent process**

In this regard, some authors highlight the evergreening strategy commonly used in the pharmaceutical industry in order to avoid or delay the competition of generic products, and thus artificially extending the term of the patent protection by submitting patent requests over certain derivatives or polymorphs of pharmaceutical products that are often the result of generic, routine activities and not inventive ones, as required by the Patent Law.27

This was the issue discussed in *Eli Lilly and Company v. Laboratorios Beta SA*, where the plaintiff filed proceedings for patent infringement against the defendant, who reconvened for invalidity of the patent. While the first instance court ordered the defendant to refrain from importing, manufacturing and commercialising the products protected by the patents, the Federal Civil and Commercial Court of Appeals overruled the decision. The Court considered that the patent (1) was already disclosed in the United States, and thus lacked the novelty requirement; and (2) did not have substantial differences with another patent previously obtained by the plaintiff, and therefore did not justify legal protection.28

Furthermore, the possession of a ‘sleeping patent’29 could also be considered a ‘misuse’ and an anticompetitive conduct under the terms of the Competition Law. Section 42 of the Patent Law specifically provides for the exploitation of the patent, and thus the lack or restrictive use of a patent, when the objective is solely to impede the commercialisation of the patented product by other parties, will be considered an infringement of the Competition Law.

Additionally, under Section 46 of the Patent Law, where, in the absence of force majeure, three years from the grant of a patent or four years from the patent application have elapsed, and the invention has not been exploited, no serious and real steps have been taken to exploit it, or the exploitation of the invention is discontinued for more than one year, any person may ask the INPI to use the invention without the owner’s authorisation. The INPI is required to set a reasonable royalty for such a licence, taking into account the average royalties paid in the specific market area.

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29 In *Ipesa SA v. Ishihara Sangyo Kaitsha Ltd*, the Federal Civil and Commercial Court of Appeals, 13 March 2009, affirmed that the legislator has not provided for a patent to be exempt from exploitation if the patent holder does not use it.
iii Anticompetitive settlements of IP disputes

There are no specific provisions regarding settlement of IP disputes, and therefore, any such settlements must comply with the provisions of the Competition Law and not include any of the specific restrictive clauses identified in Section 38 of the Patent Law.

Also, under Section 29 of the Competition Law, a settlement agreement of IP disputes between competitors might be notified for voluntary approval before the ANAC. However, the procedure for such notifications has not yet been regulated.

VII OUTLOOK AND CONCLUSIONS

While the Patent Law includes several provisions regulating IPRs and antitrust, there are virtually no relevant cases under the Competition Law (and its predecessors) involving patents, probably because those cases are discussed in jurisdictions with tradition for innovation and protection of IPRs from the perspective of the patent owner. The situation is somewhat different as to trademarks.

Such lack of case law also explains why the local authorities are neither focusing on nor prioritising the preparation of guidelines that could assist in the interpretation of overlap between IP and antitrust, something which would nonetheless be welcome in the patent setting, especially in view of the existence of antitrust provisions in the Patent Law and potentially conflicting opinions from the patent and antitrust agencies in a particular case (e.g., Section 82 of the Competition Law provides that no agency other than the ANAC may apply competition law provisions).
I INTRODUCTION

Intellectual property (IP) 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 IP 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 IP laws. However, Section 51(3) of the CCA, until recently, provided an exemption from certain provisions of Part IV of the CCA (other than Section 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 Section 51(3) exception was repealed by the Treasury Laws Amendment (2018 Measures No. 5) Act 2019 (Cth) and will cease to have effect on 13 September 2019. Prior to its repeal, the scope of the section was unclear and had been the subject of relatively little judicial comment. What is now clear is that arrangements involving the assignment or licensing of IP will no longer enjoy special protections under Australian competition law and will be viewed in the same light as other commercial arrangements. Practically, licensors now have until September 2019 to ensure that their licence arrangements comply with the exclusive dealing provisions of Section 47 of the CCA. This change will bring Australia into line with other jurisdictions, including the United States and Canada.

On 9 April 2019, the Australian Competition and Consumer Commission (ACCC), which is the regulatory body that oversees the CCA, announced that it will be releasing draft guidelines on the application of Part IV of the CCA to IP for public comment in mid-2019, and will publish a final version before the repeal commences on 13 September 2019.

These guidelines are keenly awaited.

In a similar move, on 11 April 2019, the ACCC published its Copyright Guidelines, which are intended to provide guidance for the Copyright Tribunal, a tribunal created under the Copyright Act 1968 (Cth) to set remuneration for statutory and voluntary licences. The Copyright Guidelines provide the economic principles the ACCC considers relevant for the
Copyright Tribunal to determine pricing under these licences. The Copyright Guidelines are not binding and given their recent release, the Copyright Tribunal has not yet had occasion to consider their application.

II YEAR IN REVIEW

The repeal of Section 51(3) of the CCA followed the recommendations of the Australian Productivity Commission in its report on its inquiry into IP arrangements in Australia: Intellectual Property Arrangements: Productivity Commission Inquiry Report: Overview & Recommendations. The report, which was released on 20 December 2016, 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’. It also recommended that ACCC guidance on the application of competition law to IP transactions be developed to overcome uncertainties for rights holders and licensees. The Australian government, in its response to the report, supported the repeal of Section 51(3), 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 anticompetitive conduct associated with IP licensing arrangements, it is important that such conduct is appropriately regulated.’

In terms of cases concerning the interplay between IP and competition laws, the most significant event in recent years is the still-pending court proceeding between Motorola Solutions Inc and Hytera Communications Corporation Ltd4 concerning allegations of infringement of three standard-essential patents (SEPs) that was issued in the Federal Court in mid-2017. The case has been widened to include copyright infringement claims, and is now set for hearings in mid-2019 and mid-2020. Another significant 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 Ltd5 has been delivered. 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. The full Federal Court dismissed the ACCC’s appeal and confirmed that Pfizer did not act with an anticompetitive purpose when seeking to protect its market position in the period leading up to expiry of its patent. The Full Federal Court determined that, while Pfizer held a substantial degree of market power within the atorvastatin market, and took advantage of that

3 ibid. at pp. 2 and 23, respectively.
4 NSD 1283/2017.
substantial market power, it was not for the purpose of substantially lessening competition. Rather, the Court found that Pfizer’s conduct was for the legitimate purpose of ensuring it remained competitive in the atorvastatin market after the patent expiry.

Although the case was brought under the old misuse of market power provisions (and therefore does not consider the newly introduced effects test), it confirms that protecting a market position in the context of fierce competition is not an anticompetitive purpose.

Following the Full Court judgment, the ACCC sought leave to appeal to the High Court but that application was dismissed on 18 October 2018.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

The imposition of terms of IP 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:

a 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);

b the prohibition on exclusive dealing in Section 47 of the CCA (by, for example, the holder of an IP right making the licensing of the right conditional on the acquirer accepting a restriction on its rights to deal with competitors); or

c the prohibition on misuse of market power in Section 46 of the CCA.

While previously, arrangements of this type may have been subject to the exemption in Section 51(3), they will no longer be exempt from 13 September 2019 and will be subject to the same laws as other commercial arrangements.

The maximum penalty per contravention of these provisions for corporations is significant, being the greater of:

a A$10 million;

b three times the value of the benefit received from the contravening conduct; or

c where the benefit cannot be calculated, 10 per cent of the company’s annual turnover in the 12 months prior to when the conduct occurred.

The maximum penalty for a contravention by an individual is A$500,000.

ii Refusals to license

Australian competition law does not oblige a party to license its IP 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 Ltd6 recognised that, where a party is otherwise entitled to refuse to licence its IP rights without contravention of the CCA, it is not the purpose of Section 46

to dictate how that party should choose its licensees. 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.

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 IP, at a particular price, this may amount to resale price maintenance, which is prohibited by Section 48 of the CCA.

Penalties under the Australian Consumer Law, including for unconscionable conduct, are also significant and were increased in August 2018 to align with those for competition law contraventions.

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.

However, the repeal of Section 51(3) may cause licensees of patent pools to consider whether patent pool licensing is a contravention of Section 47, in circumstances where the patentor insists upon a licence to a pool of patents for one royalty rate, without reference to which patents are applicable to the licensee’s activities. In this regard, the decision in *Regency Media Pty Ltd v. MPEG LA, LLC,* in which the Full Federal Court affirmed that a licensee

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7 ibid. at [17].


could not exercise a statutory right to terminate a patent pool licence under Section 145 of the Patents Act 1990 where one or more of the licensed patents had expired (but other licensed patents had not), may also focus attention on the antitrust remedies.

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 Australian Consumer Law, meaning that software licences are subject to the consumer guarantee provisions of the Australian Consumer Law.

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

IV STANDARD-ESSENTIAL PATENTS
To date, Australian courts have not delivered any decisions in which 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, and the long-running *Apple v. Samsung* dispute, which was settled after the completion of an unprecedented number of trial-hearing days over an 11-month period, 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 but with further listing days now allocated in mid-2020. 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* 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* provides a sound prediction of the approach

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10 [2016] FCA 196.
11 Vringo Infrastructure Inc v. ZTE (Australia) NSD 1010/2013.
13 Huawei Technologies Co Ltd v. ZTE Corp ECLI:EU:C:2015:477.
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.’

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 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 IP 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. In two recent cases in the pharmaceutical area, judges of the Federal

15 ibid. at [806].
16 E.g., Melway Publishing, footnote 6 at [67].
17 Section 13, Patents Act 1990 (Cth).
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.\(^\text{18}\) 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.’\(^\text{19}\)

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 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.’\(^\text{20}\)

### iv Anticompetitive or exclusionary royalties

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

\(^{18}\) E.g., *Otsuka Pharmaceutical Co, Ltd v. Generic Health Pty Ltd (No. 4)* [2015] FCA 634 (29 June 2015) at [247].

\(^{19}\) *AstraZeneca AB v. Apotex Pty Ltd* [2014] FCAFC 99 at [444].

\(^{20}\) Footnote 8 at p. 11.
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, IP. 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 IP 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 IP, would address any competition concerns in Australia; and 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.

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.

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.

However, the force of the CQMS decision has been watered down by the subsequent decision of the Full Court in Darmagold Pty Ltd v. Blindware Pty Ltd, in which the Court held that the mere fact that a finding of infringement was not ultimately sustained does not render threats made by letter unjustified.

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

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

25 http://registers.accc.gov.au/content/index.phtml/itemId/1202487/fromItemId/751046.
26 http://registers.accc.gov.au/content/index.phtml/itemId/1194800/fromItemId/751046.
27 Sections 11 and 12, Civil Dispute Resolution Act 2011 (Cth).
29 [2017] FCA 1552.
30 Footnote 28 at [177].
31 Section 129(5), Trade Marks Act 1995 (Cth).
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’.32

iii Anticompetitive settlements of IP disputes

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

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 expiry of its atorvastatin patent in 2012.33 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.34 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 IP arrangements in Australia,35 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 on utilise its investigative powers to seek that information.

VII OUTLOOK AND CONCLUSIONS

The repeal of Section 51(3) of the CCA, which is due to come into effect on 13 September 2019, means that arrangements involving the assignment or licensing of IP rights will be treated like any other commercial arrangements and will no longer enjoy special protections from Australian competition laws. This is something that should definitely be borne in mind by licensors and licensees of IP rights going forward. Separately, the amended prohibition on misuse of market power in Section 46 of the CCA no doubt broadens the scope of the prohibition, but whether this amendment results in increased cases in which holders of IP rights are held to have misused market power remains to be seen.

32 Footnote 8 at p. 11.
33 See footnote 5.
34 Footnote 5 at [464].
35 See footnote 2.
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 eliminates and restricts 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 intellectual property (IP) field. In practice, the AML enforcement authority promulgates related regulations and guidelines, and the Supreme People’s Court (SPC) issues judicial interpretations, on specific issues in the 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 IP law and antitrust law in China during 2018 and early 2019.

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1 Zhaoqi Cen is a partner at Zhong Lun Law Firm. Special thanks go to Huiyang Guo, Xiaoyu Xu, Yue Zhang and Yu Jiang for their valuable assistance in preparing this chapter.
II YEAR IN REVIEW

i Institutional reform

A unified AML enforcement agency in the State Administration for Market Regulation
Since March 2018, three existing antitrust law enforcement bodies have been gradually consolidated into a unified AML enforcement agency: the Anti-Monopoly Bureau in the State Administration for Market Regulation (SAMR). This marked the most significant institutional reform since the AML came into force 10 years ago. In the past, the power to enforce the AML was 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). After the consolidation, the functions performed by these three agencies have been taken up by the SAMR, a newly established agency that also merges the SAIC, the General Administration of Quality Supervision Inspection and Quarantine and the China Food and Drug Administration. Also, the National Intellectual Administration, which is affiliated to the SAMR, has been re-established to provide more protection on IPRs and encourage innovation.

More importantly, to equip the AML enforcement agency with more resources and experienced staff, the SAMR has authorised market regulation departments for all provinces, autonomous regions and municipalities to handle anti-monopoly cases in their respective administrative areas. It can be foreseen that the establishment of a unified AML enforcement agency will improve the efficiency and stability in enforcement of the AML, and resolve the inconsistency in its interpretation by different agencies, thereby further reducing the costs incurred by business entities in administrative enforcement and compliance.

Establishment of the SPC Intellectual Property Tribunal
According to the Decision of the Standing Committee of the National People’s Congress of 26 October 2018, the SPC established the Intellectual Property Tribunal, a permanent judicial organ, which commenced performance of its duties on 1 January 2019. If any party files an appeal against a judgment or ruling of first instance for an IP civil case involving invention patent, utility model patent, new plant variety, integrated circuit layout design, technical secret, computer software or monopoly, or for an IP administrative case involving patent, new plant variety, integrated circuit layout design, know-how, computer software or monopoly, this shall be heard by the Intellectual Property Tribunal. It can be foreseen that this move will help unify the judgment criteria for IP cases, and further strengthen the judicial protection for IP.

ii Legislative development in IP and antitrust fields

Anti-Monopoly Law revision
In 2017, 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 confusion in practice. The main breakthrough in this revision is to establish competition policy as the foundation of the AML and to legalise the fair competition review system, so as to curb the monopoly behaviour at its origin. Currently, the amendment is still subject to additional research and discussion.
In November 2018, Gan Lin, deputy director of the SAMR and the secretary-general of the Anti-Monopoly Commission of the State Council (the Commission), announced that the draft amendment of the AML had already completed. The Commission’s office has also identified four principles in this AML revision project:

a. to refine the legislative policy from the practical experience of implementing the AML;
b. the necessity to conform to Chinese national conditions, adapting to the stage and level of China’s economic development, and also reasonably learn from the mature practices and experiences of developed countries in Europe and the United States;
c. to fully consider the uncertainty of the AML while maintaining the discretion of the AML enforcement agency and the flexibility of the law; and
d. to focus the revision on solving the most critical problems encountered in enforcement practice.

In the meantime, according to Gan Lin’s announcement, four anti-monopoly guidelines will be published soon, including the amended Anti-Monopoly Guidelines on the Abuse of Intellectual Property Rights.

**Provision on the Prohibition of Abuse of Dominant Market Position**

On 30 January 2019, the SAMR published the Provision on the Prohibition of Abuse of Dominant Market Position (Draft for Comment) (Draft Provision). In the Draft Provision, the SAMR integrates relevant provisions from the SAIC and the NDRC, to form a more uniform and clear guidance on the abuse of market dominance. Specifically, the Draft Provision provides that, when determining the undertaking’s market dominance in the field of IPRs, the SAMR shall not only base this on factors such as the market share proposed in Article 1 of the Draft Provision, but also consider the relevant technology’s substitutions and updates, as well as the standard’s research and development (R&D) status.

**Working Guidelines on the Trial of Standard-Essential Patent Disputes**

For the purpose of appropriate adjudication of disputes concerning standard-essential patents (SEPs) in the field of communications, the Guangdong High People’s Court formulated Working Guidelines on the Trial of Standard-Essential Patent Disputes (Trial Implementation) (the SEP Guidelines) in April 2018. All courts in Guangdong province, where several landmark SEP cases were filed (such as *Huawei v. Samsung* and *Huawei v. IDG*), shall follow the SEP Guidelines when dealing with SEP disputes.

The SEP Guidelines mainly provide a judicial view of adjudicating SEP cases in three aspects, including: (1) injunctions related to SEPs; (2) methods used to determine the royalty rate; and (3) anti-monopoly disputes concerning SEPs. The SEP Guidelines basically share the same view on injunctive relief as that of previous practice (i.e., the decision to issue an injunction asserted by the SEP holder mainly depends on which party is responsible for the deadlock of the negotiations). It also provides several principles and methods to determine the royalty rate of SEPs, such as referring to comparable licensing agreements, analysing the market value of the SEPs asserted in the case, and referring to licence information in

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the comparable patent tool. Additionally, the SEP Guidelines analyse the SEP-related issue in antitrust cases and conclude that violation of fair, reasonable and non-discriminatory (FRAND) commitments by an SEP holder does not necessarily constitute abuse of market dominance, and a case-by-case examination is required to determine the effect of eliminating or restricting market competition.

iii Major cases and investigations in 2018 and early 2019

*Huawei v. IDC*

The *Huawei v. IDC* case provided the first opportunity for Chinese courts to rule on SEP royalty rates in the communication sector. On 6 December 2011, Huawei sued IDC in the Shenzhen Intermediate People’s Court, accusing it of abusing market dominance, and violating its FRAND commitments. Huawei won the first instance in the Court, which ordered IDC to stop abusive behaviour and compensate Huawei with 20 million yuan. Also, IDC’s SEP royalty rate was determined as 0.019 per cent of the product price, while IDC required a rate of 2 per cent. In March 2013, IDC refused to accept the first instance judgment and appealed to the Guangdong High People’s Court. After seven months, the Guangdong High People’s Court issued its judgment, which maintained the first judgment. Because the second judgment was final, IDC began petitioning the SPC to review and retry the case in 2014.

Finally, in December 2018, the SPC formally decided to retry the case. During retrial, the SPC produced a civil mediation document outlining the settlement reached by both parties. This means that the original judgment has been replaced by the civil mediation document, and the legal proceedings in the case officially ended after seven years.

*Yunnan Big Star Company v. China Audio-Video Copyright Association*

The China Audio-Video Copyright Association (CAVCA) is the only audiovisual management organisation in China that is formally approved by the National Copyright Administration and registered by the Ministry of Civil Affairs. The CAVCA’s business scope includes signing audiovisual copyright collective management contracts with members in accordance with the law, and, in accordance with the authorisation of the member and related laws and regulations, signing licensing contracts with copyright users to collect usage fees. The plaintiff, Big Star, is an influential karaoke establishment (KTV) based in Kunming. This case marked the first time a KTV undertaking has challenged the CAVCA in the name of anti-monopoly.

The CAVCA packaged all copyright together and further formulated a room-based licensing system to charge all KTVs; namely, each KTV room would be charged at a fixed daily fee. The plaintiff challenged the ‘unreasonableness’ of this pricing model and claimed the CAVCA abused its dominance in the audio-video copyright licensing market to conduct abusive behaviours, including unfairly high pricing, bundling, refusal to deal and differential treatment without justifiable reasons. The Kunming Intermediate People’s Court recognised the legality of the CAVCA’s licensing behaviour, although it acknowledged the CAVCA’s dominance in the relevant market. Regarding the bundling allegation that the CAVCA required the plaintiff to pay for songs that are not used, the court was of the view that the package licensing is determined by reference to foreign copyright licensing practice and is

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helpful in reducing transaction costs and increasing transaction efficiency. On 7 May 2018, the Court ruled in favour of the CAVCA and dismissed all Yunnan Big Star Company’s claims. Without any appeals from the involved parties, this judgment took effect.

Similarly, on 21 March 2019, the CAVCA was sued in the Beijing Intellectual Property Court by nine KTV companies from Guangdong province alleging the CAVCA had abused its market dominance in the licensing of copyright. With the emergence of more cases regarding the intersection between antitrust and copyright licensing, it can be expected that more light will be shed on this issue.

**Ericsson investigation**

According to several public resources, the SAMR dawn-raided Ericsson’s Beijing office on 14 April 2019, which indicates the SAMR formally initiating an investigation. Since 2018, many phone manufacturers in China have complained and litigated about Ericsson’s potential abusive behaviour in the relevant markets of some SEPs. Given that Ericsson possessed approximately 49,000 patents by the end of 2018, most of which are SEPs, it is reasonable to presume that the SAMR is investigating Ericsson’s violation of the AML in the SEP licensing market. Until now, the SAMR has not made any public announcement regarding this dawn raid. This is the second anti-monopoly investigation initiated by the AML enforcement agency in the SEP market, with the first being the *Qualcomm* case in 2015.6

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

**Exclusive transaction**

The AML provides in general terms that restricting trading counterparts to trading only with the undertaking with dominant market position, or its designated undertaking, 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 counterparts to make transactions exclusively with themselves or with the undertakings designated by them without justifiable reasons if the transactions eliminate or restrict competition.

According to Article 11 of the Anti-Monopoly Guidelines on the Abuse of Intellectual Property Rights (Exposure Draft) (the IP Guidelines) released in early 2017, restricting undertakings from using or providing competitive technologies or products in the 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 counterparts to trade with third parties, or prohibiting them from doing so, or restricting the conditions for transaction counterparts to trade with third parties, may also be considered an infringement of the AML if it causes a negative impact on competition.

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6 NDRC Administrative Penalty Decision No. 1, 2015.
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.7

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 when analysing whether tying involving IPRs constitutes an abuse of a dominant market position.

Based on Article 31 of the SEP Guidelines, the court shall analyse three factors to determine the existence of tying: whether the SEP holder’s licence package is compulsory, the reasonableness and necessity of relevant patent portfolios, and whether the SEP holder’s behaviours eliminate or restrict competition.

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 an extension of its market dominance in the SEP market to the non-SEP market without justification.

Restricting use of competing products or IPRs after licence expiry

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 expired licensing agreements, even in the event of non-infringement of IPRs.8

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.9

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.10 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 its 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

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7 Article 9 of the SAIC Regulations.
8 Article 10.3 of the SAIC Regulations.
9 Article 17 of the IP Guidelines.
10 Article 7 of the SAIC Regulations.
dominant market position to eliminate 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 IPRs; (2) whether it is necessary for other undertakings to obtain the licensing of the IPRs for entry into the relevant market; (3) the impact of refusal to license IPRs 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 IPRs will damage the interests of consumers or the public.11

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. SAMR’s Draft Provision also acknowledges the above factors, while adding another: that of whether the selling price is remarkably higher than the price of commodity offered by the same undertaking in another region of the same or similar market conditions.

To give more clarification on 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.12

The Guangdong High People’s Court points out in Article 30 of the SEP Guidelines that the court should analyse whether the SEP holder’s behaviour of requesting an unfairly high royalty fee would lead to the effect of eliminating or restricting competition. In a case-by-case analysis method, the court may consider several factors, including, but not limited to, the past licence contracts signed by the SEP holder, the status of royalty fee deviating from the normal market prices and the relevant negotiation processes.

In Huawei v. IDC, the court compared the royalty rate IDC offered to Huawei with those IDC 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.

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11 Article 15 of the IP Guidelines.
12 Article 14 of the IP Guidelines.
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.13

Grant-back

Notably, grant-back is covered in the 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 the 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 eliminating 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 eliminating 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 9 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 an entry barrier for downstream market; (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 IPRs of the licensor.14

Continuing to exercise IPRs whose protection period has expired or 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.

13 Article 18 of the IP Guidelines.
14 Article 10 of the IP Guidelines.
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 eliminates or restricts competition in the relevant downstream market.

In Huawei v. IDC, the courts noted that IDC required Huawei to license back all of its global patents on a royalty-free basis (as at 31 December 2010, Huawei owned 31,869 Chinese patents, 8,892 Patent Cooperation Treaty 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’.15

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 eliminate or restrict competition. The IP Guidelines enumerate several factors that may be considered in the specific analysis of a patent pool, including:

a. the undertakings’ share in the relevant market and their control over the market;
b. whether the patents in a patent pool involve substitutable technologies;
c. whether members of the pool are restricted from independently licensing patents or researching and developing technologies out of the pool;
d. whether undertakings exchange prices, output and other information on goods through the pool; and
e. whether undertakings reject substitutable technologies through the pool, to prevent other undertakings from entering the relevant market.

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15 Article 12 of the SAIC Regulations.
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. The SAMR's Draft Provision complements this with three factors to be considered when it comes to the IP field: substitutions for the relevant technology, updates to the relevant technology and the standard's R&D status.

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 IPRs or goods and the switching costs; (2) the dependency of the downstream market on the products provided by applying IPRs; and (3) the capability of the transaction counterparty to restrict and balance the undertaking.

To identify whether an undertaking that owns an 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 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 it held. When determining market position, the NDRC mainly focused on factors including Qualcomm's market share in each separate wireless SEP licence market, its control over the relevant market, downstream customers’ reliance on its technology and barriers to enter the relevant market.

ii Injunctions

The issue of whether SEP holders 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), 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 an SEP 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 SEP’s 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 faults 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 faults in the negotiation process. However, Samsung committed obvious violations of its FRAND obligations in both procedure and substance. Therefore, the court elected to grant an SEP injunction against Samsung’s future infringement. Following the Huawei v. Samsung case, the Guangdong High People’s Court also adopts the same framework in analysing the issue of injunctions in the SEP Guidelines.

However, abuse of injunctions may constitute an abuse of dominant market position and a violation of the AML. The IP Guidelines state that:

[i]njective 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.

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

iii Licensing under FRAND terms

The Patent Infringement Guidelines for the first time provide comprehensive guidance for the interpretation of the FRAND obligations in Articles 152 and 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

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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 result in the failure to reach a patent licensing agreement and other conditions.17 If any of the following acts are 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 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.18

The SEP Guidelines share a similar framework in analysing the good faith of the parties in the negotiation process. In comparison with the Patent Infringement Guidelines, the SEP Guidelines further elaborate on two scenarios where the implementer shall be deemed to be at obvious fault: (1) refusing to enter into the non-disclosure agreement without justifiable reasons, resulting in the discontinuation of the negotiation; and (2) failing to give a substantive reply, within a reasonable period of time, regarding the patent information, such as the sample patent list and the claim charts provided by the patentee of the SEP.

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 royalties 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.

17 Article 152 of the Patent Infringement Guidelines.
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 power of undertakings and make it more difficult for competitors to enter into the relevant markets. Therefore, the Anti-Monopoly Bureau scrutinises the above effect of the transfer of IPRs in its merger control 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, considerations for review and additional restrictive conditions. Article 19 lists three considerations in analysing whether undertakings may obtain control over other undertakings or whether undertakings may impose a decisive impact on other undertakings by the transfer and exclusive licensing of IPRs: (1) whether the IPRs constitute an independent business; (2) whether the IPRs produce turnover that can be calculated independently in the previous fiscal year; and (3) the duration of the exclusive licensing of IPRs.

Furthermore, the MOFCOM issued the Provisions of the Ministry of Commerce on Imposing Additional Restrictive Conditions on the Concentration of Undertakings on 5 January 2015. According to this regulation, the enforcement agency 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) behavioural conditions requiring undertakings to license key technologies (including patents, proprietary technologies or other IPRs); and (3) comprehensive conditions in combination of structural conditions and behavioural conditions.

Articles 22 to 24 of the IP Guidelines give a specific interpretation of restrictive conditions involving IPRs, which includes structural conditions, behavioural conditions and comprehensive conditions. Generally, undertakings may propose structural restrictive conditions, such as divesting IPRs or businesses involving IPRs, to address concerns of the enforcement agency. Undertakings also need to ensure that the licensees of IPRs have the necessary resources, capabilities and willingness to participate in market competition by exercising the divested IPRs or engaging in the business involved. The divestiture 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 on an individual case-by-case analysis. 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 the businesses relating to IPRs, and the businesses should be able to participate in effective competition in a certain period; (3) fulfilling the FRAND obligations – undertakings usually ensure that they fulfil the obligations through specific arrangements; and (4) charging 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.

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 in accordance with the FRAND principles, and the potential licensee did not intend to sign the licensing agreement conforming to the FRAND principles or abide by these licence terms in good faith; (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.

In the Bayer/Monsanto case, the MOFCOM finally approved this acquisition with remedies involving structural divestitures of IP. Specifically, the MOFCOM requires Bayer to globally divest its vegetable seed business, non-selective herbicide business (glyphosate business) and its corn, soybean, cotton and canola traits business. The divesture includes relevant facilities, personnel, IP (including patents, know-how and trademarks) and other tangible and intangible assets. Also, behavioural conditions concerning the IPR are imposed in this case (i.e., based on FRAND terms, allowing all Chinese developers of agricultural applications to connect to the newly merged digital agricultural platform and allowing all Chinese users to register and use this platform within five years of the date the digital agriculture products of all the parties involved entered the Chinese market).

VI OTHER ABUSES

Regarding anticompetitive settlements of IPR disputes, China’s AML enforcement agency, learning from EU and US experience, has 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 monopolistic 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.

VII OUTLOOK AND CONCLUSIONS

Overall, the interplay of the AML and IPR is still at an early stage and has a long way to go. In recent years, the AML enforcement agency has been paying closer attention to enterprises’ abusive behaviour in relation to IPR. With the amendment of the AML and formal release of relevant guidelines, many of the AML’s IPR-related issues 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.

19 MOFCOM Decision No. 44, 2015.
21 Article 13.2 and 13.4 of the AML.
Chapter 4

ECUADOR

Maria Rosa Fabara Vera, Diego Ramírez Mesec and Daniel Castelo¹

I  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, in addition to merger control. On the other hand, intellectual property (IP) is regulated at a national level by the Organic Code for the Social Economy of Knowledge, Creativity and Innovation (the IP Code). 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 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.

II  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,

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the SCPM has 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 IPRs, the SCPM has been very active in several sectors where IP is highly relevant, such as the pharmaceutical sector.

The IP Code (commonly known as the Ingenuity Code), which was enacted in December 2016, 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 IPRs. However, it is possible for the general provisions of the LORCPM to be applied to cases regarding the licensing of IPRs. 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 IPR 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 with 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 of 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, IPRs), but the allegation was considered baseless as the IP owner did offer a licence on fair, reasonable and non-discriminatory (FRAND) 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 an ‘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 IPR 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 of 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

Similar to 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 of the LORCPM, in regard to abuse of dominant position, and Article 11, regarding anticompetitive agreements, prohibit unjustifiable discrimination when it puts third parties in equivalent transactions in an unequal downstream position 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, 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 unjustifiably 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. Article 9 could also be used to create a case of collective dominance. In Article 9, 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).
vSoftware 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 software licensors usually seek to exclude third parties that are 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 — selling the software licence and the maintenance services separately (as well as bundled together), and allowing others to also offer maintenance service, would prevent a finding that the licensing breaches the antitrust legislation.

viTrademark licensing
Similar to IPR 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 (e.g., acts of confusion, imitation, taking advantage of other party’s reputation).

IVSTANDARD-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 IPR or not, could result in liability for abuse of dominance under the LORCPM.

In particular, the LORCPM addresses the misuse or abuse of IPRs. 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 takes the recommendations of the industry into account, 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.

iDominance
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.

iiInjunctions
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 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.

### 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.²

However, unjustified refusal to deal (i.e., to license an IPR), 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.

### Anticompetitive or exclusionary royalties

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

### INTELLECTUAL PROPERTY AND MERGERS

In accordance with the provisions of the LORCPM, the analysis of a merger should not change in cases in which IPRs 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 and 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.).

**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, IPRs are considered an asset and treated no differently from other tangible assets; therefore, if one of the criteria required for approval is met, the transfer of IPRs 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

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² Article 11.10 of the LORCPM.
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 IPRs.

Obviously, the remedies may include an obligation to divest, assign or license IPRs, 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 IPRs can be considered a violation of the LORCPM both as an abuse of IPRs or the abuse of legal proceedings that limit the access or permanence in the market of competitors, 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.

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 IPR or abuse of the legal proceedings, 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.

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.

3 Article 9.17 of the LORCPM.
4 Article 9.18 of the LORCPM.
5 Article 27.9 of the LORCPM.
6 See footnote 3.
7 See footnote 4.
8 See footnote 5.
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 the selling or delivering of goods;\(^9\)
- the conditioning of acts or agreements to acceptance of terms that, according to their nature or commercial use, are not related thereto;\(^10\)
- an exclusionary practice;\(^11\)
- abuse of an IPR;\(^12\)
- unjustified implementation of legal actions that result in restricting access to the market of actual or potential competitors;\(^13\) or
- preventing or impairing market access to actual or potential competitors for reasons other than economic efficiency.\(^14\)

Furthermore, even if the owner of IPRs does not enjoy dominance, the settlement agreement could breach the LORCPM if it imposes entry barriers\(^15\) or prevents or impairs market access to actual or potential competitors for reasons other than economic efficiency.\(^16\)

**VII OUTLOOK AND CONCLUSIONS**

Almost eight years have passed since the LORCPM was enacted in late 2011 as the first antitrust legislation in Ecuador. In these eight years, competition law principles in Ecuador are fairly well-known by practitioners and companies with increasing awareness in everyday activities. Unfortunately, despite this, 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. On the other hand, IP law has been in force in Ecuador for several decades and overall it is more developed than competition law. However, the relatively new IP Code’s development will require some years of adjustment.

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 IPRs to stop or delay the entry of generic drugs on to the market.

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.

\(^9\) Article 9.10 of the LORCPM.
\(^10\) Article 9.13 of the LORCPM.
\(^11\) Article 9.15 of the LORCPM.
\(^12\) See footnote 3.
\(^13\) See footnote 4.
\(^14\) Article 9.22 of the LORCPM.
\(^15\) Article 11.18 of the LORCPM.
\(^16\) Article 11.20 of the LORCPM.
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.’\(^2\) 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 of the TFEU prohibits agreements and concerted practices that ‘have as their object or effect the prevention, restriction or distortion of competition’.\(^3\) Several pieces of EU secondary legislation and EC guidelines must be taken into account in applying Article 101 of the TFEU to IPR-related agreements. They include:

a 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 (TTBER));

b the Technology Transfer Guidelines;

c 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

d EC Guidelines on the applicability of Article 101 of the TFEU to horizontal cooperation agreements 2011 (the Horizontal Cooperation Guidelines).

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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 TFEU to technology transfer agreements 2014, Paragraph 7.

3 Article 101 TFEU.
Article 102 of the TFEU prohibits the abuse of a dominant position. The EC’s Guidance on its enforcement priorities in applying Article 102 of the TFEU to abusive exclusionary conduct by dominant undertakings (the Guidance in applying Article 102 of the 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 Antitrust investigations into tech companies

In the first of a series of three landmark decisions against Google, on 27 June 2017, the EC found that Google breached Article 102 of the TFEU in the market for general internet searches across the European Economic Area (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).

In a second decision, issued in July 2018, Google was fined €4.34 billion for anticompetitive practices related to Android. Google was found to have forced bundles of its own apps onto original equipment manufacturers (OEMs), to have offered financial incentives to OEMs conditional upon the exclusivity of Google Search being installed on Android devices, and to have prevented OEMs wishing to pre-install ‘must-have’ Google apps from selling mobile devices running on alternative unapproved versions of Android (‘Android forks’). Google and its parent company, Alphabet, lodged an appeal against the decision before the GC.

In a third decision, issued on 20 March 2019, the EC fined Google €1.49 billion for imposing restrictions on the ability of third-party websites to display search advertisements from competitors to Google’s AdSense business. These included outright exclusivity obligations, minimum purchasing obligations, requirements to reserve premium space on results pages for Google’s adverts, and controls over the way rivals’ adverts were displayed. Google ceased these practices shortly after the EC issued a statement of objections in July 2016.

4 Case AT.39740, Google Search (Shopping) [2017].
6 Case AT.40099, Android [2018].
7 Case AT.40411, Adsense [2019].
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 TripAdvisor) can amount to abusive conduct under Article 102 of the TFEU.

In September 2018, the EC launched an informal, preliminary antitrust investigation into Amazon and how it treats third-party merchants’ data on its marketplace. A decision on whether such practices warrant further investigation is expected in 2019. Meanwhile, Austrian, German and Italian competition authorities have also recently launched investigations into the company, with a similar focus on Amazon’s hybrid role as a marketplace and as a retailer.

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. In 2015, the Court of Justice of the European Union (CJEU) delivered its seminal judgment in *Huawei Technologies Co Ltd v. ZTE Corp* dealing directly with the application of Article 102 of the TFEU to the exercise of SEPs, as described in Section IV. While recourse to injunctions is generally considered to be a legitimate remedy for patent infringements, seeking injunctions for infringement of SEPs may be considered contrary to Article 102 of the 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’. 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.

As the internet of things advances, so does connectivity-dependent technology (across every economic sector), and the standards that enable interoperability are becoming increasingly important. Indeed, recently there has been a rise in SEP disputes in areas other than in the telecommunications sector; principally, in the automotive industry, with the emergence of connectivity technology used in connected cars and autonomous vehicles.

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9 Case C-170/13, *Huawei Technologies* [2015].

10 ‘Setting out the EU approach to Standard Essential Patents’ is available at https://ec.europa.eu/docsroom/documents/26583.
iii Intellectual property and mergers

In January 2018, the EC approved Qualcomm’s proposed US$47 billion acquisition of semiconductor manufacturer NXP under the EU Merger Regulation. The acquisition was ultimately abandoned due to Qualcomm’s failure to secure Chinese regulatory approval, but the EC’s approach to licensing issues and commitments in this case is nevertheless significant. Following an in-depth Phase II investigation, the EC ruled that Qualcomm and NXP held dominant market positions in the semiconductor industry, supplied highly complementary products to the telecoms sector, and owned considerable amounts of IP of interest to smartphone manufacturers. The EC consequently raised three principal competition concerns: (1) the combined patent portfolios of near-field communication (NFC) technology of both companies would result in an increase of the merged entity’s bargaining power, thus creating a discriminatory increase in royalty rates for NFC licences; (2) the merged company would inherit the ability to vitiate the interoperability of Qualcomm and NXP’s chips with rivals’ products; and (3) the newly formed entity would have an incentive to restrict competitors’ access to NXP’s ‘MIFARE’ industry-leading technology (used as a contactless ticketing collection platform) through the increase of royalty rates or the outright refusal to continue licensing MIFARE.

To address the EC’s concerns, Qualcomm offered several commitments. With respect to the first issue, Qualcomm offered to transfer a bundle of NXP’s standard-essential and some non-essential NFC patents to a third party that would be authorised to grant worldwide, royalty-free licences to the patents for three years. On the second matter, Qualcomm committed to ensuring that it would provide the same level of interoperability between its own and NXP’s chips with the corresponding products manufactured by rival companies for a period of eight years. On the final point, Qualcomm committed to offer licences to NXP’s MIFARE technology on terms that were, at a minimum, as favourable as those that were available at that time, for a period of eight years. The EC was satisfied that these commitments would ensure that rivals of the merged entity were able to continue to compete effectively, and would not give rise to competition concerns.

iv Enforcement post 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. As a part of the EC’s adoption of its Digital Single Market Strategy, the Directorate-General for Competition launched its e-commerce sector inquiry, with the aim of investigating the extent to which measures restricting cross-border e-commerce were 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’,11 as a potential barrier to trade and as a potential violation of Article 101 of the TFEU.12 Online providers may sometimes rely on IPRs to restrict cross-border sales, and hence IPRs are relevant to the e-commerce sector inquiry.

11 Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition, Paragraph 32.
12 Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition, Paragraph 49.
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 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 Brief14 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 EC'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.

On 17 December 2018, fashion brand Guess was fined €40 million by the EC for placing a number of restrictions on retailers within its selective distribution network.15 In addition to implementing more ‘conventional’ hardcore restrictions (which have long fallen foul of Article 101 of the TFEU), such as on online resale price restrictions, geo-blocking, and prohibitions on cross-selling between authorised wholesalers and retailers, Guess also restricted retailers from using their brand names and trademarks for the purposes of online search advertising.

The EC took the opportunity to draw a link between the Guess decision and the EU Geo-Blocking Regulation, which came into force on 3 December 2018. The Regulation addresses the loophole of unilateral geo-blocking (which previously fell outside the scope of Article 101 of the TFEU) and prohibits any form of discrimination, such as blocking

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13 Case C-230/16, Coty Germany GmbH v. Parfumerie Akzente GmbH [2017].
15 Case AT.40428, Guess [2018].
access or automatically redirecting consumers to an alternative website and applying different conditions for access to goods or services, and applying different conditions for payment transactions, based on a consumer’s nationality or location. The Guess decision serves as a reminder that European competition authorities are motivated by a common enforcement agenda on e-commerce. Enforcers are committed to acting against brand suppliers that reserve online channels for themselves to the detriment of their authorised resellers.

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 VRBE 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.

v 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.\(^\text{16}\)

On 26 July 2016, the EC published its decision accepting Paramount Pictures’ proposed commitments, which will last for five years.\(^\text{17}\) 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, appealed the decision before the GC.\(^\text{18}\) In December 2018, the GC dismissed Groupe Canal+’s appeal, and Group Canal+ has since appealed to the CJEU. The judgment of the CJEU is still pending.\(^\text{19}\)

\(^{17}\) id.
\(^{18}\) Case T-873/16, Groupe Canal+ [2018].
\(^{19}\) Case C-132/19.
Meanwhile, in November and December 2018, Disney, NBCUniversal, Sony Pictures, Warner Bros and Sky also offered commitments to address the EC’s concerns, which the EC accepted on 7 March 2019.

vi The new Copyright Directive

In spring 2019, the EU Parliament and Council of the European Union approved the new Directive on Copyright in the Digital Single Market (the Directive). This is the first comprehensive harmonisation of copyright laws at EU-level since the adoption of the Information Society Copyright Directive in 2001, and it forms a key strand in the EC’s digital single market initiative. Once published in the Official Journal of the EU, Member States will have 24 months to transpose it into national legislation. It has been met with a great deal of controversy as various stakeholders assess its potential impact.

The primary objectives of the Directive are to: (1) improve the protection of copyrighted content online by creating what some contend to be a better balance between the rights and responsibilities of publishers, authors and online platforms; (2) reinforce the data economy by introducing exceptions to copyright infringement for text and data mining; (3) strengthen online cross-border access to copyright-protected content; and (4) provide appropriate access to copyright material in relation to education, research and cultural heritage.

Pursuant to Article 15 of the Directive, publishers now have a right of reproduction, right of communication to the public, and right of making available to the public the online use and distribution of their press publications. This provision is designed to protect publishers from online platforms reposting published content without having compensated the publishers fairly. The Directive stipulates that online platforms must now negotiate a licence with publishers in order to repost their content. Article 15 does not apply to individuals sharing published content for private or non-commercial purposes. Additionally, hyperlinking and the use of individual words or short extracts from press publications are excluded from licensing obligations.

Article 17 of the Directive tackles the liability of online content sharing service providers (OCSSPs). Examples of OCSSPs are those that store and grant public access to a large database of copyright-protected works uploaded by their users, which are distributed and promoted for profit-making purposes, such as YouTube. The following entities are exempt from Article 17: online encyclopaedias, such as Wikipedia, not-for-profit educational and scientific archives and electronic communication and cloud services providers. Not only is the OCSSP’s burden of securing authorisation and preventing the distribution of infringing content on their platforms rather onerous, but it will be a challenge for these platforms to police uploaded content. It is expected that OCSSPs will introduce filters that will automatically remove content that could be copyrighted.

The Directive also introduces a number of additional protections for content creators; for example, provisions that entitle creators to compensation that is appropriate and proportionate (Article 18) and measures to refine contracts where payments become disproportionately low compared with the revenues their work generates (Article 20).

vii Pay-for-delay patent settlement agreements

The pharmaceutical sector has been one of the EC’s principal areas of focus when it comes to antitrust investigations over the past decade, largely in response to the Council and the European Parliament’s concerns that anticompetitive practices risk endangering patients’ access to cutting-edge and affordable essential medicines. This was the driving motivation
behind the EC’s inquiry into the pharmaceutical sector in 2009 (PSI) and more recently the EC’s Report to the Council and the European Parliament on ‘Competition Enforcement in the Pharmaceutical Sector (2009–2017)’, published on 28 January 2019.

Tackling pay-for-delay cases has been a priority. In December 2018, the GC took a second, landmark decision regarding pay-for-delay patent settlements in the pharmaceutical industry: Servier v. Commission. 20 This followed the GC’s 2016 decision on Lundbeck v. Commission (see discussion in Section VI.iii), which left market observers questioning the demarcation of permissible settlement agreements in pharmaceutical patent cases on the one hand, and allegedly anticompetitive pay-for-delay settlement agreements on the other. 21 The GC in Servier has now shed some well-needed light on this issue.

On its application of Article 101 of the TFEU, the GC delivered two significant pronouncements. First, IPRs are protected by both the Charter of Fundamental Rights and the presumption of IPR validity, so patent settlement agreements that bring an end to litigation should be encouraged, and are, in theory, pro-competitive. However, the GC added that encouragement of such arrangements should cease if they go further than the conclusion of litigation, by also compensating a generic company for agreeing to delay entry to market.

The GC also signalled a change in approach towards the application of Article 102 of the TFEU. According to the GC, the EC manifestly erred in its overly narrow assessment of market definition, and the GC reversed the EC’s finding of an abuse of dominant position. We therefore observe a rare intervention of the traditionally deferential GC in the EC’s review of market definition.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Article 101(1) of the TFEU prohibits anticompetitive restraints in agreements between undertakings – including in licensing agreements – unless they are justified under Article 101(3) of the 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 of the 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

20 Case T-691/14, Servier [2018].
21 Case T-472/13, Lundbeck [2016].
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 of the 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 the 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 of the 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) of the 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. *Lucazeau* 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 of the 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 VRBE 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 of the 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

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22 Technology Transfer Guidelines: Paragraph 63.
23 See recital 7 to the TTBER.
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;

b 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

c 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 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’. 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.

26 id., Section 7.
Moreover, it is commonly accepted that standards are beneficial for the economy, facilitating interoperability and cross-border trade and fostering innovation; 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 of the 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. 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.

i Market definition and dominance

The conduct of an SEP holder will only be found to infringe Article 102 of the 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. 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, 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. 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.

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

28 Case C-170/13, Huawei Technologies [2015].
29 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.
30 Case COMP/M.6381, Google/MMI is an EC merger decision in which the EC cleared the merger but made broad obiter dicta about the possibility that SEPs confer dominance and about the potential competition concerns raised by the exercise of SEPs.
31 Case COMP/M.6381, Google/MMI, Paragraph 54.
32 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.
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 of the 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 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 of the 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 of the 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 of the TFEU and protecting the fundamental rights to property (including intellectual property) and access to effective judicial remedy, guaranteed by Articles 17(2) and 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 compatibility was essential even where 3G and 4G networks were also available. This reasoning in relation to market definition is consistent with the EC’s preliminary findings in its Samsung commitments decision, though in relation to a different standard (the UMTS (3G) standard).

33 District Court of Düsseldorf.
34 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.
35 Footnote 4, Paragraphs 53 and 54.
36 id., Paragraph 42 et seq.
37 See, e.g., Case C-170/13, Huawei Technologies [2015], Paragraphs 58 and 59.
SEPs indispensable, and the 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.39 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.40

Having established that seeking an injunction for SEPs could in principle infringe Article 102 of the 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 a 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 of the SEP holder’s patents.41 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’;42
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;43
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’.44 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’;45 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’.46

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.47

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

39 Footnote 4, Paragraphs 50–52. See also, AG Wathelet’s Opinion, Paragraph 70 et seq.
40 Footnote 4, Paragraphs 53 and 54.
41 id., Paragraphs 54 and 55.
42 id., Paragraph 61.
43 id., Paragraph 63.
44 id., Paragraph 65.
45 id., Paragraph 67.
46 id., Paragraph 69.
47 id., Paragraph 68.
the reasoning in the EC’s *Motorola* decision, where the lack of willingness of Apple was raised as an objective justification for Motorola’s conduct\(^{48}\) – 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’.\(^{49}\) 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.\(^{50}\)

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.\(^{51}\) 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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\(^{49}\) ‘Setting out the EU approach to Standard Essential Patents’ is available at https://ec.europa.eu/docsroom/documents/26583.

\(^{50}\) Horizontal Guidelines, Paragraph 286.

\(^{51}\) 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 preliminarily construed the patent ambush as excessive pricing in violation of Article 102 of the 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.

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 of the TFEU.

However, by closing its investigation in *Qualcomm*, the EC passed up 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 of the 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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52 Under EU competition law, a dominant undertaking that imposes excessive prices infringes Article 102 TFEU.
54 For example, the European Telecommunications Standardisation Institute 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).
57 Horizontal Guidelines, Paragraphs 289 and 290.
58 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.

60 EU Merger Regulation, Article 2(2).
61 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.
63 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’.\(^{64}\) In such circumstances, the joint venture must have sufficient resources, including intangible assets such as IPRs, to operate independently in a market.\(^{65}\) 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.\(^{66}\)

In this context, on 16 June 2015, in PRSfM/STIM/GEMA/JV, the EC approved the proposed creation of a joint venture for cross-border online music licensing and copyright administration services by three UK, Swedish and German music collecting societies.\(^{67}\) 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 pre-existing joint venture between PRSfM and STIM, and to two of GEMA’s licence processing tools.\(^{68}\) 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.\(^{69}\) 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.\(^{70}\)

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.\(^{71}\) 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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\(^{64}\) EU Merger Regulation, Article 3(4).

\(^{65}\) Consolidated Jurisdictional Notice, Paragraph 94.

\(^{66}\) Consolidated Jurisdictional Notice, Paragraphs 106–108.

\(^{67}\) Case No. COMP/M.6800, PRSfM/STIM/GEMA/JV, decision of 16 June 2015.

\(^{68}\) id., Paragraph 59.

\(^{69}\) EU Merger Regulation, Articles 6(2) and 8(2).

\(^{70}\) EU Merger Regulation, Recital 30, Articles 6(2) and 8(2).

\(^{71}\) Case No. COMP/M.7737, Honeywell/Elster, decision of 21 December 2015; Case No. COMP/M.7585, NXP Semiconductors/Freescale Semiconductor, decision of 17 September 2015; Case No. COMP/M.7559, Pfizer/Hospira, decision of 4 August 2015; Case No. COMP/M.7499, Altec/PT Portugal, decision of 20 April 2015; Case No. COMP/M.7420, ZF/TRW, decision of 12 March 2015. See also EC notice on remedies acceptable under Council Regulation (EC) No. 139/2004 and under Regulation (EC) No. 802/2004 (the Remedies Notice), Section III.i, and Paragraph 38.
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.\textsuperscript{72}

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.\textsuperscript{73} For instance, in \textit{GlaxoSmithKline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business},\textsuperscript{74} 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.\textsuperscript{75} The EC has stated that licensing remedies should be as effective as divestitures in enabling the licensee to compete with the merged entity.\textsuperscript{76}

Finally, the EC reaffirmed the acceptability of the scarcely used rebranding commitments in \textit{Merck/Sigma-Aldrich}. Such commitments entail the granting of an exclusive, time-limited licence to use a brand.\textsuperscript{77} In particular, rebranding commitments provide for a period within which the licensee must rebrand the product under the licensee’s own brand.\textsuperscript{78} Similarly, in \textit{Honeywell/Elster} and \textit{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.\textsuperscript{79}

\textbf{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.\textsuperscript{80} Such an alternative remedy must have effects at least equivalent to a divestiture of the IPRs.\textsuperscript{81}

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 same conditions as prior to the concentration. For instance, the EC considered

\textsuperscript{72} Case No. COMP/M.7777, Solvay/Cytec, decision of 2 December 2015, Section IV.
\textsuperscript{73} Remedies Notice, Paragraph 38.
\textsuperscript{74} Case No. COMP/M.7276, GlaxoSmithKline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business, decision of 28 January 2015.
\textsuperscript{75} id., Paragraphs 366 and 370–371.
\textsuperscript{76} Remedies Notice, Paragraph 38.
\textsuperscript{77} Case No. COMP/M.7435, Merck/Sigma-Aldrich, decision of 15 June 2015.
\textsuperscript{78} Remedies Notice, Paragraphs 39–42.
\textsuperscript{79} 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.
\textsuperscript{80} Remedies Notice, Paragraphs 62 and 65. Recent examples include: Case No. COMP/M.7873, Wordline/Equens/Paysquare, decision of 20 April 2016; Case No. COMP/M.7822, Dentsply/Sirona, decision of 25 February 2016.
\textsuperscript{81} Remedies Notice, Paragraph 61.
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.82

**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 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.).83

**i  Sham or vexatious IP litigation**

It follows from the obligations imposed on dominant companies by Article 102 of the 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.84

This can also be the case with respect to fundamental rights, such as the right of access to a court.85 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 International*86 – 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.

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82 Case No. COMP/M.7822 – Dentsply/Sirona, decision of 25 February 2016.
83 EC Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.1 ff.
85 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’.

Similarly, the CJEU delivered an interesting ruling under Article 101 of the TFEU in Genentech Inc v. Hoechst GmbH. The CJEU’s ruling provided insight into the circumstances under which EU competition law precludes parties from enforcing patent licensing agreements, and requiring royalties, even after the invalidation of the patent. A straightforward proposition emerged from the judgment, namely that an agreement to pay a licence fee nevertheless remains payable in the case of invalidity, revocation or non-infringement, provided that the licensee remains free to terminate the agreement by giving reasonable notice.

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 of the TFEU may apply.

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

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 of whether it is abusive

88 Case C-567/14, Genentech Inc v. Hoechst GmbH, judgment of 7 July 2016, ECLI:EU:C:2016:526. This case was brought as a request for a preliminary ruling by the Paris Court of Appeal.
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.91

AstraZeneca’s second abuse marked the first time the EC dealt with ‘evergreening’ or ‘product-hopping’ practices.92 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.93 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).94

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’95 in establishing an abuse. AstraZeneca makes clear that the manner in which an undertaking acquires IP protection can amount to a competition law violation.96 Exploiting ‘loopholes’ in the regulatory system may entail a significant antitrust risk, even in the absence of intent to affect competition on the market.

92 These practices were also identified in the EC’s Pharmaceutical Sector Inquiry. See EC Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.6.
95 id., Paragraph 359. See also Paragraph 813.
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.  

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 the 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 the validity and infringement of the originator’s patent, with both challenges having an uncertain outcome. The originator and the generic supplier settle their dispute, as part of a broader strategy to hinder generic competition, 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’. Such settlements benefit the originator, who reaps additional profits from prolonged market exclusivity, while it compensates the generic company.

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 been reticent in expressing their views on pay-for-delay cases. However, European case law on this subject has developed significantly in the past year.

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 of the TFEU.

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98 According to a 28 January 2004 press release by the Danish Competition Authority, which at the time, together with the EC, was investigating a series of settlement agreements between Lundbeck and generic companies. The press release is available at www.kfst.dk/afgoerelser-ruling/konkurrenceomraadet/styrelsesafgoerelser/2004/undersoegelse-af-lundbeck/.


100 See Section VI.ii.

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

a 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;

b 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 the validity of the patents; and

c there was a link between the value transfer and the generic companies’ decision to limit efforts for independent entry.

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.

Notably, the GC confirmed the EC’s view that agreements such as those that Lundbeck signed with the potential generic entrants can constitute by-object infringements 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).

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102 id.

103 Following up on the PSI, the EC has been closely monitoring patent settlement activity in the pharmaceutical sector. The latest Report on the Monitoring of Patent Settlements covers the year 2014, was published in December 2015 and is available at: http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/patent_settlements_report6_en.pdf.

104 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.


106 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.

107 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
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 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.108

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.109 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.

Lundbeck has appealed the GC’s judgment to the CJEU. An oral hearing was conducted by the CJEU on 24 January 2019 and a final judgment is expected to be delivered during 2019.

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


109 id., Paragraph 168 et seq.
Article 101 of the TFEU by object (i.e., removing the need for the EC to prove concrete, harmful effects on competition). However, unlike Lundbeck, the EC based its infringement decision against Servier also on Article 102 of the TFEU: the EC found that Servier had not only induced the settlements, but also acquired (scarce) technology essential to generic entry.

On appeal, the GC confirmed the EC’s ruling that most of Servier’s practices violated Article 101 of the TFEU, as they stifled the market entry of, and consumer access to, more affordable generic drugs. While the GC emphasised that settlement agreements in patent lawsuits are not necessarily contrary to competition law and should generally be encouraged, when the generic company is granted benefits inducing it to refrain from entering the market or raising challenges against the originator’s patent, such inducement is a restriction of competition. Therefore, the GC upheld the EC’s decision that most of the settlement agreements between Servier and the generic companies infringed Article 101. With respect to the settlement agreement between Servier and one of the generic companies, Krka, the GC rejected the EC’s finding of an Article 101 violation, disagreeing with the argument that Servier’s arrangement with Krka induced the latter to withdraw from the market. 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. The EC’s final decision remains pending.

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.

Determining whether generic suppliers present at least potential competition opens the door for the EC to tread dangerously close to assessing patent validity. Potential competition is established when it is ‘based on realistic grounds’ while ‘the mere theoretical possibility to enter a market is not sufficient’. 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.

The EC and the courts have interpreted the notions of ‘limiting entry’ and ‘value transfer’ broadly. ‘Limiting entry of generic competition’ could range from an absolute

110 Case COMP/AT.39612, Perindopril (Servier), decision of 9 July 2014.
111 Case T-691/14, Servier SAS and Others v. Commission.
113 Case COMP/AT.39226, Lundbeck, decision of 19 June 2013, Paragraph 659.
114 ibid. This approach is similar to the EC’s approach to ‘coexistence agreements’ between trademark owners; see Section III.vi.
115 See, for instance, the EC’s analysis in Lundbeck, ibid, Paragraphs 667–671.
restriction on entry to limited forms of non-immediate or non-independent entry.\textsuperscript{119} Similarly, ‘value transfers’ are not limited to direct monetary payments, but can also include more covert transfers of value.\textsuperscript{120} 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.\textsuperscript{121}

\section*{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.

The 2015 \textit{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 EC 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. The CJEU held an oral hearing on Lundbeck’s appeal in January 2019, and the CJEU’s final decision is expected to be delivered during 2019.

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.

\textsuperscript{119} For instance, entry as an exclusive distributor of the originator.

\textsuperscript{120} In \textit{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.

\textsuperscript{121} Case COMP/AT.39226, \textit{Lundbeck}, decision of 19 June 2013, Paragraph 660.
Chapter 6

FRANCE

David Por and Florence Ninane

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 L420-1 and L420-2 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 recent years, the main developments affecting the interplay between IP and antitrust laws have occurred at the European level, with the General Court’s first rulings on ‘pay-for-delay’ agreements. After the expiry 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 therefore ruled that the Commission was entitled to find that the agreements were restrictive by their object. Appeals are still pending before the Court of Justice of the European Union (CJEU). More recently, in a similar case, the General Court confirmed the Commission’s decision to impose fines on the French pharmaceutical company Servier and a number of producers of generic medicines for concluding a series of deals aimed at protecting Servier’s best-selling blood pressure medicine from competition by

1 David Por and Florence Ninane are partners at Allen & Overy LLP.
3 Commission Decision C(2013) 3803 final of 19 June 2013 relating to a proceeding under Article 101 of the TFEU and Article 53 of the EEA Agreement (Case AT.39226, Lundbeck).
4 Commission Decision C(2014) 4955 final of 9 July 2014 relating to a proceeding under Article 101 and Article 102 of the TFEU (Case AT 39612, Perindopril Servier).
generics in the European Union. The General Court approved the Commission’s view that the generic companies were potential competitors of Servier at the time of the agreements and that the patent settlement agreements concluded between Servier and those companies constituted market exclusion agreements restrictive of competition by object.\(^5\)

Past years have 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 CJEU, which laid down a road map for SEP owners and implementers of standards.\(^6\) On 29 November 2017, the Commission also published a Communication entitled ‘Setting out the EU approach to Standard Essential Patents’, aimed at offering guidance and recommendations in relation to the licensing, valuation and enforcement of SEPs.

After a period without significant litigation in this space, multiple lawsuits have been brought by SEP owners, including in France. 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; for the time being, these cases have settled, or courts have found that the conditions for the setting of FRAND terms were not met.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

Under French law, anticompetitive restraints imposed in the context of licensing agreements fall under either Article L420-1 or Article L420-2 of the FCC or under the corresponding EU provisions, respectively Article 101 and Article 102 of the 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), No. 316/2014 (technology transfer block exemption), No. 1218/2010 (specialisation agreements) and No. 1217/2010 (research and development agreements) are directly enforceable where EU competition law applies, and the positions taken in the set of guidelines\(^7\) published by the European Commission may be relied on by the French Competition Authority (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 audiovisual broadcasting rights sector, the FCA has found that Canal Plus, a provider of pay-TV services, abused its dominant position by subjecting its


\(^6\) CJEU, 15 July 2015, C-170/13, *Huawei v. ZTE*.

\(^7\) These guidelines include, for example, the Guidelines on Vertical Restraints (OJ C130/01 of 19 May 2010) and the Guidelines on the application of Article 101(3) TFEU (OJ C101 of 27 April 2004).
France

pre-purchase of exclusive broadcasting rights for French films to the producers’ commitment not to transfer the broadcasting rights for pay-per-view during Canal Plus’s exclusivity period.\textsuperscript{8} The French Supreme Court upheld this decision.\textsuperscript{9}

Furthermore, resale price maintenance is prohibited by Article L420-1 of the FCC and its EU equivalent, Article 101 of the 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 L420-2 of the FCC and its EU equivalent, Article 102 of the TFEU.

In an opinion\textsuperscript{10} relying on \textit{Magill},\textsuperscript{11} the FCA considered that an IP 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 could be developed under reasonable economic conditions. The FCA\textsuperscript{12} and the Paris Court of Appeal\textsuperscript{13} 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.\textsuperscript{14}

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.\textsuperscript{15} 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.

\textsuperscript{8} 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.
\textsuperscript{9} French Supreme Court, judgment of 30 May 2000, No. 00-17.038.
\textsuperscript{10} FCA, Opinion 02-A-08 of 22 May 2002, concerning the request lodged by the Association for the Promotion of Press Distribution.
\textsuperscript{11} CJEU, judgment of 6 April 1995, C-241/91 P and C-242/91 P, \textit{Magill}.
\textsuperscript{12} FCA, Decision 04-D-34 of 22 July 2004, concerning the execution of Article 1(1) of decision 03-MC-04 of 22 December 2003.
\textsuperscript{13} Paris Court of Appeal, judgment of 29 June 1999, No. 1999/01269.
\textsuperscript{14} FCA, Decision 04-D-09 of 31 March 2004 concerning certain practices by Codes Rousseau in the sector of teaching material for driving schools.
\textsuperscript{15} 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  Unfair and discriminatory licensing

Unfair or discriminatory licensing may fall under either Article L420-1 or L420-2 of the FCC and their EU equivalents, Articles 101 and 102 of the 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. The FCA also ordered the National Rugby League to reattribute TV rights on FRAND terms. This decision was essentially upheld by the Paris Court of Appeal. 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, 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.

Finally, in an opinion, 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.

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16 FCA, Decision 14-D-06 of 8 July 2014 regarding certain practices by Cegedim in the medical information databases sector.
18 FCA, Decision 14-MC-01 of 30 July 2014, concerning beIN Sports France’s request for interim measures in the pay-TV sector.
20 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.
21 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.
iv Patent pooling

Patent pooling may have as its object or effect the restriction of competition, and may therefore fall under Article L420-1 of the FCC or Article 101 of the TFEU, or both. In a thematic study published in 2004, the FCA recognised that cross-licensing between competitors gives the undertakings concerned 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.22 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.

v Software licensing

As highlighted in Section III.ii, 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.23 The Paris Court of Appeal dismissed the appeal,24 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.25 The case was 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.26 The French Supreme Court dismissed the appeal filed against that judgment.27 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.28

More recently, the FCA found that conduct by Oracle could amount to an abuse of dominance. This conduct consisted of refusing to develop new versions of its relational database management system on certain Intel processors and, as a result, on certain Hewlett-Packard servers.29

23 FCA, Decision 03-MC-04 of 22 December 2003 concerning MLP’s request for interim measures.
24 Paris Court of Appeal, judgment of 12 February 2004, No. CT0175.
27 French Supreme Court, judgment of 20 February 2007, No. 06-12.424.
28 FCA, Decision 08-D-04 of 25 February 2008 concerning certain practices by NMPP.
29 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.
vi Trademark licensing

With regard to import control, Article L713-4 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.30

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.31 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.

Recently, the Paris Court of Appeal held that the counterclaims for antitrust violations, raised by the defendant against whom alleged SEPs were asserted, fail in the absence of a dominant position because none of the asserted patents were, in fact, essential; therefore, there is no dominance.32 It does not seem to have been argued, however, that the mere assertion of a patent as an SEP would, until such time when it is found not to be essential, in itself confer a dominant position; whether a court would entertain such a theory remains open.

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 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.33

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.

30 French Supreme Court, judgment of 23 March 2010, No. 09-66522.
31 Paris First Instance Court (PI proceedings), judgment of 8 December 2011, Samsung v. Apple, No. 11/58301.
32 Paris Court of Appeal, 16 April 2019, Conversant v. LG.
33 FCA, Decision 05-D-25 of 31 May 2005 concerning certain practices by Yvert et Tellier on the market for stamp-valuation catalogues.
There are two precedents where the court, ruling on the merits, issued such injunctions.\textsuperscript{34} 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.\textsuperscript{35} 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\textsuperscript{36} or of invalidity.\textsuperscript{37} 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.\textsuperscript{38}

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;\textsuperscript{39} some of those preliminary injunctions were confirmed on appeal, and one of them was even upheld by the French Supreme Court.\textsuperscript{40}

\begin{tabular}{l}
\textsuperscript{34} Paris First Instance Court, \textit{Sisvel, France Telecom, TDF, Audio MPEG, Institut für Rundfunktechnik GmbH and Philips Electronics NV v. M Amar Zafrane}, 9 September 2008; Paris First Instance Court, \textit{Koninklijke Philips Electronics NV v. TX Western Europe and Africa and CDVD SL}, 23 July 2011. \\
\textsuperscript{35} Paris First Instance Court, \textit{Sisvel, France Telecom, TDF, Audio MPEG, Institut für Rundfunktechnik GmbH and Philips Electronics NV v. Leroy Merlin}, 20 October 2011. \\
\textsuperscript{36} Paris Court of Appeal, \textit{LUPA Finances v. Motorola, Nokia and Ericsson}, 14 April 1999 and 23 October 2002. \\
\textsuperscript{37} Paris First Instance Court, \textit{Mecho & MMCE v. CP8}, 9 March 2007. \\
\textsuperscript{38} President of the Paris First Instance Court, \textit{Koninklijke Philips Electronics NV v. Maitre Anny H ès qualités de liquidateur de la Société Manufacturing Advanced Media Europe}, 14 September 2007. \\
\textsuperscript{40} Court of Cassation, Commercial Chamber, 21 October 2014, No. 13-15.435.
\end{tabular}
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*,\(^{41}\) 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\(^ {42}\) would need to be brought in main proceedings.

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

### iii 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*,\(^ {43}\) 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.

In a very recent case, the Paris Court of Appeal was asked by both the patentee – Conversant, formerly Core Wireless – and the standard implementer – LG Electronics – to set FRAND terms for the patentee’s portfolio.\(^ {44}\) At first instance,\(^ {45}\) the Court had found that none of the five asserted patents was, in fact, essential, and dismissed both parties’ claims for a FRAND determination, ruling that claim moot in the absence of an actual essential patent. On appeal, the Court essentially confirmed that finding, despite both parties’ explicit request for a FRAND determination even if none of the actually asserted patents is essential. A further appeal to the Supreme Court remains possible. In addition, the Court’s decision might have been different if the implementer had accepted that it needs to pay something, which the implementer refused to do in this case.\(^ {46}\)

In the same *Conversant v. LG* dispute, the defendant made repeated pretrial requests for the production of previous licences that the patentee had entered into. That request was

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42 For example, because the terms offered have not gained wide market acceptance.

43 See footnote 41.

44 Paris Court of Appeal, 16 April 2019, *Conversant v. LG*.

45 Paris First Instance Court, 17 April 2015, *Core Wireless v. LG*.

46 LG was seeking the determination of a rate per patent family that is actually essential, valid and not exhausted, without accepting that there is any such family. The Court, having found that there was no proof of such a family existing, could arguably conclude therefrom that the claim was moot.
initially dismissed by the Court of Appeal, 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’. However, a later order, rendered after French law was changed to allow for confidentiality measures, decided that prior agreements entered into by the patentee need to be provided if the lawsuit is about the setting of FRAND terms; on the other hand, the Court also decided that prior licence agreements of the implementer, concerning other patent portfolios pertaining to the same standard, are not relevant for the FRAND determination and need not be provided.

iv Anticompetitive or exclusionary royalties
In one case, 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 IP 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’. Such was the case, for instance, when the FCA reviewed the acquisition by Sara Lee of certain brands and industrial equipment from Benckiser.

47 Paris Court of Appeal, 17 January 2017, Core Wireless v. LG.
48 Paris Court of Appeal, pretrial order of 9 October 2018, Conversant v. LG.
49 President of the Paris First Instance Court, Universal v. Blogmusik, 5 September 2011.
50 FCA’s Merger Control Guidelines, Paragraph 19.
51 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.
ii Remedies involving divestitures of intellectual property

The FCA has already accepted remedies involving divestiture of IP. In 2012, in the context of the acquisition of certain television channels, Groupe Canal Plus had to commit to divest its free-to-air broadcasting rights for important sporting events.\(^{52}\) This decision was later set aside for unrelated reasons, and the transaction had to be notified again. However, this commitment remained unchanged.\(^{53}\) More recently, the FCA authorised the acquisition of Alsa by Dr Oetker (Ancel) by approving a commitment that addressed competition issues in advance (‘fix-it-first’ commitment), by granting a credible market player a licence for the Ancel brand.\(^{54}\)

VI OTHER ABUSES

i Sham or vexatious IP litigation

As a rule, sham of vexatious IP litigation is sanctioned through an award of legal costs and, possibly, by civil damages for abusive litigation.\(^{55}\) It is, however, worth mentioning a decision of the Paris First Instance Court of 26 January 2005,\(^{56}\) 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\(^{57}\) finding the patentee to be in a dominant position, but it seems that the litigation stopped there.

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52 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.
53 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 the 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).
54 FCA, Decision 19-DCC-15 of 29 January 2019 concerning the acquisition by Dr Oetker of sole control over Alsas France SAS.
55 Abusive litigation constitutes a civil tort in general.
56 Paris First Instance Court, Luk Lamellen v. Valéo, 26 January 2005, Docket No. 00/16758.
57 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 Valéo.
ii Misuse of the patent process

In the Luk Lamellen v. Valéo 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.

iii Anticompetitive settlements of IP disputes

IP dispute-settlement agreements may be found anticompetitive under Article L420-1 or Article L420-2 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.

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. Certain high-profile cases are still pending in French jurisdictions. In addition, a number of cases involving SEPs are currently pending, and some of these will require French courts to opine on the principles underpinning the determination of FRAND terms.

58 See footnote 56.
59 See footnote 15.
I 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 of the 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 of the ARC, which mainly correspond with Article 102 of the 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\(^2\) 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.

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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 BPatG, judgment of 31 August 2016, 3 LiQ 1/16 (EP), Isentress.
II  YEAR IN REVIEW

During the past year, the application of IP-related competition law in Germany continued to be marked by various court decisions dealing with the assertion of SEPs, and thereby implementing and specifying the criteria for enforcing such patents, following the Huawei v. ZTE decision handed down 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 of the 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 fair, reasonable and non-discriminatory (FRAND) obligations, the Regional Court of Mannheim has overruled 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 also be possible to accept fulfilling FRAND obligations after proceedings have begun, when certain conditions are met. In this regard, in a decision of September 2018, the Court concretised that the FRAND obligations may only be fulfilled after bringing an action if the patent holder re-establishes a pressure-free negotiation situation by suspending the process. The Higher Regional Court of Düsseldorf, on the other hand, in general allows the patent owner to make a FRAND offer after bringing an action, unless general German procedural law on delay is violated. Nevertheless, in its decision of 13 July 2017, the Regional Court of Düsseldorf stressed several arguments regarding why providing a FRAND offer after bringing an action should not be unlimitedly possible, but finally left the question open.

With regard to the patent holder’s obligation to provide a licence offer under FRAND terms to the willing patent user, it is further noteworthy that the Regional Court of Düsseldorf recently confirmed, in its decision of 8 January 2019, that a patent holder is in any case obliged to provide a FRAND licence offer even if licence agreements with other licensees are publicly available (e.g., on the patent holder’s website).

III  LICENSING AND ANTITRUST

i  Anticompetitive restraints

In German law, anticompetitive restraints in licensing agreements fall under Section 1 of the ARC and Article 101(1) of the 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 (TTBER), which is applicable in German law according to Section 2(2) of the ARC, are of particular importance. Based on the TTBER, 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.\textsuperscript{11} 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 the basis of the TTBER and Regulation No. 1217/2010, 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 of the 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 (Bundesliga).\textsuperscript{12} The FCO had considered the centralised marketing by the German Federal Football League to fall under Section 1 of the ARC and Article 101(1) of the TFEU, and had cleared it on the basis of a commitment decision pursuant to Section 32b of the 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,\textsuperscript{13} holding 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,

\textsuperscript{11} Higher Regional Court of Celle, decision of 14 October 2016, 13 Sch 1/15.

\textsuperscript{12} FCO, decision of 11 April 2016, B6-32/15.

\textsuperscript{13} Higher Regional Court of Düsseldorf, decision of 3 May 2017, VI Kart 6/16.
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 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) of the ARC is interpreted closely along the lines of its EU counterpart, Article 102 of the 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*¹⁴ and *IMS Health*.¹⁵,¹⁶ 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.¹⁷

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 of the ARC or Article 102 of the TFEU.¹⁸

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 of the ARC and Article 102 of the TFEU and may be considered as an abusive (discriminatory) behaviour by a market-dominant intellectual property right owner (see Section III.ii).

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¹⁵ CJEU, judgment of 29 April 2004, C-418/01, *IMS Health*.
iv Patent pooling
In practice, the rules established at EU level apply.

v Software licensing
A case before the Regional Court of Hamburg\textsuperscript{19} dealt with the issue of an agreement between a software company and a distributor of used software according to which reselling without prior permission was prohibited. The court held that the behaviour was abusive under Sections 19 and 20 of the ARC and not objectively justified, referring to the \textit{UsedSoft} judgment of the CJEU\textsuperscript{20} and stating that the applicable right was exhausted.

With regard to a market dominant software provider, the Higher Regional Court of Munich\textsuperscript{21} ruled in its decision of 23 November 2017 that, regardless of its market dominant position, an undertaking must be free to operate its sales and distribution system at its own discretion, which also includes the possibility to set different licence conditions for different customer groups. In the specific case, the defendant software provider ceased to supply the plaintiff with software solutions at special price conditions (i.e., at conditions applied to research and teaching institutions, such as universities). The defendant, thereby, refused to offer the special conditions to the plaintiff after finding that the plaintiff did not fulfil the defendant’s set internal criteria under which special conditions for research and teaching institutions should be applied. The court held that refusing those research and teaching institution price conditions to the plaintiff did not violate German cartel law although the defendant software provider in the past had not consequently applied its own criteria with regard to the plaintiff.

vi Trademark licensing
In general, restrictions of competition in trademark licensing agreements are compatible with the cartel prohibition of Section 1 of the ARC and Article 101(1) of the TFEU if they are necessary to protect the continued existence of the trademark and legitimate interests for the restriction are given.\textsuperscript{22} 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 of the ARC and Article 101(1) of the TFEU.\textsuperscript{23}

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.

\begin{footnotesize}
\begin{itemize}
  \item[19] Regional Court of Hamburg, judgment of 25 October 2013, 315 O 449/12.
  \item[20] CJEU, judgment of 3 July 2012, C-128/11, \textit{UsedSoft}.
  \item[21] Regional Court of Munich, decision of 23 November, 29 U 142/17.
\end{itemize}
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Germany

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 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 of the TFEU, and of the safeguards under which such an assertion constitutes the legitimate use of a granted exclusionary right.24

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.25 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 of the TFEU.

German courts have not yet relied on a presumption of market dominance. In its decision of 26 March 2015 (i.e., prior to the CJEU’s decision in Huawei v. ZTE of July 2015), the Regional Court of Düsseldorf26 rejected the alleged infringers’ antitrust objection, or ‘FRAND defence’, 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;27 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 its decision of 17 November 2016 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.28 Following this decision practice, the Regional Court of Düsseldorf recently recognised a patent holder who jointly licenses its patents with other patent holders via a patent pool administrative entity to be market dominant.29

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 as to whether the patent owner actually is market dominant.30

24 CJEU, judgment of 16 July 2015, C-170/13, Huawei Technologies v. ZTE.
26 Regional Court of Düsseldorf, judgment of 26 March 2015, 4b O 140/13.
27 See also LG Düsseldorf, judgment of 13 July 2017, 4a O 154/15.
29 Regional Court of Düsseldorf, decision of 8 January 2019, 4c O 12/17.
30 See, for example, Regional Court of Mannheim, judgment of 8 January 2016, 7 O 96/14.
ii Injunctions

The question of whether or not an SEP holder acts abusively within the meaning of Section 19 of the ARC and Article 102 of the 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 case and a large number of subsequent cases of the instance courts.

Differing significantly from this German case law, the CJEU set forth specific requirements under which claiming for injunctive relief (or recall or destruction) is not abusive under Article 102 of the 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. 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.

d 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 was initially focused on the question of whether some sort of ‘transitional law’ had to be applied to cases that were pending prior to the CJEU’s judgment. In its judgment in May 2016, the Regional Court of Mannheim 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’. Nevertheless, in a later corresponding enforcement protection
proceeding, the Higher Regional Court of Karlsruhe\(^\text{35}\) handed down a decision that 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 court proceedings on the other hand.

Comparable to the approach of the Regional Court of Mannheim, the Regional Court of Düsseldorf\(^\text{36}\) also decided in favour of a ‘transitional period’ in cases where the pretrial obligations set in the *Huawei v. ZTE* decision were fulfilled after bringing the action.

In a later decision, the Higher Regional Court of Düsseldorf even stressed the possibility to fulfil the pretrial obligations after bringing the action also in cases filed after the CJEU decision. In this regard, the Higher Regional Court of Düsseldorf (and also the Regional Court of Düsseldorf\(^\text{37}\)) generally accepts that the patent owner can still make a FRAND offer after proceedings have begun if German procedural rules on delay are not violated.\(^\text{38}\)

On the other hand, the Regional Court of Mannheim, which in the past has excluded the possibility of fulfilling pretrial obligations after bringing an action, 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.\(^\text{39}\) 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. In particular, in the Court’s view, a patent owner who seeks to fulfil its pretrial obligations after bringing an action is obliged to re-establish a pressure-free negotiation situation (i.e., by suspending the proceeding temporarily) (according to Section 251 of the German Code of Civil Process) for the purpose of (settlement) negotiations. Against this background, the Regional Court of Mannheim\(^\text{40}\) in a later decision dealt with the question of under which conditions a pressure-free negotiation situation is given. It decided that a pressure-free negotiation situation is granted only if a reasonable time period to assess the plaintiff’s licence offer as FRAND was granted to the alleged patent infringer before continuing the trial.

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 party’s activities, is appropriate. Both the Regional Court of Düsseldorf\(^\text{41}\) and the Regional Court of Mannheim\(^\text{42}\) 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 of Düsseldorf\(^\text{43}\) and Karlsruhe,\(^\text{44}\) respectively, overturned this approach (in enforcement

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\(^\text{35}\) Higher Regional Court of Karlsruhe, decision of 31 May 2016, 6 U 55/16.

\(^\text{36}\) Regional Court of Düsseldorf, judgment of 3 November 2015, 4a O 93/14.

\(^\text{37}\) Regional Court of Düsseldorf, judgment of 13 July 2017, 4a O 154/15.


\(^\text{39}\) Regional Court of Mannheim, judgment of 10 November 2017, 7 O 28/16.

\(^\text{40}\) Regional Court of Mannheim, decision of 28 September 2018, 7 O 165/16.

\(^\text{41}\) Regional Court of Düsseldorf, judgment of 3 November 2015, 4a O 144/14.

\(^\text{42}\) Regional Court of Mannheim, judgment of 4 March 2016, 7 O 96/14.

\(^\text{43}\) Higher Regional Court of Düsseldorf, decision of 9 May 2016, 15 U 35/16; see also, judgment of 30 March 2017, I-15 U 66/15.

\(^\text{44}\) Higher Regional Court of Karlsruhe, decision of 31 May 2016, 6 U 55/16.
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{45}

In its recent decision of 8 January 2019, the Regional Court of Düsseldorf\textsuperscript{46} also dealt with the question of whether the patent holder is obliged to provide a licence offer in cases where information about the patent holder's licence agreements or standard licence agreements are publicly available (e.g., on the patent holder's website). The patent holder and plaintiff argued that an obligation to provide a licence offer does not exist in the case of public availability of existing licence agreements or standard licence agreements. The plaintiff, thereby, referred to the \textit{Orange-Book-Standard} decision of the Federal Supreme Court, which, in the plaintiff's opinion, continued to apply. In particular, the plaintiff held that the requirements set by the CJEU in its \textit{Huawei v. ZTE} judgment should only apply in cases of information asymmetries between the patent holder and the alleged patent infringer in relation to closed licence agreements and applied licence fees. Nevertheless, the Regional Court of Düsseldorf refused to apply the criteria set in the \textit{Orange-Book-Standard} case, confirming the infringer's obligation to provide a licence offer under FRAND terms regardless of the existence of publicly available information related to existing licence agreements. In this regard, the Court stressed that the \textit{Orange-Book-Standard} decision took place long before the CJEU's \textit{Huawei v. ZTE} judgment in which generally applicable criteria were set and that there was no indication in the CJEU's judgment that the set criteria shall only apply in cases of information asymmetries between patent holder and alleged infringer. Furthermore, in the Regional Court's view, the patent holder's obligation to provide a FRAND offer as set in the CJEU decision results from the fact that holders of SEPs are self-committed to licence every willing licensee under FRAND conditions.

Another aspect that has been discussed by the Higher Regional Court of Düsseldorf in the past year is the interest of the patent owner on confidentiality regarding the revealed licence contracts and licence conditions.\textsuperscript{47} 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 from gaining insight into the revealed licence contracts.

With regard to the SEP holder's obligation to alert the alleged infringer of a patent infringement, the Regional Court of Düsseldorf\textsuperscript{48} decided that the infringement alert does not require a detailed (technical or legal) explanation of the infringement. In the Regional Court's view and, in particular, in contrast to the decision practice of the Regional Court of Mannheim,\textsuperscript{49} the patent holder and plaintiff shall not be required to point out the patent's standard essentiality or to provide a claim chart to the alleged infringer. In the same decision, the Regional Court of Düsseldorf also stated that the requirement of an infringement alert is even fulfilled if it comes from another group entity; in particular, from the patent holder's parent company. In conclusion, the obligation is also fulfilled in cases in which

\textsuperscript{45} See Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 126/14.
\textsuperscript{46} Regional Court of Düsseldorf, decision of 8 January 2019, 4c O 12/17, according to its decision of 9 November 2018, 4a O 16/17.
\textsuperscript{47} Higher Regional Court of Düsseldorf, decision of 25 April 2018, I-2 W 8/18.
\textsuperscript{48} Regional Court of Düsseldorf, decision of 11 July 2018, 4c O 72/17.
\textsuperscript{49} Regional Court of Mannheim, decision of 29 January 2016, O 66/15.
the infringement alert is sent to the alleged infringer’s parent company. Furthermore, the Regional Court pointed out that the infringement alert may also be sent to the alleged patent infringer or its respective parent entity simultaneously with the licence offer. In this context, the Court also stated that the infringement alert must not necessarily be transmitted before any claim is filed (e.g., damage claims), but, in any case, must be brought before bringing an action for injunction.

### 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. One important aspect in considering the FRAND character of an offer is the established licensing practice of the licensor or of other market participants. 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. In this regard, the Regional Court of Düsseldorf considered a patent holder’s licence offer as not being FRAND (i.e., being discriminatory from the outset due to the fact that the patent holder enforced its patent rights selectively). In particular, the Court objected to legal action being brought against the alleged patent infringer when no legal action was brought against the defendant’s competitors that used the disputed patent without the respective licence. The Court considered such conduct as de facto granting of free licences to some competitors while demanding remunerated licences from others.

Concerning the fairness of the offered conditions, the Court also pointed out that a FRAND offer must, in any case, cover all relevant (legal) business activities of the licence seeker. Carving certain business activities out of the licence offer would be exploitative and, therefore, would not comply with the established FRAND criteria from the Court’s point of view.

The Higher Regional Court of Düsseldorf 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 of facts. Further, the Higher Regional Court of Düsseldorf stated in its judgment of 30 March 2017, that the higher the discount the patent owner grants to the licensee is, the higher the requirements to justify an unequal treatment of different licensees are. The Court considered several factors as relevant for determining the

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51 See Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 73/14.
52 Regional Court of Düsseldorf, decision of 11 July 2018, 4 c O 72/17; see also Kühnen, Handbuch der Patentverletzung, 11th Edition, 2018, Chapter E, Paragraph 332.
53 See Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 73/14.
54 Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15.
55 Higher Regional Court of Düsseldorf, judgment of 30 March 2017.
amount of the licence fee, such as quick acceptance of the licence and whether the licensee is
the ‘first mover’. However, in its decision of 17 November 2018, the Higher Regional Court
of Düsseldorf stressed that there is no requirement for a mathematically precise derivation
of FRAND-compliant licensing fees. Rather, what is required is an approximate decision
reliant on estimates and valuations. Thus, the Court confirmed that comparable licensing
agreements can constitute an important indicator for the reasonability of the proposed
licensing terms and conditions.56

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.57

ii Remedies involving divestitures of intellectual property
In a clearance decision, the FCO58 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 of the 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.59 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 of the ARC
and Article 102 of the 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 of the

56 Regional Court of Düsseldorf, judgment of 9 November 2018, 4a O 16/17.
57 See Federal Supreme Court, decision of 10 October 2006, KVR 32/05, National Geographic I.
58 FCO, decision of 25 April 2014, B6-98/13.
59 FCO, decision of 8 September 2015, B6-126/14; see also Kersting/Dworschak, ‘Leistungsschutzrecht für
ARC and Article 102 of the TFEU because of a ‘patent ambush’.60 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.

In a civil case before the Regional Court of Düsseldorf,61 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 of the 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 (Magill62 and Volvo/Veng),63 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 an SEP, 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.64 The Higher Regional Court supported the Regional Court’s view in its decision of 9 May 2016.65

Another example for a possible abuse of intellectual property rights litigation is the BMW-Emblem case of the Federal Supreme Court.66 The claimant, BMW, filed an action against a producer of spare parts that, 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 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.

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 and 20 of the ARC and Article 102 of the TFEU).67

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60 See, e.g., Regional Court of Mannheim, judgment of 10 March 2015, 2 O 103/14.
61 Regional Court of Düsseldorf, judgment of 10 March 2016, 14c O 58/15.
63 CJEU, judgment of 5 October 1988, 238/87, *Volvo/Veng*.
64 Regional Court of Düsseldorf, decision of 31 March 2016, 4a O 126/14.
65 Regional Court of Düsseldorf, decision of 9 May 2016, I-15 U 35/16.

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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 of the ARC and Article 101(1) of the TFEU. In line with EU law, under German antitrust law, patent settlements are generally accepted as a compromise to a bona fide legal disagreement.\(^{68}\) 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.\(^ {69}\)

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 of the ARC and Article 101(1) of the TFEU.\(^{70}\)

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 of the ARC and Article 101(1) of the TFEU. As a general rule, delimitation agreements regarding trademarks constitute cartel infringements if market sharing or other restrictions of competition are intended.\(^ {71}\) In its decision in *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).\(^ {72}\)

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.\(^ {73}\) 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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69 See, e.g., Federal Supreme Court, 5 July 2005, X ZR 14/03, *Abgasreinigungsvorrichtung*.
72 Higher Regional Court of Düsseldorf, judgment of 15 October 2014, VI-U (Kart) 42/13, *Winn & Coales v. DENSO*.
73 Federal Supreme Court, decision of 12 July 2016, KZR 69/14, *Peek & Cloppenburg II*.
I INTRODUCTION

In the past few years, the debate on the interplay between competition law and intellectual property (IP) rights 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; 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 carve-out 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, in the context of anticompetitive agreements. This carve-out does not, however, extend to unilateral conduct, thereby exposing IP holders to a comparatively greater 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 Indian jurisprudence on IP and antitrust; (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 the erstwhile Competition Appellate Tribunal (COMPAT) have interpreted competition claims.

1 Samir Gandhi and Aditi Gopalakrishnan are partners, Gaurav Bansal is a senior associate and Arunima Chatterjee is an associate at AZB & Partners.
2 Contained in Section 3 of the Competition Act.
3 Contained in Section 4 of the Competition Act.
4 Section 3(1) of the Competition Act prohibits enterprises from entering into agreements that cause or are likely to cause an appreciable adverse effect on competition (AAEC) within India. Section 3(5) of the Competition Act provides that the prohibition on enterprises from entering into agreements that cause an AAEC does not extend to the right of any person to restrain any infringement of, or to impose reasonable conditions as may be necessary for protecting, any of his or her rights that have been or may be conferred upon him or her under: (1) the Copyright Act 1957; (2) the Patents Act 1970; (3) the Trade and Merchandise Marks Act 1958 or the Trade Marks Act 1999; (4) the Geographical Indications of Goods (Registration and Protection) Act 1999; (5) the Designs Act 2002; and (6) the Semiconductor Integrated Circuits Layout-Design Act 2000.
arising out of standards while issuing *prima facie* orders; 5 (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; 6 and (5) 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 to authorised dealers resulted in ‘denial of market access’ to independent repairers and after-sales service providers, or constituted a ‘refusal to deal’. 9 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 has held that PVMs’ decisions not to supply spare parts and diagnostic kits to third-party or non-authorised dealers and after-sales independent repairers 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. 10 Consequently, the CCI appears to have 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 dominant 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

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5 Section 26(1) of the Competition Act authorises the CCI to issue orders directing the Director General to investigate a matter, where the CCI is of the *prima facie* view, upon receipt of information or reference made by the government or a statutory authority, that the provisions of the Competition Act may have been violated.

6 Section 5 of the Competition 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 India Ltd & Others* (Case No. 03/2011, 25 August 2014) (the *Auto Parts* case). Three passenger vehicle manufacturers (PVMs) appealed the *Auto Parts* case before the COMPAT, which upheld the findings of the CCI. The COMPAT’s decision has also been appealed and is currently pending before the Supreme Court. More recently, another PVM has appealed the *Auto Parts* case before the National Company Law Tribunal (NCLAT). The NCLAT admitted the appeal and directed the PVM to deposit 10 per cent of the penalty amount (penalty deposit direction). The PVM challenged the penalty deposit direction before the Supreme Court. While the Supreme Court has granted an *ad interim* stay on the penalty deposit direction, a final decision in this regard is yet to be passed.

8 Conduct listed as abusive under Section 4 of the Competition Act.

9 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.

10 Paragraph 20.5.85, p. 157 of the *Auto Parts* case.
essential for fuelling innovation and competition in the long run. Drawing analogies to the sale of medical imaging machines to hospitals,\(^\text{11}\) the CCI held that selling diagnostic tools in the open market would not compromise the IP rights of the PVMs in the diagnostic tools.\(^\text{12}\)

On appeal by certain PVMs, the COMPAT agreed with the CCI’s findings that PVMs’ decisions not to supply spare parts and diagnostic kits to third-party or non-authorised dealers amounted to refusal to deal.\(^\text{13}\) 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 aftersales markets. In this regard, the COMPAT observed that circulation of counterfeit parts would be curbed if the restrictions imposed by PVMs on the sale of genuine spare parts in the aftersales markets were removed.

While coming to its decision, the COMPAT also observed that the PVMs did not have valid IP because 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,\(^\text{14}\) and the PVMs were not able to prove that the right under a patent registered by a parent outside India is available in India.

More recently, the CCI was faced with the question of determining the ability of a smartphone manufacturer to sell its products separately through online and offline channels. One of the distributors alleged that the distribution agreement specifically disallowed distribution of the manufacturer’s products to online platforms, as this was being undertaken by the manufacturer itself. The manufacturer argued that it owns all the IPs over its products and, therefore, is justified in imposing such restrictions. The CCI observed that the manufacturer only had 7 to 8 per cent market share and products were freely available in the market at competitive prices, but equally noted that owning IP over products does not necessarily allow the manufacturer to impose such exclusivity restrictions in the agreement. Much like its approach in the Auto Parts case, the CCI’s approach appears to suggest that ownership of IP does not necessarily allow exclusive arrangements.\(^\text{15}\)

On the other hand, the CCI held that a restriction on a distributor of smartphones imposed by the manufacturer to not engage with its competitor (owing to concerns pertaining to leakage of IP and technical know-how of the manufacturer) to be a reasonable restriction.\(^\text{16}\)

\(^\text{11}\) 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.

\(^\text{12}\) See Paragraph 20.6.22, p. 190 of the Auto Parts case.

\(^\text{13}\) Shri Shamsher Kataria v. Honda Siel Car & Others (see footnote 7); Toyota Kirloskar Motor Private Limited & Ors v. Competition Commission of India & Others (Appeal No. 60 of 2014).

\(^\text{14}\) 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 licence, by any other person.’.

\(^\text{15}\) In a recent decision, the CCI rejected the contention that an enterprise is free to exploit its IP in any way, including restricting online sales (M/s KC Marketing v. Oppo Mobiles MU Private Limited, Case No. 34 of 2018).

\(^\text{16}\) Tamil Nadu Consumer Products Distributors Association v. Vivo Communication Technology Company, Case No. 15 of 2018.
Further, the Madras High Court has ruled that the scheme of the Competition Act empowers the CCI to consider settlement agreements between the complainant(s) and defendant(s). This could be immediately relevant to competition cases initiated at the behest of IP implementers against the potentially anticompetitive practices of IP owners. However, in *House of Diagnostics LLP v. Esaote SpA and Anr.*, the fact that the complainant and defendant entered into a settlement agreement does not appear to be factored into the CCI’s final decision.

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 not carried out a detailed analysis nor specifically considered 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 licensing arrangements, antitrust concerns arising out of licensing arrangements are treated within the same conceptual framework that applies to the sale of goods or provision of services under the Competition Act. Simply put, restrictions accompanying IP licensing arrangements are prohibited if they can result in an appreciable adverse effect on competition (AAEC). The CCI is unlikely to reach a finding of AAEC unless the IP licensor enjoys significant market power. For instance, any attempt by an IP licensor to determine the pricing decisions (for the licensed IP) of the IP licensee would be scrutinised as a potential resale price maintenance arrangement.

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’.

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17 *Tamil Nadu Film Exhibitors Association v. Competition Commission of India* (Writ Appeals Nos. 1806 and 1807 of 2013).
18 Case No. 9 of 2016.
19 *Automobiles Dealers Association, Hathras, UP v. Global Automobiles & Ors and Pooja Expo India Private Limited* (Case No. 33 of 2011).
20 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).
21 See footnote 17.
22 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’.
or an anticompetitive refusal to deal.\(^{23}\) 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.\(^{24}\) 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.\(^{25}\)

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

\section*{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 \textit{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.

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,\(^{26}\) restricts the production of goods or services,\(^{27}\) or restricts the technical or scientific development relating to goods or services.\(^{28}\) For instance, in the \textit{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 later 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.\(^{29}\)

\begin{itemize}
\item \(^{23}\) 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’.
\item \(^{24}\) 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’.
\item \(^{25}\) 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’.
\item \(^{26}\) Section 4(2)(c) of the Competition Act.
\item \(^{27}\) Section 4(2)(b)(i) of the Competition Act.
\item \(^{28}\) 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).
\item \(^{29}\) \textit{Justickets Pvt Ltd v. Big Tree Entertainment} (Case No. 8 of 2016).
\end{itemize}
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.30

In a complaint against Monsanto Inc, United States (MIU),31 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 (MRP) of the seed packet, which is determined in advance of each crop season.32 Subsequently, Monsanto Technology LLC (Monsanto) filed a suit for infringement of patent, trademark and passing off before the Delhi High Court against the Nuziveedu group (sub-licensee of Monsanto’s Bt cotton technology).33 The Nuziveedu group refused to pay the licence fee in terms of the agreements with Monsanto, claiming that Monsanto could not claim 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.34 The division bench’s decision was recently set aside by the Supreme Court. The case was remanded back to the single judge bench of the Delhi High Court to decide on injunctive relief.35 The observations of the Supreme Court in this case may have a bearing on the CCI’s investigation against MIU. The CCI’s investigation has been stayed by the Supreme Court.

The CCI has also dealt with the issue of discriminatory or unfair licensing terms in a few cases. In Atos/Verifone,36 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 operate POS terminals,37 value-added service (VAS) providers38 and third-party processors,39 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

30 Section 4(2)(a)(ii) of the Competition Act.
31 Cases Nos. 37, 38 and 39 of 2016.
32 In addition to the trait value, MIU’s licensor entity in India (Mahyo Monsanto Biotech Limited) also charged a significant upfront one-off non-refundable fee of approximately US$75,000.
34 Nuziveedu Seeds Ltd and Ors v. Monsanto Technology LLC and Ors, FAO (OS) (COMM) 86/2017, CM APPL 14331, 14335, 15669, 17064/2017.
35 Monsanto Technology LLC and Ors v. Nuziveedu Seeds Ltd and Ors, Civil Appeals Nos. 4616 and 4617 of 2018.
36 M/s Atos Worldline India Pvt Ltd v. M/s Verifone India Sales Pvt Ltd and Anr, Case No. 56/2012.
37 POS terminals along with their core applications are either sold directly to the customers, such as banks and retail outlets, or to the third-party processors (TPPs), who act on behalf of the acquiring banks and also render VAS to develop and integrate applications into POS terminals.
38 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, install and maintain POS terminals at merchant locations.
39 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.
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$670,000.40

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 applied this principle to initiate an investigation into MIU’s practices; the CCI was of the prima facie opinion that there was ‘no economic justification’ to charge trait value based on the MRP of the seed packet. 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’ 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.41

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.42 The SEP holder is under an obligation to license on a FRAND basis and

40 The CCI’s decision has been appealed and is currently pending before the NCLAT.
42 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.
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 have 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 standard, in the Ericsson v. Micromax case and others. In March 2013, Ericsson sued Micromax, claiming damages worth approximately 1 billion 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 licensing 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 of the CCI (DG) 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 has apparently 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 films 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 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 films through DCI-compliant technology (for protection of HMPs’ copyright), and decided that the allegations did not merit investigation. On considering this issue on appeal, however, the COMPAT equated the

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44 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, Docket No. 9302 (FTC 2002); In re Union Oil Co of Cal, Docket No. 9305 (FTC 2003); In the matter of Dell Computer Corp 121 FTC 616 (1996).
45 Director General is the investigative arm of the CCI.
46 Telefonaktiebolaget Lm Ericsson (Publ) v. Competition Commission Of India and Another (WP(C) Nos. 464/2014 and 1006/2014).
48 Section 3(5) of the Competition Act provides for an IP protection carve-out, by allowing the IP holder to impose reasonable conditions for protection of IP, but this carve-out applies only to horizontal and vertical agreements under Section 3 and not to abuse of dominance under Section 4.
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 DG to conduct an investigation into the matter. Interestingly, neither the CCI nor the COMPAT delved deeper into the protection available to efficiency-enhancing joint ventures under the Competition Act.49

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 result 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 or 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 (de jure) and as a matter of fact (de facto). The licensor must, 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 de jure or de facto, will be treated as asset acquisitions that trigger merger notification to the CCI if no statutory exemption is available.50

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 European Union and the United States, the courts have laid down two broad principles that need to be satisfied when resolving an antitrust claim based on

49  The case is pending before the Supreme Court of India.
50  Combination Registration No. C-2016/11/456, AT&T and Time Warner Inc.
vexatious litigation: first, the lawsuit must be objectively baseless to the extent that no reasonable litigant could except 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.\(^{51}\)

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.\(^{52}\) 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 European Union 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.\(^{53}\)

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.\(^{54}\) 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.

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.\(^{55}\) 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.\(^{56}\)

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\(^{52}\) *M/s Bull Machines Pvt Ltd v. M/s JCB India Ltd & Ors* (Case No. 105 of 2013).

\(^{53}\) *ibid.*

\(^{54}\) *Biocon Limited & Mylan Pharmaceuticals Private Limited v. F Hoffmann-La Roche AG & Ors* (Case No. 68 of 2016).

\(^{55}\) CCI’s *prima facie* orders are essentially directions to the DG to initiate investigations.

\(^{56}\) *InPhase Power Technologies Pvt Ltd v. ABB India Ltd* (Case No. 12 of 2016).
VII OUTLOOK AND CONCLUSIONS

The Madras High Court observed in *Tamil Nadu Film Exhibitors Association v. Competition Commission of India*\(^5\) 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\(^5\) 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 interest of select competitors, the CCI may very well continue to examine the allegations against Ericsson; the very fact that the complainant, Micromax, no longer wishes to pursue its claims against Ericsson may likely weaken the CCI’s case against Ericsson. That said, the CCI’s decision in *Esaote*\(^5\) does not seem to take into account the fact that the complainant and the defendant had settled their contractual dispute.

To conclude, 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.

\(^5\) See footnote 17.
\(^5\) See footnote 46.
\(^5\) See footnote 18.
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 or 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 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 time of writing, the House is at the final stage of discussing this draft and there is a small chance that it will become law before new members of the House take office in October 2019. 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 2020, therefore, 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, may be seen.

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 or 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.

The Draft Anti-Monopoly Law also provides sanctions for business actors who violate the provisions, with the imposition of a maximum fine of 25 per cent of sales revenue during the violating period in the relevant market.

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 and Government Regulation No. 36 of 2016 on IP Licence Recordal.

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, as yet 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. Therefore, the views expressed in the Guideline might not reflect how KPPU will act in a particular case.

KPPU is in the process of reviewing and revising all of its guidelines. A revision of the KPPU Guideline on the Exemption of Intellectual Property Agreements may be issued later in 2019.

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 the intellectual property is deemed as an essential facility and the owner refuses to license it, or 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:

- 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;
- the recipient of any product or service must agree to purchase other products or services from the supplier (tying-in agreements); and
- 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.

**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 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 of the patent being issued.\(^6\) A compulsory licence could be given based on the Minister of Law and Human Rights’ decision in any of the following circumstances:

\begin{enumerate}
\item the patent holder does not implement an obligation to create a product or use a process in Indonesia within 36 months of the patent being granted;
\item a patent has been implemented by the patent holder or its licensee in a form or way that harms the public interest; and
\item a patent resulting from a development of a previous patent cannot be implemented without using a third-party patent that is still under protection.
\end{enumerate}

To obtain the compulsory licence, the applicant (or its proxy) should also provide evidence that it has taken action within 12 months of 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 impose terms of trade with the intention of preventing or obstructing consumers from acquiring competitive products, restrict the market and the development of technology, or obstruct potential competitors from entering the market:

\begin{enumerate}
\item criminal liability: criminal fine of between 25 billion rupiah and 100 billion rupiah, or imprisonment for a maximum period of six months; and
\item 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.
\end{enumerate}

\(^{4}\) Article 25(2) of the Anti-Monopoly Law.

\(^{5}\) 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, these 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,\(^8\) and that the licensor is entitled to receive royalties from the licensee (unless agreed otherwise).\(^9\) 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.\(^10\)

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

\(^8\) 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. 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
incurred as a result of the implementation of the court order.\textsuperscript{12} 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 \hspace{1em} \textbf{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 \hspace{1em} \textbf{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 \hspace{1em} \textbf{INTELLECTUAL PROPERTY AND MERGERS}

i \hspace{1em} \textbf{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.\textsuperscript{13} 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 \hspace{1em} \textbf{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

\textsuperscript{12} Article 2 of Regulation 5/2012.

\textsuperscript{13} Article 62 of the Draft Anti-Monopoly Law.
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 and joint-venture transactions involving intellectual property will be subject to KPPU review.
Chapter 10

ITALY

Luciano Di Via and Monica Riva

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 (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 (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 of the 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.

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.

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 Mesineo, Giuffrè, 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’.

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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 Court of Justice of the European Union (CJEU) – 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 trademark, but also establish that a registration may be revoked where it has become

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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.
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.\(^4\)

### f
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 near 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.

The tremendous value of big data resides in its capacity to aggregate enormous amounts 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.

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

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 also affects competition within that sector.

The acquisition and processing of large amounts 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:

a. is put in place by a company that is dominant in an upstream market;
b. regards data deemed essential to compete in a downstream market; and
c. 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, whether 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 in 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, particularly at 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.

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In this chapter, we 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 case law concerning both IPR and competition law topics.

In particular, the Tribunal of Milan\(^8\) and then the Court of Appeal of Milan\(^9\) 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 IPR and competition law is the *Huawei Technologies v. ZTE* case\(^10\) regarding the criteria under which the proprietor of an SEP that is in a dominant position may seek an injunction against the infringement of the SEP without violating Article 102 of the 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.

Moreover, in the *Serviços de Comunicações e Multimédia SA (MEO) v. Cooperativa de Gestão dos Direitos dos Artistas Intérpretes ou Executantes, CRL (GDA)* case,\(^11\) the CJEU addressed price discrimination in the context of IPR licensing, and stated that the ‘competitive disadvantage’ constitutes an independent element of Article 102(2)(c) of the TFEU that requires proof, and clarified how it should be assessed.

The *Google/Enel X* case and the ICA’s very recent decision to launch a preparatory inquiry to assess whether Google’s refusal to integrate Enel’s app (offering users functions related to charging electric vehicles) into Android Auto, may constitute an abuse of a dominant position under Article 102 of the TFEU.\(^12\)

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.\(^13\)

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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 See CJEU, 19 April 2018, C-525/16.
12 See Section III.v.
13 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 Law No. 192 of 18 June 1998 (governing sub-supply in
These include, in particular, provisions that:

- would require the licensee to sell only through certain distribution channels or in certain territories; or
- make the licensor the owner of any independent, severable, improvements by the licensee.

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 No. 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) of the 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.

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

- first, the requesting undertaking must be intending to produce new goods and services for which there is potential consumer demand;
- 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 in any conceivable economic conditions); and
- third, the refusal has to be unjustified.

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14 See Court of Milan, 12 March 2012.
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 OTAs to access its databases or procedures for flight reservations, which can be made only on Ryanair’s official website.16

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.17

The Court contested that Ryanair holds a dominant position in the air transport market because it only has a 10 per cent market share of 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 directly sell 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 Unfair and discriminatory licensing

Licence agreements of IP rights may amount to an abuse of dominant position under Article 102 of the TFEU and the equivalent Italian legislation when the licensor applies dissimilar price conditions for equivalent transactions with different licensees, thus placing them at a competitive disadvantage.

Under Article 102(2)(c) of the TFEU, undertakings with a dominant position in the internal market, or in a substantial part of that market, are precluded from applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage, as trade between Member States may be affected. The rationale for prohibiting price discrimination is to ensure that competition is not distorted in the internal market.

Price discrimination in the context of IPR licensing is a hot issue, especially in the field of telecommunication and media sectors where negotiations between the parties may lead to dissimilar royalties for equivalent or similar services.

In this regard, the CJEU recently issued an important ruling in the MEO v. GDA case.

In this case, MEO, a provider of television services in Portugal, filed a complaint against GDA, a non-profit collecting cooperative managing the rights of artists and performers in Portugal, before the Portuguese Competition Authority (PCA).

According to MEO, GDA had abused its dominant position by charging MEO different prices to those that it charged to another entity providing paid television signal and content services, NOS Comunicações SA.

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16 See Court of Milan, Special Section for Enterprises, 4 June 2013, Judgment No. 7825.
17 See Court of Appeal of Milan, Special Section for Enterprises, 12 October 2015, Judgment No. 3900.
Following this complaint, the PCA opened an investigation concerning GDA’s alleged pricing discrimination. The investigation was concluded without any additional action taken against GDA on the grounds that the dissimilar prices it charged did not create a competitive disadvantage for MEO under Article 102(2)(c) of the TFEU.

MEO appealed the PCA decision before the Portuguese Competition, Regulation and Supervision Court, claiming that the PCA had misinterpreted Article 102(2)(c) of the TFEU.

Considering the different approaches to the issue, the Portuguese Competition, Regulation and Supervision Court decided to stay the proceedings and to refer the question to the CJEU for a preliminary ruling, essentially asking ‘whether the concept of “competitive disadvantage”, for the purposes of subparagraph (c) of the second paragraph of Article 102 TFEU, must be interpreted to the effect that it requires an analysis of the specific effects of differentiated prices being applied by an undertaking in a dominant position on the competitive situation of the undertaking affected and, as the case may be, whether the seriousness of those effects should be taken into account’.

The CJEU first stated that Article 102(2)(c) of the TFEU may be invoked when the dominant undertaking (1) applies dissimilar conditions to equivalent transactions with other trading parties, and (2) the price discrimination places these trading parties at a competitive disadvantage. In other words, Article 102(2)(c) of the TFEU requires not only discriminatory behaviour by the undertaking in a dominant position, but also that such behaviour causes anticompetitive effects.

The CJEU also found that, in these circumstances, evidence of an actual, quantifiable deterioration in the competitive position of the business partners cannot be required. Rather, ‘it is necessary to examine all the relevant circumstances in order to determine whether price discrimination produces or is capable of producing a competitive disadvantage, for the purposes of subparagraph (c) of the second paragraph of Article 102 TFEU.’

Additionally, the CJEU clarified that, in the assessment of the ‘relevant circumstances’, a judge should take into account several factors, such as: (1) ‘the dominant position and the negotiating power relating to the charging of tariffs on the downstream market’; (2) ‘the duration and the amount of the tariffs’; (3) the effect of the price discrimination on the costs and profits of the operator that considers itself to be wronged by the discriminatory behaviour; and (4) the interest of the dominant undertaking in excluding one of its trade partners from the downstream market.

Therefore the CJEU finally held that:

the concept of ‘competitive disadvantage’, for the purposes of subparagraph (c) of the second paragraph of Article 102 TFEU, must be interpreted to the effect that, where a dominant undertaking applies discriminatory prices to trade partners on the downstream market, it covers a situation in which that behaviour is capable of distorting competition between those trade partners. A finding of such a ‘competitive disadvantage’ does not require proof of actual quantifiable deterioration in the competitive situation, but must be based on an analysis of all the relevant circumstances of the case leading to the conclusion that that behaviour has an effect on the costs, profits or any other relevant interest of one or more of those partners, so that that conduct is such as to affect that situation.
iv Patent pooling

Patent pooling agreements are licensing agreements that may come within the scope of Article 101(1) of the 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 EU Regulation No. 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.18

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:

a 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

b 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 examined by the ICA relates to a possible abuse of dominant position by a software rights holder.19

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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 (PCT).

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 was abusing its dominant position and breaching 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 were 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.

Net Service sought to bring an end to the proceedings before the ICA by submitting a list of commitments (Commitments), which it offered to implement to address the complaints that it was acting in an anticompetitive manner (Article 14 ter of the IAL).

Specifically, Net Service offered the following by way of Commitments:

a. the implementation of a corporate reorganisation to achieve a form of physical and functional vertical separation with Net Service divided into two separate business areas: Net Service Area PA, running and updating the PCT system; and Net Service Area Mercato, producing, distributing and selling software applications for the PCT (Commitment 1);

b. the creation of a virtual community, the PCT blog, in which users of the PCT software applications would be able to interact and exchange information, both among themselves and with Net Service Area PA (Commitment 2); and

c. the production of reports regarding the work carried out in and around the blog (Commitment 3).

The ICA passed Resolution No. 26350 on 18 January 2017, finding that the Commitments satisfactorily overcame the competition concerns that had been at the heart of the preparatory inquiry, and closed the proceedings without any finding that Net Service had abused a dominant position.

The ICA found that the structural and functional separation that Commitment 1 would introduce mitigated the informational advantages that Net Service might enjoy over those competitors in the downstream market in the production, distribution and sale of PCT software applications who were not present in the upstream market; and accordingly, that Commitment 1’s implementation would remove the limitations on competition of which its rivals had complained.

In September 2018, Net Service asked the ICA to revoke the Commitments, on the basis that it had assigned the business division active in the downstream market for PCT software applications. Net Service said that, as a result of the assignment, it was no
longer active in the downstream market for the production, distribution and sale of software applications for the PCT, and had retained only its business in the upstream market for the maintenance and development of the PCT's technology infrastructure.

The ICA upheld Net Service’s request, passing Resolution No. 27609 on 23 April 2019, which ruled that, in assigning the business division, Net Service had voluntarily carried out a vertical separation of ownership.

As a result of the assignment, Net Service had ‘de facto’ exited the relevant downstream market in the production, distribution and sale of software applications for the PCT, remaining active only in the relevant upstream market.

The changed competitive environment meant that the Commitments no longer had to be binding, the ICA found, and thus they had been revoked.

Most recently, the ICA has been examining a new case of possible abuse of a dominant position involving Google and Enel. The ICA’s investigations are ongoing, and the proceedings – which began with Resolution No. 27771, passed on 27 May 2019 – are expected to conclude in May 2020.

First, the ICA has made the premise that Google (1) owns the Android operating system for smartphones and tablets; (2) has developed a number of apps, not least Google Maps, which provides not just maps and directions to places of interest but also real-time information on traffic, and commercial premises and other facilities; and (3) has developed the Android Auto extension, which enables information from some apps to be shown on car displays, and for those apps, and some phone functions, to be used through the car’s controls and through voice commands, so as to limit driving distractions and maintain safety.

Enel has developed an app, Enel X Recharge, which offers a series of functions related to recharging electric vehicles.

The app enables users to see the location of recharging points, and to book and operate charging sessions, including the payment stage. Enel X Recharge was developed for integration into Android Auto, adhering to the specifications that Google made public.

In August 2018, Google turned down the request from Enel for the app’s integration into Android Auto. Only three kinds of app were permitted for use with Android Auto, Google said; namely, apps for media, messaging and navigation.

Based on these facts, the ICA considered that Google may have infringed Article 102 of the TFEU, and it opened a preparatory inquiry under Article 14 of the IAL.

The ICA considered that Google’s refusal to integrate Enel X Recharge into Android Auto might not have been justified, and that Google may have been abusing its dominant position in the market for smartphone operating systems.

The ICA is examining whether the intention behind these actions was to exclude Enel from the market, in order to protect and strengthen the Google Maps business model.

The ICA observed that Google Maps already enables users to see the locations of charging points and provides directions to reach them, and that the app had the advantage of being completely integrated into Android Auto, so it may be used while driving without risk to road safety. Google Maps also supplements the information on charging points with that on facilities in the surrounding area (such as bars, shops and post offices), and on traffic congestion.

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The inquiry will also look at whether, by turning down Enel’s request, Google is looking to keep hold of the data it gathers through Google Maps and avoid these being shared with ‘vertical’ apps such as Enel X Recharge, increasing barriers to entry in the relevant market.

Therefore, the ICA’s initial assessment has been that Google’s conduct appears ‘liable to considerably prejudice competitive dynamics, in terms of the level of services on offer, the breadth and variety of supply, and the innovation in and diversity of business models, thereby preventing competition based on merit, and restricting consumer choice’.

vi 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.

In 2014, the Court of Milan 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.21

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

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21 See Court of Milan, 24 January 2014 (interim decision).
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 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 Longastatina 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.

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.

23 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.
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 of the 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).25

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’.26

The CJEU recently issued another important ruling concerning SEP in the *Huawei Technologies v. ZTE* case.27

In this case, Huawei Technologies, a multinational company active in the field of telecommunications, held a patent essential to the ‘long-term evolution’ standard.

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25 Court of Milan, 5 January 2012 (interim decision).
26 Court of Milan, 8 November 2011.
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 of the 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 of the TFEU.

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:

a. first, the proprietor of an SEP that considers that the SEP is subject to an infringement cannot, without infringing Article 102 of the TFEU, bring an action for an 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;
b. 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;
c. consequently, the alleged infringer must respond to that offer, in accordance with recognised commercial practices and in good faith;
d. 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;
e. 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
f. 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 disputed by the parties in the main proceedings, this is an important ruling because it clearly offsets 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 of the 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 IPRs 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 the 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.28 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.29 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 case30 is one of the most famous examples of patent abuse.

On 12 February 2014, the Italian Council of State delivered its judgment No. 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 its decision of 11 January 2012, the authority had found that Pfizer had abused a dominant position in breach of Article 102 of the 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 of the 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

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30 Council of State, 12 February 2014 No. 693 overturning the ruling of Tar Lazio, 3 September 2012 No. 2012 that annulled the AGCM, A431, Ratiopharm/Pfizer. See also Ghidini, Cavani, Piserà, ‘Abuso del diritto al brevetto e abuso di posizione dominante: il caso Pfizer’ in Italian Antitrust Law Review No. 3/2014, pp. 133 et seq.
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.31 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 Turin 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).32 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.

31 See ex multis Italian Court of Cassation, 26 November 1997, No. 11854 and Court of Milan, 29 March 2007.
32 See Court of Turin, 10 March 2011.
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.
I INTRODUCTION

In Japan, the act regulating antitrust is the Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade (the Japanese Antimonopoly Act (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. The acts regulating 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 Act (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

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1 Tomoki Ishiara is counsel at Sidley Austin Nishikawa Foreign Law Joint Enterprise.
2 Act No. 54 of 1947, as amended, English translation available at www.japaneselawtranslation.go.jp/law/detail/?ft=2&re=01&dn=1&yo=%E7%A7%81%E7%9A%84%E7%8B%AC%E5%8D%A0&cx=0&y=0&ia=03&ky=&page=1.
3 Article 1 of the JAA.
exercise of rights.\textsuperscript{4} Thus, the practical issues are whether exercises of the rights may, under certain circumstances, constitute private monopolisation,\textsuperscript{5} unreasonable restriction of trade\textsuperscript{6} or unfair trade practice, which is not considered to be the exercise of rights.\textsuperscript{7}

II YEAR IN REVIEW

As mentioned above, in 2005, the JFTC published the Guidelines for Intellectual Property\textsuperscript{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 a fair, reasonable and non-discriminatory (FRAND) 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,\textsuperscript{9} standard-essential patent (SEP) holders increasingly exercise their exclusive rights against potential licensees, and the features of SEPs have posed antitrust concerns as well as in the United States and the European Union. In particular, as discussed in Section III, the Special Division of the Intellectual Property High Court handed down a decision on limitations on the exercise of an SEP 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 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\textsuperscript{10} or unfair trade practices\textsuperscript{11} under the JAA.

The JFTC published the ‘Guide to Licensing Negotiations Involving Standard Essential Patents’\textsuperscript{12} on 5 June 2018 to provide the information on case laws arising from SEPs in various jurisdictions and to promote reasonable negotiations between relevant parties. Further, in October 2018, International Arbitration Center in Tokyo (IACT), an arbitration centre that focuses on SEP-related disputes was established. It is expected that the IACT may provide a new venue where any SEP dispute could be addressed in a cost-effective manner.\textsuperscript{13}

\textsuperscript{4} Part 2(1) of the Guidelines for Intellectual Property. English translation is available at www.japaneselawtranslation.go.jp/common/data/notice/h19g00100je.3.0.htm.
\textsuperscript{5} Article 2(5) of the JAA.
\textsuperscript{6} Article 2(6) of the JAA.
\textsuperscript{7} Article 2(9) of the JAA.
\textsuperscript{8} The first version was published on 28 September 2005.
\textsuperscript{10} Part III(1)(e) and (i) of the Guidelines for Intellectual Property.
\textsuperscript{11} Part IV(2)(i) of the Guidelines for Intellectual Property.
\textsuperscript{13} For more details, see www.iactokyo.com/.
i  Private monopolisation

In the event an SEP holder who commits to a 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 to, a showing of actual infringement or infringement manner of an SEP, 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 an SEP 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 an SEP 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  Recent case

After the amendment to the Guidelines for Intellectual Property, the JFTC investigated conduct by One-Blue, LLC, which offers licences of Blu-ray disc (BD) SEPs 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 SEPs 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. Imation Japan then filed

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14 Article 2(6), Paragraphs 2 and 14 of the General Designation, available at www.japaneselawtranslation.go.jp/common/data/notice/120704.htm. (*2) Unjustly refusing to trade, or restricting the quantity or content of goods or services for trade with a certain enterprise, or causing another enterprise to engage in any conduct that falls under one of these practices; (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.*)

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 SEP 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 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 this conduct 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:

> 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.

Taking the situation above, it could be assumed that the JFTC 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:

> 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 to this case even 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

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16 Prior to the JFTC'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.
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.\textsuperscript{17}

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.

\textbf{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 illustrative cases as follows:\textsuperscript{18}

\textit{a} function-specific licensing: in the event a licensor licenses a patent only to produce, use, assign or export, it does not, in principle, constitute an unfair trade practice;

\textit{b} 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;

\textit{c} 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;

\textit{d} 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;

\textit{e} 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;\textsuperscript{19}

\textit{f} 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;

\textit{g} sublicensing: in the event a licensor limits parties to which licensees may grant a sublicence, it does not principally constitute an unfair trade practice;

\textit{h} restrictions on raw materials and components: in the event a licensor imposes 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;\(^{20}\)

\(i\) 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;\(^{21}\)

\(j\) 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;\(^{22}\)

\(k\) 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 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;\(^{23}\)

\(l\) imposition of the best efforts obligation: in the event a licensor imposes the obligation to make the best efforts to use the technology, in principle, it may not constitute an unfair trade practice because it would not have an adverse effect on the licensee’s business;

\(m\) imposition of confidential obligation of know-how during the term of and after termination of contract;

\(n\) 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 except for in extreme cases where such prohibitions may impede fair competition;\(^{24}\)

\(o\) unilateral termination provisions: it is an unfair trade practice to set forth termination terms that are unilaterally disadvantageous to licensees in a licensing agreement if the provision is made in combination with any other restrictive activities that infringe the JAA to ensure the effectiveness of the restrictions (e.g., terms that authorise the licensor to terminate the licensing agreement either in a unilateral manner or without allowing for an appropriate grace period);\(^{25}\)

\(p\) establishment of royalties without relation to the use of technology: because of such royalties, licensees cannot use any competing product or technology, leading to an unfair trade practice if it tends to impede fair competition;\(^{26}\)

\(q\) restrictions after the extinction of rights: this generally impedes the free use of technology and may constitute an unfair trade practice if it tends to impede fair competition;\(^{27}\)

\(^{20}\) Paragraphs 10, 11 and 12 of the General Designation.

\(^{21}\) Paragraph 12 of the General Designation.

\(^{22}\) id.

\(^{23}\) Paragraphs 2, 11 and 12 of the General Designation.

\(^{24}\) Paragraph 12 of the General Designation.

\(^{25}\) Paragraphs 2 and 12 of the General Designation.

\(^{26}\) Paragraphs 11 and 12 of the General Designation.

\(^{27}\) Paragraph 12 of the General Designation.
package licensing: such licence may constitute an unfair trade practice if a technology other than the technology that licensees wish to use is not necessary for or does not relate to the effective implementation of the main technology;  

addition of functions to technology: if a technology company that provides platform services in which any apps can operate, and for which many different app technology companies have been developing apps, introduces an updated platform incorporating functions that only its own apps can run on, this may constitute an unfair trade practice to the extent that licensees are prevented from using competitors’ apps;  

obligations of the non-assertion of rights: if a licensor imposes on licensees an obligation to refrain from exercising, in whole or in part, the rights owned by them against the licensor or any third party designated by the licensor, this may constitute an unfair trade practice if it tends to impede fair competition except for where licensees are merely obliged to grant a non-exclusive licence for improved technology developed by them;  

restrictions on research and development activities: restrictions by the licensor relating to free research and development (R&D) activities on the part of licensees (e.g., prohibition of licensees from independently or jointly working with any third party to conduct R&D activities concerning the licensed technology or any technology that competes with it) may constitute an unfair trade practice as it has the tendency to impede fair competition;  

obligations to assign improved technology or to grant exclusive licences for improved technology: if a licensor imposes on licensees an obligation to assign to the licensor, or any third party designated by the licensor, the rights for improved technology developed by them, it may constitute an unfair trade practice;  

obligations to grant non-exclusive licenses for improved technology: if a licensor imposes on licensees an obligation to grant the licensor non-exclusive licences for improved technology attained by licensees, it may not constitute an unfair trade practice, in principle, as long as the licensees may still freely use their own improved technology because such obligation has little impact on licensees’ business activities and is not recognised as being likely to discourage the licensees from undertaking R&D; and  

obligations to report knowledge and experience obtained by the implementation of technologies: imposing on licensees an obligation to notify the licensor of knowledge or experience they obtain in the process of using the licensed technology may not constitute an unfair trade practice because it may enhance the incentive for the licensor to offer licences and may not reduce the motivation of licensees to undertake R&D.

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28 Paragraphs 10 and 12 of the General Designation.  
29 id.  
30 Paragraph 12 of the General Designation.  
31 It had been alleged that Qualcomm Incorporated violated the JAA by coercing its licensees to provide their intellectual property rights related to code division multiple access technologies free of charge; however, on 15 March 2019, the JFTC held that this obligation does not constitute an unfair trade practice as restrictive conditional trade (Paragraph 12 of the General Designation) because it could be regarded as a cross-licence, rather than a free licence.  
32 Paragraph 12 of the General Designation.  
33 id.  
34 id.
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;35 (2) businesses that have obtained promising patents used by many businesses in a market refuse to license such technology to other businesses;36 (3) businesses that have collected and concentrated technologies that may be used by competitors refuse to license those technologies to other competitors;37 and (4) a right holder refuses to license a patent that was adopted as a standard technology in an fraudulent manner to competitors.38

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;39 or (2) businesses that involve cross-licensing refuse to license their technologies to competitors to the extent that the market share of products adopting cross-licensed technologies is high.40

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;41 (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;42 or (3) a licensor discriminately refuses to license its technologies to other businesses to the extent that the technologies have provided a foundation for business activities in a certain product market and many businesses have done business in that product market.43 To constitute unfair trade practices, those activities must have a tendency to impede fair competition.

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

38 Part 3(1)(d) of the Guidelines for Intellectual Property.
41 See Paragraphs 2 and 15 of the General Designation.
42 See footnote 11.
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’. 44

iv Patent pooling

The JFTC promulgated the Guidelines on Standardisation and Patent Pool Arrangements (the Guidelines on Patent Pools) in 2005 (amended in 2007). 45 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 received increasing 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. 46

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. 47 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.’ 48

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. 49

44 id.
47 See id., Part 3(2)(1)(a).
48 See id., Part 3(2)(1)(b).
49 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’.
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 R&D may pose antitrust concerns where a patent pool licence restricts a licensee’s own R&D or the R&D of third parties and, as a result, such restriction may interfere with the 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 this. 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 held\(^50\) that SEC’s imposed restriction constituted an unfair trade practice defined in Paragraph 13 of the General Designation. In the area of copyright, 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.

\(^{50}\) Judgment of the JFTC regarding Sony Computer Entertainment (1 August 2001).
IV STANDARD-ESSENTIAL PATENTS

i Dominance

In Japan, holding an SEP 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 an SEP would, in principle, lead to dominance in that technology-related market. The proposed draft mentions that the refusal to license SEPs to, or file an injunction against, a willing licensee after FRAND declaration constitutes 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 SEPs 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 an SEP 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 Goedo Kaisha v. Samsung Electronics Co, Ltd have currently provided a basic legal framework regarding FRAND declaration and limitations on exercises of an SEP.

Actions against a willing licensee

In the event an SEP holder commits to a 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 a 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.51

Actions against an unwilling licensee

On the contrary, the IP High Court states that an SEP holder may request an injunction against an unwilling licensee regardless of FRAND declaration.

51 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.
iii Licensing under FRAND terms

Under Japanese law, a commitment to FRAND declaration does not definitively constitute a licence agreement with a willing licensee. Some commentators argue that a commitment to FRAND terms 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

An SEP 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 an SEP 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.

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)52 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

52 An English translation is available at www.japaneselawtranslation.go.jp/common/data/notice/h16Zzn00000101jc2.0_h19Z0.htm.
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 licences 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 the 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.
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 or 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 an SEP and in 2016, the JFTC amended the Guidelines for Intellectual Property to cover the limitations on the exercise of an SEP 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 mentioned above illustrated. In March 2018, the Japan Patent Office published a guideline instructing SEP licence negotiations. The Japan Patent Office is willing to be flexible regarding the factors to be considered for negotiations to be deemed reasonable and is supportive of the promotion of reasonable negotiations. Further, the IACT was created as a new venue dedicated to SEP disputes. The future landscape of SEP negotiations in Japan will be shaped not only by the courts but also by the Japan Patent Office and the newly created IACT.

53 See footnote 12.
MEXICO

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I

INTRODUCTION

The subject of the interaction between the protection of intellectual property (IP) 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 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 IP 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 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.
This Constitutional Reform is considered one of the structural reforms submitted by former 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;

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.

Significantly, Mexico’s new President, Andrés Manuel López Obrador, took office on 1 December 2018. It is currently unclear what direction the new government will take with regards to public policy regulating antitrust and telecommunications issues, as its agenda contained few mentions of the former President’s 2013 reforms in these areas.

Nevertheless, the new government strongly opposes the autonomy of the COFECE and IFETEL, suggesting a preference for a centralist government. In this regard, some changes in the Constitution and the law to limit the powers of both autonomous entities is foreseeable in the next few years.

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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.
II YEAR IN REVIEW

The following constitute decisions in which the new antitrust framework relating to IP 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 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 and 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 content.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, 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: ‘Must Carry and Must Offer Guidelines issued by the Plenary Federal Institute of Telecommunications. Concessionaires of restricted television are not entitled to contest under an amparo trial the restriction that, pursuant to their claim, they impose on holders of copyrights, consisting in the free delivery of their proprietary material.’
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.

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 consumers). 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 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 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.

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.6

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, globally, 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 Germany, Japan, Korea, the United Kingdom and the United States.7

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
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 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 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 clauses.

8 Case 12-CV-00630-LHK, United States District Court, Northern District Of California San Jose Division.
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.

iv 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 or the amount of assets or 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.

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 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 of 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 Sygenta, 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 Sygenta 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:

- 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.

- 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’.9

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.10

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.11

10 Court precedent: ‘Trademarks, inventions and trademarks law. What should be understood by unfair competition?’

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.

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.

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.

As noted above, the new government may bring about some changes affecting the autonomy of IFETEL and COFECE, although there are no constitutional changes on the horizon in this regard.
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.

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 reforms can ensure a level playing field. Although these initiatives are criticised by certain practitioners and right holders, the FAS is adamant about seeing these changes implemented. Most recently, draft laws aimed at dealing with the digital economy and removing the IP-related exemptions, as well as dealing with parallel imports, have 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.

1 Maxim Boulba is a partner and Maria Ermolaeva is an associate at CMS Russia.
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. 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 set of 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 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, involvement of trustees responsible for monitoring and facilitating compliance with a binding order issued as part of merger control review, which provides for the transfer of rights to IP and technology, 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.

The FAS and its regional offices are actively looking into unfair competition practices; the number of decisions establishing violation was higher in 2018 than in 2017, but lower than in previous years (381 in 2018 and 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 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.

Finally, the FAS has prepared a draft law envisaged to amend the Civil Code with a view to legalising parallel imports into Russia. The term ‘parallel imports’ means the free importation into Russia of original and trademarked products without the permission of the trademark owner (i.e., goods are imported not by the right holder, its authorised importers or official distributors, but by other entities or individuals). Under Russian law, parallel imports are considered a violation of trademark exclusive rights and are not allowed.

As mentioned above, the FAS has long been trying to change this principle. The amendments are intended to allow the Russian government to authorise the import of certain types of goods (the exact categories are not yet known) without the permission of the owner of the brand for up to five years. The bill establishes four situations in which the Russian government may allow temporary parallel imports:

- if goods are not available on the Russian market;
- if imported goods are available on the market, but their quantity is insufficient;
- if the quality of goods available in Russia differs from that of similar goods sold abroad; or
- if imported goods are sold in Russia at inflated prices.

Naturally, right holders should be aware of this trend relating to possible legalisation of parallel imports.

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, the FAS considered Google a dominant undertaking on the market of ‘pre-installed application stores on Android OS’ to be circulated in Russia. The non-Russian companies of the group (Google Inc and Google Ireland Limited), as the providers and right holders of Google mobile apps 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:

2 FAS Case No. 1-14-21/00-11-15, court Case No. A40-240628/2015.
a mandatory and exclusive pre-installation of other Google apps and services together with Google Play;
b mandatory and exclusive pre-installation of Google’s search engine together with Google Play;
c mandatory placement of pre-installed apps on the screen of mobile devices (specific screen placement); and
d 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 apps and search engine, and installing alternative competing apps as well as changing the placement of app 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 apps 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 Teta 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

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3 FAS Case No. 1-10-279/00-18-13, court Case No. A40-42997/2014.
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. 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).

Also, in a 2018 case relating to Celgene’s patent for lenalidomide, a Russian court, for the first time, granted a claim for a compulsory licence (not associated with the antitrust concerns, however). Under Article 1362 of the Russian Civil Code, a holder of a patent for a dependent invention is entitled to seek a compulsory licence for an existing patent (where a holder of the original ‘first’ patent refuses to enter into a licence agreement on the terms that are in line with the established practice) through court proceedings. Such a claim may be granted if a holder of a patent for a dependent invention manages to prove that the invention can be viewed as an important technical achievement and has significant economic advantages over the invention or utility model of the holder of the ‘first’ patent. The court of first instance agreed with the arguments presented and granted a compulsory simple (non-exclusive) licence. Although the appeal proceedings ultimately resulted in the parties entering into a settlement agreement and the decisions of lower courts being overturned, this decision may have a considerable impact on further court practice in the area, including similar cases under review.

Several notable cases reviewed by the FAS in 2018 were related to issues of unfair competition; for instance, by creating confusion through the registration and use of well-known trademarks (such as ZARA).5

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

4 Court Case No. A40-71471/2017.
5 FAS Case No. 1-14-116/00-08-17.
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 decision of the Constitutional Court on parallel imports has 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.

ii Injunctions
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.

iii Licensing under FRAND terms
Russian legislation does not provide for the concept of fair, reasonable and non-discriminatory (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.
iv  Anticompetitive or exclusionary royalties
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.

V  INTELLECTUAL PROPERTY AND MERGERS
i  Transfer of IP rights constituting a merger
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.

ii 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

i 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.

ii 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.

iii Anticompetitive settlements of IP disputes
By way of background, settlement agreements similar to those available in the United States or the European Union 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.
VII OUTLOOK AND CONCLUSIONS

As suggested by various comments made by FAS officials and the available draft laws, 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, in particular in the context of merger control).
I INTRODUCTION

In Spain, the main provisions regulating national intellectual property rights (IPRs) are the 24/2015 Patent Act, the 17/2001 Trademark Act and the 1/1996 Copyright Act.

For its part, Spanish antitrust law is regulated in the Antitrust Act 15/2007 (AA), which is aligned with European Union antitrust provisions. Article 1 of the AA prohibits agreements between companies that restrict or could restrict competition in a similar way to Article 101 of the Treaty on the Functioning of the European Union (TFEU), and Article 2 of the AA prohibits abuses of dominant position, as does Article 102 of the TFEU. As for merger control, although there are procedural differences between the Spanish and the European provisions, the principles behind merger control envisaged in the AA are also aligned with those of the Commission and of the Court of Justice of the European Union (CJEU).

The AA states that the prohibition of collusive conduct that may restrict or distort competition will 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 the 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 Spanish Antitrust Authority (the CNMC) on several occasions. The CNMC has expressly recognised that IPRs and antitrust law have a common goal 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

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1 Rais Amils is a senior associate at Clifford Chance. The author thanks Belén Irissarry for her useful comments.
3 Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements.
copyright, it is necessary to strike a balance between the 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 restriction or abuse of it.

II YEAR IN REVIEW

Over the past year, there have been some developments in Spain regarding trademark exhaustion, as a result of applying the principles laid down by the CJEU judgment in the Schweppes case\(^5\), which clarified the ownership doctrine developed in its judgments Hag II\(^6\) and Ideal Standard.\(^7\)

There have also been developments regarding the Oracle case,\(^8\) which relates to whether a refusal to continue developing a software application and licensing may constitute an abuse of dominant position, and regarding the SGAE case,\(^9\) which refers to unfair and discriminatory pricing.

Moreover, as this year’s Mobile World Congress (MWC) has taken place again in Barcelona, new decisions have been handed down in relation to injunction applications over standard-essential patents (SEPs).

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 of the AA and Article 101 of the TFEU. In accordance with these provisions, those agreements, collective decisions or recommendations, or concerted or consciously parallel practices, which have as their object or effect, the prevention, restriction or distortion of competition in all or part of the national market (in the case of Article 1 of the AA) or the EU market (in the case of Article 101 of the TFEU) are prohibited. Examples of these agreements include 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 TTBER provisions. For instance, in the Haller case\(^10\), what was then the former CNMC, the National Competition Commission (CNC), applied the former TTBERs of 1996 and 2004\(^11\) to assess whether the licence agreements entered into by Haller with its distributors in Portugal and 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

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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 See Section III.ii.
9 See Section III.iii.
10 CNC decision, 22 July 2008, 634/07, MDC Ingeniería/Productos Haller.
Spain

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 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 Court 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 significantly restrict competition.

Passive sales restrictions were also analysed by the CNC in the *Carpa Dorada* case, which involved 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 Commission Regulation (EU) No. 330/2010 on vertical restraints. The CNC concluded that the tracking system included in the granting of exploitation licences of this plant variety infringed Article 1 of the AA and Article 101 of the 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.

Recently, the CNMC has brought sanction proceedings against Adidas España for potential anticompetitive restraints over its franchisees, consisting of prohibiting them from making certain sales (e.g., online sales and cross-sales), imposing non-competition obligations that could be deemed disproportionate, and indirectly fixing resale prices.

### ii Refusals to license

Refusal to license could be considered an abuse of dominant position under Article 2 of the AA and Article 102 of the TFEU if the IPR holder has a dominant position in the market. This conduct has been the subject of the ongoing Oracle case involving Oracle’s decision to suspend the development of its software for Intel’s Itanium processor, which was used in Hewlett Packard’s Integrity servers.

The CNC, on the basis of the Commission’s principles on establishing when a refusal to supply can be considered abusive, concluded that there was no evidence to class Oracle’s conduct as an exclusionary abuse of dominant position and it closed the file. This decision was revoked by the National High Court, which considered that Oracle’s decision aimed at preventing the continuation of Hewlett Packard in the high-performance database servers market could not be justified by the fact that the Itanium processor was obsolete. This

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12 National High Court judgment, 29 October 2009, SAN 4556/2009.
16 CNC decision, 26 February 2013, S/0354/11, *Oracle*.
17 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.
18 National High Court judgment, 24 September 2015, SAN 3126/2015.

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judgment was also revoked by the Supreme Court,\textsuperscript{19} which ruled that, although the National High Court was right in concluding that the CNC should not have closed the case without properly assessing the evidence before it, it 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. Consequently, the Supreme Court ordered that the case be referred back to the CNMC, which reopened the case. After reassessing all the evidence on file, the CNMC Council issued a new decision declaring that the Investigation Division failed to demonstrate that Oracle had breached Article 1 of the AA or Article 102 of the TFEU.\textsuperscript{20} Among other findings, the CNMC concluded that the classic refusal-to-supply theory of harm cannot be applied to products that still need to be developed, and that, in such cases, the test must be stricter and was not met in the case at hand.

When a refusal to license is deemed an abuse of dominant position, the Spanish Patent Act\textsuperscript{21} envisages the possibility of granting a compulsory licence, in line with Articles 8(2), 31(k) and 40 of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and with the CJEU case law stated in the \textit{Magill},\textsuperscript{22} \textit{IMS} \textsuperscript{23} and \textit{Microsoft} \textsuperscript{24} 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 Spanish 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.

\section*{iii Unfair and discriminatory licensing}

Unfair and discriminatory licensing could constitute an abuse of dominant position within the meaning of Article 2 of the AA or Article 102 of the TFEU. A good example of this is the Spanish Supreme Court judgment in the \textit{Audiovisual Producers Rights Management Organisation} (EGEDA) case.\textsuperscript{25} EGEDA’s conduct consisted of determining the amount 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 \textit{Kanal 5} case,\textsuperscript{26} 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.

On 31 May 2019,\textsuperscript{27} the CNMC sanctioned another management society, the Spanish Society of Authors, Composers and Publishers (SGAE), for abuse of dominant position for, among other conducts, having fixed unfair and discriminatory tariffs for hotels and restaurants. When assessing whether the discriminatory prices applied by a dominant company may result

\textsuperscript{19} Supreme Court judgment No. 583/2018, 10 April 2018, STS 1362/2018.
\textsuperscript{20} CNMC decision, 20 February 2019, S/0354/11, \textit{Oracle}.
\textsuperscript{21} Law No. 24/2015 of 24 July 2015.
\textsuperscript{22} CJEU judgment, 6 April 1995, C-241/91P and C-242/91P, \textit{Magill}.
\textsuperscript{23} CJEU judgment, 29 April 2004, C-418/01, \textit{IMS}.
\textsuperscript{24} EGC judgment, 27 June 2012, T-167/08, \textit{Microsoft}.
\textsuperscript{25} Supreme Court judgment No. 1796/2017, 23 November 2017, STS 4263/2017.
\textsuperscript{26} CJEU judgment, 11 December 2008, C-52/07, \textit{Kanal 5}.
\textsuperscript{27} CNMC decision, 31 May 2019, S/DC/0590/16, \textit{Dama v. SGAE}.

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in a ‘competitive disadvantage’ in the sense of Article 2(2)(d) of the AA and Article 102(c) of the TFEU, the CNMC has taken into account, among other precedents, the CJEU judgment in the *MEO* case.\(^{28}\)

**iv  Patent pooling**

Within the scope of a cartel investigation regarding paper envelopes, the CNC had to analyse whether the creation of a patent pool was compatible with antitrust laws.\(^{29}\) The investigated companies created the ‘Open System’ patent pool, which was formed by co-owned IPRs protecting a technology for easy-opening envelopes. The companies transferred their IPRs and limited technological innovations and agreed not to license 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 2004 TTBER.\(^{30}\)

**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, the software licensing agreement will fall within the scope of the 2014 TTBER (Recital 7).

As previously mentioned in discussing the *Oracle* case, depending on the particularities of the case, a refusal to license software could be considered a refusal to supply, constituting 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 result of the *Schweppes* case.

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, including the United Kingdom; meanwhile, the Orangina Schweppes group owned the Schweppes trademark in the other EU Member States, including Spain. In 2013, the Spanish affiliate of the Orangina Schweppes group became aware that parallel importers were introducing Schweppes tonic water, mainly from the United Kingdom, into the Spanish market. As licensee of the Spanish Schweppes trademark, 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 the subject matter of an investigation by the CNMC,\(^{31}\) which considered that the rights over

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28 CJEU judgment, 19 April 2018, C-525/16, *MEO*.
30 Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (2004/C 101/02), Paragraph 213.
31 CNMC decision, 29 June 2017, S/DC/0548/15, *Schweppes*. 

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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 such 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 that 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 into 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.

In parallel, Spanish courts have also handed down some decisions on this same case, mainly ruling in favour of Schweppes, SA. However, the Barcelona Commercial Court No. 8 decided to refer some questions related to this Schweppes case to the CJEU, which 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.

On the basis of this CJEU judgment, Barcelona Commercial Court No. 8 issued a judgment in which it has not followed the same approach as the other Spanish courts dealing with similar matters. It concluded that there were sufficient indicia to deem that, after the fragmentation of the trademark in 1999, the trademark holder in Spain, alone or in coordination with the Coca-Cola group, has actively and deliberately promoted the image of Schweppes as a global and unique trademark, creating confusion among the public as to the corporate origin of the Schweppes products. This confusion undermines the essential function of the trademark and, consequently, on the basis of the CJEU judgment, the patent holder cannot oppose the parallel imports of identical products designated with the same trademark coming from a Member State in which the trademark is currently owned by the third party (i.e., the Coca-Cola group) with which it has been coordinating the exploitation strategy of the trademark within the European Economic Area.

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32 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.

33 Barcelona Commercial Court No. 8 ruling, 17 May 2016, AJM B 90/2016.

34 Barcelona Commercial Court No. 8 judgment, 9 April 2018, SJM B 3288/2018.
Trademark exhaustion within a selective distribution system in high-quality, but not luxury, goods has been analysed in detail by the Barcelona Court of Appeal in the Mustela case; on the basis of the principles laid down by the CJEU in the Parfums Christian Dior and Coty cases and by the Supreme Court in the L’Oreal case. It understands that the exception to the trademark exhaustion stated by this case law for luxury products can also apply to ‘quality’ products to preserve the prestige and image of their trademark.

IV  STANDARD-ESSENTIAL PATENTS

i  Dominance

To the best of our knowledge, there is no case law in Spain in which the antitrust authorities or the Spanish courts have expressly declared that a company holding an SEP has a dominant position in the market. However, it is likely that they will take this approach, in line with the considerations made by Advocate General Mr Wathelet in his conclusions on the Huawei case, in which he pointed out that there could be a rebuttable presumption that the owner of an SEP holds a dominant position.

ii  Injunctions

When dealing with injunctions, Spanish courts will follow the Huawei doctrine, which has clarified when a request for an injunction based on an 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 also applied the Huawei principles in relation to patents that were not SEPs, but that protected a technology that held a predominant position in the market. The reasoning behind this is that the Huawei case law provides guidelines and interpretation criteria that allow the courts to conduct a reasonable and equitable assessment of the rights and interests existing between licensee and licensor when infringement actions are brought while the negotiation of the licensing terms are taking place.

Within the context of the MWC, in 2019, the Barcelona commercial courts, together with the European Union Trademark Court in Alicante, have established a protocol of conduct to deal with (without delay) any action brought (1) in relation to technological patents and industrial designs relating to products to be exhibited at the MWC, (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 MWC. 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

35 Barcelona Court of Appeal, Section 15, judgment, 5 April 2019, SAP B 3376/2019.
37 CJEU judgment, 6 December 2017, C 230/16, Coty.
38 Supreme Court judgment, 22 April 2016, STS 1669/2016.
41 Barcelona Commercial Court No. 5 ruling, 16 February 2018, AJM B 34/2018.
to protect any affected IPRs. According to the report published on the results of the 2019 MWC, these courts dealt with a total of 50 matters relating to protective writs, applications for 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; therefore, there is no case law in Spain in this regard. Spanish courts have expressly recognised that the licensing of technologies protected by SEPs will be granted under fair, reasonable and non-discriminatory (FRAND) terms. However, there is no guidance on how to determine these FRAND terms, apart from that found in the Commission’s Horizontal Guidelines, which state that the royalty under 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. However, it cannot be ruled out that when the royalty to be paid for an SEP licence is not FRAND, but higher, this could be deemed an exclusionary abuse of dominant position that would fall under Article 2 of the AA and Article 102 of the 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.

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42 Barcelona Commercial Court No. 5 ruling, 22 February 2016, AJM B 22/2016.
43 Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements, Paragraph 289.
Considering the similarities between the definitions 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 good 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 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 assets 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.

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, confirmed by the Protégé International case, will be taken into account by Spanish authorities and courts. According to the case law of the General Court of the CJEU (EGC), 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 within the framework of a plan whose goal is to eliminate competition.

These two criteria must be interpreted and applied restrictively in a way that does not frustrate the general rule of access to the courts, and it is the situation existing when the action is brought that must be considered in order to determine whether that criterion is satisfied. In the Protégé International case, the EGC 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 those proceedings.

46 CNMC decision, 21 June 2016, C/0748/16, Bimbo/Panrico II.
47 Court of First Instance judgment, 17 July 1998, T-111/96, ITT Promedia.
Although not referring to an IP litigation, this case law was applied by the Madrid Court of Appeal\(^{49}\) 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\(^{50}\) 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 of the AA and Article 102 of the 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\(^{51}\) 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 held a dominant position within the market, defined at the ATC\(^4\) level corresponding to the commercial category of S01EE (i.e., prostaglandin analogues). However, Pfizer’s conduct did not amount to an abuse of dominance, since Pfizer had merely defended its legitimate interests within the limits of the patent system. This conclusion was essentially based, after verifying that there were significant differences between Pfizer’s conduct in Spain and that found in the AstraZeneca case,\(^52\) on the following:

\begin{itemize}
  \item a no misleading information was submitted to the patent authorities;
  \item b Pfizer was not able to apply for an SPC for the parent patent in Spain 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;
  \item c the divisional patent was applied for in accordance with the relevant requirements and procedures; and
  \item d 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 before the Xalatan patent expired.
\end{itemize}

This CNMC decision regarding Pfizer’s conduct in Spain differed from that of the Italian antitrust authorities in relation to similar conduct by Pfizer in Italy. In fact, in line with the latter’s decision 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 due to 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 regulations applicable in both Member States that justified the CNMC not following the Italian antitrust authorities and discontinuing the investigation opened against Pfizer in Spain.

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\(^{49}\) Madrid Court of Appeal ruling, 19 May 2017, AAP M 2643/2017.

\(^{50}\) Supreme Court judgment, 22 June 2006, STS 4605/2006.

\(^{51}\) CNMC decision, 13 February 2014, S/0441/12, Pfizer.

\(^{52}\) Commission decision, 15 June 2005, COMP/A 37.507/F3, AstraZeneca.
iii Anticompetitive settlements of IP disputes

Settling an IP dispute is quite a common way of terminating a dispute for many reasons, such as costs and legal certainty. However, depending on the terms of these settlements, it cannot be ruled out that they are considered contrary to Article 1 of the AA and Article 101 of the TFEU. To the best of our knowledge, there are no precedents before the Spanish antitrust authorities dealing with this kind of agreement. However, we understand that the Spanish authorities would follow the EGC judgments on the Lundbeck and Servier 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 is one that we can expect to have more prominence in the coming years. In this respect, any development taken at EU-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.

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) of the 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) of the 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) of the 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

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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 Competition Commission; 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 www.weko.admin.ch/weko/fr/home/documentation/communications—notes-explicatives.html.
4 See, e.g., the decisions B-463/2010 and B-506/2010 of the Federal Administrative Tribunal.
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 been enacted, for example, to protect research and development activities.\(^5\) For instance, Article 9(1) of the 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\(^6\) 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 of the 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 several mergers in the media sector. Following on from the *Gaba/Gebro* case,\(^7\) the Comco has rendered two decisions related to restrictions in the context of exclusive distribution networks.

Among the merger cases in the media sector,\(^8\) it is worth noting that the Comco confirmed its practice according to which print and online advertising are part of the same product market, whereas it is justified to distinguish markets based on the subject matter of advertising (i.e., advertising for real estate, cars and jobs each constitute a separate product market).

In the *RIMOWA* case,\(^9\) the Comco imposed a fine of approximately 130,000 Swiss francs on the German supplier for restricting sales of the contractual products by its German distributors to Switzerland. In another case,\(^10\) the Comco recalled that restrictions on active sales outside the contractual territory, in the context of exclusive distribution agreements, are not unlawful under Swiss competition law. Further, the Comco decided that it is lawful for the supplier to redirect consumers’ requests coming from Switzerland to the exclusive distributor of the products in Switzerland.

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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 active pharmaceutical ingredient (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.
8 See *AZ Medien/NZZ*, DPC/RPW 2018/4, 866 ff (mainly related to newspaper markets); *Tamedia/Basler Zeitung*, DPC/RPW 937 ff (mainly related to newspaper markets) and *Tamedia/Tradono Switzerland*, DPC/RPW 2017/4, 579 ff (involving online and offline advertising markets).
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 of the CartA (unlawful agreements affecting competition) and under Article 7 of the CartA (unlawful practices of dominant undertakings).\(^{11}\)

This chapter will not discuss the different rules on intellectual property rights exhaustion, to the extent that, pursuant to Article 3(2) of the 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 European Economic Area (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 of the 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) of the CartA, agreements regarding fixed or minimum prices\(^{12}\) 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).\(^{13}\)

\[ii\] 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 (and the related Explanatory Note),\(^{14}\) the following shall in particular be considered as hardcore restrictions: (1) restrictions on the buyer freely setting its prices; (2) territory and 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

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\(^{11}\) 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 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.

\(^{12}\) 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.

\(^{13}\) See Paragraph 3 of the Vertical Agreements Guidelines.

\(^{14}\) The Vertical Agreements Guidelines and the Explanatory Note are available (in French, German and Italian) on the Comco’s website (see footnote 3).
in the agreement.\textsuperscript{15} 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:

\begin{itemize}
\item[a] resellers shall prevent Swiss customers from accessing their website;
\item[b] resellers redirect customers automatically to the website of the supplier or a different reseller in Switzerland; or
\item[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.\textsuperscript{16}
\end{itemize}

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 Explanatory Note provides useful guidance in the context of online sales.\textsuperscript{17} 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.

The restriction of parallel imports (as a hardcore vertical restriction) was the topic of the landmark \textit{Gaba/Gebro} case decided by the Federal Supreme Court (FSC) regarding the manufacturing and distribution of Elmex products.\textsuperscript{18} 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) of the 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.

Further, the FSC decided that agreements pursuant to Article 5(3) and (4) of the 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) of the 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

\begin{itemize}
\item[16] See Paragraphs 18 to 20 of the Explanatory Note.
\item[17] See Paragraphs 18 to 25 of the Explanatory Note.
\item[18] FSC, 2C_180/2014 dated 28 June 2016.
\end{itemize}
‘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.

The FSC also confirmed in this case that agreements pursuant to Article 5(3) and (4) of the 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.

Another recent decision related to parallel imports was rendered by the Federal Administrative Tribunal (FAT) in a case involving Nikon. Similar to 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 made by the licensee; (3) no challenge against the licensed intellectual property; and (4) payment of royalties after expiry of the licensed intellectual property right (provided that royalties may still be justified with respect to know-how).

Article 7(1) of the 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) of the CartA goes on

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19 See FAT, B-581/2012 dated 16 September 2016.
20 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.
21 Article 12(2)(f) and (g) of the Vertical Agreements Guidelines.
22 Article 12(2)(g) in fine of the Vertical Agreements Guidelines.
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 **Swisscom** 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 **Swisscom** 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) 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) of the CopA does not oblige the copyright owner to provide interface information to competitors. The Comco considered that, by virtue of Article 3(2) of the CartA, intellectual property rights (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.

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.

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23 DPC/RPW 2016/4, 920 ff.
24 DPC/RPW 2016/2, 378 ff.
25 DPC/RPW 2011/1, 96 ff.
26 See DPC/RPW 2011/1, 96 ff, p. 115.
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 of the 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 of the PatA (dependent inventions), and Articles 40 ff of the PatA (licensing in the public interest).

Article 36 of the 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.\(^{27}\) 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 of the 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 of the PatA. In this case, it judged that the requirements of Article 36 of the PatA were not met.

Article 40 of the 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 of the PatA, such a licence would be non-exclusive. Article 40a to 40d of the 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).

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\(^{27}\) 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) of the CartA where the intellectual property rights constitute part of a business whose control is acquired by an independent undertaking.28 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.29

The sole transfer of intellectual property rights might also be construed as a concentration of undertakings within the meaning of Article 4(3) of the 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.30

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) of the 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 the herpes simplex virus in the market of topical anti-virals (D6D) in Switzerland.31 This remedy was inspired by the solution that was reached in the context of the same merger by the European Commission.32 As the European Commission explains in its decision: ‘[t]he 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.’33

28 Article 4(3) of the 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.

29 See, e.g., Emmi/Swiss Dairy Food, DPC/RPW 2003/4, p. 786, where the Comco held that the transfer of an operating site and related trademarks constituted part of a business that had been acquired.

30 See DPC/RPW 2011/3, p. 413.


32 EC, Case COMP/M.1846.

33 EC, Case COMP/M.1846, Paragraph 219.
VI OTHER ABUSES

i Sham or vexatious IP litigation
The concept of abuse under Article 7 of the 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 of the 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) of the 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 for past years, the Swiss competition authorities have been active in the past year in all areas of competition law and it can be expected that this will continue in the coming years.

In previous editions, we have 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 of the 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. A counter-proposal has been drafted by the Federal Council and submitted to consultation in the course of the past year. The Federal Council anticipates submitting its finalised counter-proposal, together with its explanatory message, to the Swiss parliament on 11 June 2019.

34 www.prix-equitables.ch/.
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.

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. Under the current Turkish competition law regime, the general competition law enforcement structure is also applicable for IP rights.
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, 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 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. Turkey is a signatory or a party to various international and bilateral agreements, conventions and treaties, such as:

\( a \) the Agreement on Trade-Related Aspects of Intellectual Property Rights;

\( b \) the Paris Convention for the Protection of Industrial Property;

\( c \) the Patent Cooperation Treaty;

\( d \) the Strasbourg Agreement Concerning the International Patent Classification;

\( e \) the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks;

\( f \) the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks;

\( g \) the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; and

\( h \) 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 *CORENA/Roche*, the Board re-evaluated the allegations that Roche violated the Competition Law by imposing a clause containing an export prohibition on pharmaceutical warehouses, including CORENA, and interfering with other warehouses by interrupting their supply of goods to CORENA. The Board's decision comes following the judgment of the 13th Chamber of the Council of State, which annulled the Board's previous decision on the ground that the export prohibition clause does not have any effect on Turkish markets and it therefore falls outside the scope of the Competition Law. In the relevant decision, the Board provided detailed explanations regarding its approach towards export prohibition clauses and its relationship between IP rights and competition law. On that front, the Board stated that parallel export is the most important outcome of the principle of exhaustion and provided explanations on that principle and its outcomes from a competition law perspective. Consequently, the Board decided that the export prohibition clause incorporated by Roche does not violate the Competition Law.

In *Beşiktaş Kültür Merkezi*, the Board evaluated the allegation that four local film production companies, namely Beşiktaş Kültür Merkezi AŞ, Tam Aile Filmleleri Fabrikası Stüdyo Film ve Organizasyon Sanayi Ticaret AŞ, Nulook Prodüksiyon veFilm Yapım AŞ and Çamaşırhane Film Yapım AŞ, violated Articles 4 and 6 of the Competition Law by intervening in pricing, discounts and similar sales conditions in the film exhibition market through their professional union, namely Televizyon ve Sinema Filmı Yapımcıları Meslek Birliği. In the relevant decision, the Board provided detailed explanations on the evaluation of vertical agreements containing IP rights and stated that the transfer of IP rights must not be the main purpose of the agreements in order for the relevant agreements to be assessed under the block exemption regime. On this front, the Board stated that the practice under examination concerns the right to use IP and, therefore, the block exemption regime is not applicable to the relevant agreements. To that end, due to the lack of evidence supporting any price-fixing clauses between producers and exhibitors, the Board decided not to initiate a full investigation against the relevant undertakings.

### 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;

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2 26 September 2018, No. 18-34/577-283.
4 17 June 2010, No. 10-44/785-262.
5 8 November 2018, No. 18-42/667-328.
that do not impose restrictions that are not indispensable to the attainment of these objectives; and

d 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). 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. 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 in Türk Telekom, Krea İçerik Hizmetleri, Surat Basim/Zambak and Digital Platform.

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 Yazilim) or rebate systems in the sales of computer software (Microsoft). In these cases, the Board applied the general provisions of Article 6 and did not adapt a particular standpoint as regards IP rights.

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6 9 June 2003, No. 03-40/432-186.
7 9 June 2016, No. 16-20/326-146.
8 9 September 2015, No. 15-36/544-176.
12 13 June 2013, No. 13-36/481-211.
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 between two or more parties who agree to assemble their technologies to 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, therefore, 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, 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 Communiqué No. 2002/2 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 (SEPs) 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 SEPs 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 and refusal to license. 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 SEPs 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 these Guidelines, fair, reasonable, and non-discriminatory (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 FRAND basis. Further, according to the Guidelines, these commitments can prevent IP rights holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable (excessive), 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*, 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 yet considered the intersection of SEPs 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*, 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.

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14 10 February 2016, No. 16-04/82-36.
15 14 August 2003, No. 03-56/650-298.
In *Turkish Pharmacists’ Association*, 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’ sign boards 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 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 beer sector. 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*, 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.

Moreover, in Zynga/Peak, the Board evaluated the transaction regarding Zynga Inc’s acquisition of a business unit of Peak Oyun Yazılım ve Pazarlama AŞ related to multiplatform online card, stone and board games, the scope of which also included the transfer of certain IP rights and other assets. The Board deemed the relevant transaction as an acquisition and granted it an unconditional approval.

Also, in FIH Mobile/Microsoft Mobile (Vietnam), the Board approved the transaction regarding FIH Mobile’s acquisition 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 of 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. 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. 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).

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.

20 18 August 2016, No. 16-28/472-211.
21 Guidelines on Remedies Acceptable by the Turkish Competition Authority in Mergers/Acquisition Transactions, Paragraph 34.
22 ibid, Paragraph 35.
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:

a conformity with the EU competition law legislation;

b introduction of the EU’s significant impediment of effective competition test instead of the current dominance test;

c adoption of the term of ‘concentration’ as an umbrella term for mergers and acquisitions;

d elimination of the exemption of acquisition by inheritance;

e abandonment of the Phase II procedure;

f extension of the appraisal period for concentrations from the current 30 calendar-day period to 30 working days; and

g 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.
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 Article 101 or 102 of the 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 (ECJ) 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 an important decision from the Court of Appeal decision in the Unwired Planet fair, reasonable and non-discriminatory (FRAND) litigation (see Section IV.iii), together with rulings in other FRAND cases, such as TQ Delta v. Zyxel (see Section IV.ii). The decision of the ECJ in respect of the reference in the appeal of the CMA’s decision to fine GlaxoSmithKline plc (GSK) and two generic pharmaceutical companies for entering into alleged ‘reverse payment’ or ‘pay-for-delay’ patent settlements is still awaited (see Section VI.iii).

Policy debate in UK competition law unsurprisingly continues to be 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) of the 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) of the TFEU. That period was due to expire on 29 March 2019 but has now been extended until 31 October 2019.

The European Union (Withdrawal) Act 2018, passed on 26 June 2018 (but amended to take account of the change in exit date), provides for the repeal of the European Communities Act 1972 from the date of Brexit day (or the end of any transitional period approved by the UK Parliament), but also provides that EU law – including the competition provisions – will be ‘retained’ as at the date on which Brexit occurs. ECJ judgments pre-dating Brexit will continue to be binding in domestic law at least as to the meaning and effect of any retained EU law, save that the Supreme Court may now depart from the precedent set by them (in the same way as the Supreme Court may depart from the precedent set by its own judgments). Parliament has also approved the Competition (Amendment etc.) (EU Exit) Regulations 2019, which have been drafted to operate in the event of a ‘no deal’ scenario. They provide that EU block exemption regulations (which are currently applied ‘in parallel’) will be continued in UK domestic law. They also provide for the revocation of Section 60 of the CA 1998, which obliges the CMA and UK courts to interpret UK competition law consistently with EU competition law (and to have regard to decisions of the European Commission); the new Section 60A instead only requires the CMA and UK courts to avoid inconsistency between their decisions and pre-exit EU case law, and further provides that they may depart from such pre-exit EU case law where it is considered appropriate in the light of particular circumstances. If this provision comes into force, it opens up the prospect of longer-term regulatory divergence. It is likely in any event that there will be a significant degree of continuing cooperation between the CMA and the EU Commission, although the precise contours of the future regulatory relationship still remain unclear.

In the short term, however, the law remains unchanged: 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 ECJ 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. The remainder of this chapter sets out the law as it stands at the time of writing.

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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.
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 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 of the 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 hardware restriction: such restrictions preclude exemption. In the case of competing undertakings, hardware 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 research and development 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 ECJ case law are satisfied:

a the refusal prevents others from using certain information or products subject to that right;

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4 TTBER 2014, Article 4(1).
5 Commission Guidelines on technology transfer agreements (2014), Paragraphs 103 and 104.
6 TTBER 2014, Article 4(2).
7 TTBER 2014, Article 5.
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);
the refusal excludes effective competition on the neighbouring market;
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
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).

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 of the 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) of the 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

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10  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).
11  Microsoft v. Commission, Paragraphs 758 and 763; Guidance on Commission’s enforcement priorities in
applying Article 82 to exclusionary conduct (2009), Paragraph 79.
12  See recital 7 of the TTBER 2014 and the Commission Guidelines on technology transfer agreements
(2014), Paragraph 56.
14  id., Paragraphs 244–247.
15  id., Paragraph 267(d).
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 and the

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) of
the 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) of the 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 the absence of EU
decisional practice and case law regarding whether an 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.

16 id., Paragraph 261.
17 id., Paragraphs 62 and 63.
eu/competition/elojade/isef/case_details.cfm?proc_code=1_39985. A parallel case involving Samsung's
licensing practices was settled by the giving of commitments: Case AT.39939, C(2014) 2891 final,
Dominance

In *Huawei Technologies co Ltd v. ZTE Corp & ZTE Deutschland GmbH*, AG Wathelet hinted in his Opinion of 20 November 2014 that there could be a presumption that an SEP holder was dominant, rebuttable by ‘specific, detailed evidence’ to the contrary. The German court had, however, referred no question on dominance and the ECJ took no view on the point. 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, 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. The Court of Appeal upheld that finding of dominance on appeal. The Court of Appeal’s decision is itself being appealed to the Supreme Court.

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 brought a follow-on claim in the UK *Apple v. Qualcomm* proceedings arising out of this decision (see further Section IV.iii), but those proceedings have now settled.

Injunctions

*Huawei v. ZTE (ECJ)*

It was also in *Huawei v. ZTE* that the ECJ set out the circumstances under which the holder of an 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 of the TFEU. Like AG Wathelet, 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, 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.

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20 Case C-170/13.
23 [2017] EWHC 711 (Pat).
25 At Paragraphs 47–52 of his Opinion.
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: \(^{27}\) 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. \(^{28}\) One of the allegations made by the defendants against Unwired Planet was that in seeking an injunction it was acting contrary to Article 102 of the TFEU.

Birss J observed in the context of an application for summary judgment in this case \(^{29}\) (considered further at Section IV.iii) 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’. \(^{30}\) In that decision, he explained \(^{31}\) 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:

\(\begin{align*}
\text{a} & \quad \text{Are the terms compliant with competition law?} \\
\text{b} & \quad \text{Are the terms compliant with the contractually enforceable obligation to ETSI?} \\
\text{c} & \quad \text{Are the terms proposed by the claimant ‘equitably refusable’, such that an injunction would be granted if the defendant refused to accept them? Conversely, are the terms proposed by the defendant such that a claimant obliged to license on FRAND terms would be refused an injunction if it refused to accept them?}
\end{align*}\)

\(^{27}\) [2015] EWHC 214 (Pat), Paragraphs 101–112.
\(^{29}\) [2015] EWHC 1029 (Pat).
\(^{30}\) id., Paragraph 20.
\(^{31}\) id., at Paragraph 29.
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.32 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.33

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.34 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.35

At trial,36 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.37

In the remedies judgment,38 he granted what he called a ‘FRAND injunction’, explaining:39 ‘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.40 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.41 One of the allegations made by Huawei42 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 of the 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.43 Birss J granted permission to appeal on this point 44 but the Court of Appeal upheld his judgment, and stated that, following the procedural steps set out by the ECJ in Huawei v. ZTE creates a ‘safe harbour’ that protects SEP holders, but failing to follow those steps does not necessarily mean that there has been an abuse of a dominant position.45 Huawei has been given permission to appeal to the Supreme Court.

**TQ Delta v. Zyxel (Carr J)**

Following a decision of 11 March 2019 in which he held that one SEP, due to expire on 25 June 2019, was valid, essential and infringed,46 Carr J was asked to decide whether an injunction should be granted and if so on what terms. Despite the proximity of the date of patent expiry, Carr J granted the injunction, without even any carve-out to permit Zyxel to supply certain orders.47 He found that Zyxel’s approach had been one of ‘hold-out’ and that they should not be permitted to benefit from this strategy. It follows that the courts consider that both sides have obligations in FRAND negotiations: the SEP holder must offer licences on FRAND terms, but the potential licensee must also negotiate and act as a willing licensee.

An earlier, unusually lengthy, procedural judgment in this case, handed down on 19 February 2019,48 is also noteworthy; Carr J ordered the experts to meet in advance of trial to determine which patents were essential, rejecting Zyxel’s ‘excessive’ estimate of trial length, and refusing to alter the trial date to take account of counsel availability. These steps enabled the trial date of September 2019 to be kept. This robust approach is an indication that the English courts are determined to take steps to streamline the process of bringing FRAND cases to trial and prevent defendants from engaging in delaying tactics.

### 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 2015,49 that ‘the difference between £3,000 and

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43 id., Paragraph 795.  
44 [2017] EWHC 1304 (Pat), Paragraph 65.  
46 [2019] EWHC 562 (Ch).  
£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 and the Court of Appeal in the form of the Unwired Planet judgments — though that guidance remains subject to Huawei’s pending appeal to the Supreme Court. 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 to the Court of Appeal. In his judgment of 24 April 2015, 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, 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 of the 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 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. 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.

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50 [2015] EWHC 1029 (Pat).
51 [2015] EWHC 2097 (Pat).
52 [2016] EWCA Civ 489.
54 id., Paragraphs 11 and 12.
Birss J addressed the ‘what is FRAND’ issue at Paragraphs 83–626 of the main judgment in the *Unwired Planet* proceedings. 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 of the 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’. 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 as it does not prejudice or disrupt the negotiation. Birss J granted permission to appeal on the issue of whether only one FRAND rate exists in any given case. On this point, the Court of Appeal departed from his view, on the basis that concepts such as ‘fairness’ and ‘reasonableness’ do not sit well with such a rigid approach.

As to the exercise of working out what is and is not FRAND, Birss J 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. Birss J granted permission to appeal in respect of his treatment of the benchmark rate. The Court of Appeal, upholding Birss J’s approach, held that the non-discrimination limb of the FRAND undertaking requires the setting of a benchmark rate by reference to the overall value of the portfolio.

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. Birss J granted permission to appeal on this point. The Court of Appeal, dismissing the appeal, held that

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55 [2017] EWHC 711 (Pat).
56 Paragraph 153.
57 [2017] EWHC 1304 (Pat), Paragraph 62.
59 See [2017] EWHC 711 (Pat), Paragraphs 475 and 476.
60 [2017] EWHC 1304 (Pat), Paragraph 68.
63 [2017] EWHC 1304 (Pat), Paragraph 64.
it was not necessary to set a rate equivalent to that offered to any other similarly situated licensee.\(^\text{64}\) 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 of the 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.\(^\text{65}\) 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’.\(^\text{66}\) 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 an SEP licence in one country to an SEP licence in another had by its nature a foreclosure effect.\(^\text{67}\) Birss J granted permission to appeal on this point.\(^\text{68}\) 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.\(^\text{69}\) The Court of Appeal upheld the judgment of Birss J, concluding that an SEP holder in the position of Unwired Planet can satisfy its FRAND obligations by offering a global licence to its patent portfolio, and an injunction restraining infringement in the UK may be available if a global licensing offer is rejected.\(^\text{70}\)

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.\(^\text{71}\) 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).\(^\text{72}\)

UK courts have also recently handed down other important decisions in respect of jurisdiction.

Carr J in *Conversant Wireless Licensing v. Huawei Technologies & ors*\(^\text{73}\) 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’s decision was upheld by the Court of Appeal\(^\text{74}\) but Huawei has received permission to appeal to the Supreme Court.

\(^{64}\) [2018] EWCA Civ 2344, Paragraphs 177–207.
\(^{65}\) [2017] EWHC 711 (Pat), Paragraphs 524–572.
\(^{66}\) id., Paragraph 543.
\(^{67}\) id., Paragraph 550.
\(^{68}\) [2017] EWHC 1304 (Pat), Paragraph 62.
\(^{70}\) [2018] EWCA Civ 2344, Paragraphs 30–129.
\(^{71}\) [2017] EWHC 711 (Pat), Paragraph 593.
\(^{72}\) id., Paragraphs 796–802.
\(^{73}\) [2018] EWHC 808 (Pat).
\(^{74}\) [2019] EWCA Civ 38.
The *Apple v. Qualcomm* proceedings also saw an initial jurisdictional ruling from Morgan J. 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 was that Apple’s central FRAND claim was not allowed to proceed, although Apple’s follow-on claim was. Those proceedings have now settled.

iv Anticompetitive or exclusionary royalties

In the main *Unwired Planet* judgment, Birss J rejected a suggestion that Unwired Planet had abused its dominant position under Article 102 of the 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’. 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. 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. 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.

75 [2018] EWHC 1188 (Pat).
76 [2017] EWHC 711 (Pat).
77 id., at Paragraphs 756–784.
78 id., Paragraph 784.
79 id., Paragraphs 785–791.
80 See generally the Commission’s Consolidated Jurisdictional Notice (2007), Paragraph 24.
that will also transfer to the buyer.\(^{81}\) 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.\(^{82}\) 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.\(^{83}\)

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.\(^{84}\) Other intellectual property remedies include rebranding\(^{85}\) 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.\(^{86}\) 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.\(^{87}\) 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.\(^{88}\)

81 OFT1254, ‘Merger Assessment Guidelines’ (2010), Paragraph 3.2.4.
82 Merger Regulation, Articles 2(2) and 2(3).
83 OFT1254, ‘Merger Assessment Guidelines’ (2010), Paragraph 5.8.5.
85 Commission’s notice on remedies (2008), Paragraph 39.
86 id., Paragraphs 61–66 and 130.
87 CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), Paragraphs 2.7 and 3.28.
88 id., 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.
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.89

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 ITT Promedia NV v. Commission,90 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 Protégé International Ltd v. Commission.91 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

The AstraZeneca AB v. Commission case92 remains the leading case. The Commission had made an infringement decision against AstraZeneca, finding that it had breached Article 102 of the 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 ECJ substantially upheld the Commission’s findings. As to (1), the ECJ made it clear that a misleading statement will not suffice on its own, but the consistent conduct in this case did.93 As to (2), the ECJ explained that Article 102 functions as a constraint on dominant undertakings’ conduct even where they are otherwise acting within their rights under the regulations.94 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.

89 CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), Paragraphs 2.7 and 3.33.
92 Case C-457/10 P, ECLI:EU:C:2012:770.
93 id., Paragraphs 61–100.
94 id., Paragraphs 114–156.
The European Commission identified misuse of the patent process as an area of concern in its Pharmaceutical Sector Inquiry Report of 8 July 2009 and recommended the strengthening of competition law action.

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 of the 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.

The Commission found that the agreements breached Article 101 of the TFEU (both as to their object and as to their effect) and that Servier’s conduct also breached Article 102 of the 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 GSK and two generic pharmaceutical companies, Generics (UK) Ltd (GUK) and Alpharma Ltd, in an alleged ‘value transfer’/pay-for-delay/reverse payment case. 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 into the UK market for paroxetine, and that: (1) GSK and GUK thereby breached Article 101 of the TFEU and the Chapter I prohibition, by both object and effect; (2) GSK and Alpharma

95 For example, in Paragraphs 507–522.
96 Paragraphs 1,564–1,577.
98 Accessible at https://assets.publishing.service.gov.uk/media/57aaf65be5274a0f6c000054/ce9531-11-paroxetine-decision.pdf.
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 2017.99 The CAT handed down its judgment on 8 March 2018, indicating that it had decided to refer questions to the ECJ in respect of each of the central issues. It made its Order for a preliminary reference to the ECJ 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 ECJ on this point;100
- **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 ECJ needed to be made;101
- **infringement by effect**: the CAT decided that it was necessary to refer a question to the ECJ 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;102
- **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 ECJ on this point;103 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 ECJ on abuse.104

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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99 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.

100 See [90]–[159] and [413]–[419] of the judgment.

101 See [160]–[326] of the judgment.

102 See [327]–[349] of the judgment.

103 See [379]–[409] of the judgment.

104 See [420]–[426] of the judgment.
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’). 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. Since then, the debate has moved on to contemplate the possibility of a ‘no-deal’ Brexit, the consequences of which would likely be even more significant. 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 or no-deal 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, together with the guidance that has been published to assist stakeholders in the event of a no-deal Brexit.

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, with the forthcoming Supreme Court decisions on appeal in the Unwired Planet and Conversant proceedings; there are also several SEP/FRAND cases listed to be heard in 2019 and the early part of 2020, including the TQ Delta case mentioned above. The ECJ 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.

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105 ‘The United Kingdom's exit from and new partnership with the European Union’ (Cm 9417) (2 February 2017).


Chapter 18

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 (IPRs) 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, Stephen Elliot and Rohini Tashima.
3 2017 Guidelines, Section 2.1.
5 Sherman Act, 15 USC Sections 1 and 2.
6 Clayton Act, 15 USC Section 18.
7 FTC Act, 15 USC Section 45.
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, 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 IP law in the United States.

II YEAR IN REVIEW

The 2018 calendar year 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 had 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 handset 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. In June 2017, the court denied Qualcomm’s motion to dismiss the FTC’s complaint. In mid-2018, the court granted summary judgment to the FTC holding that Qualcomm had a duty, based on its contractual (FRAND) commitments to standard setting organisations, to license rival chipmakers contrary to its policy of licensing only handset makers. On 21 May 2019, following a bench trial beginning in late 2018, the court issued its findings of fact and conclusions of law, holding that Qualcomm’s licensing policies violated both Section 1 and Section 2 of the Sherman Act. The court concluded that Qualcomm employed its monopolies in two modem chip markets to coerce mobile phone handset manufacturers to license its patents and pay ‘unreasonably high’ royalties and that Qualcomm violated an antitrust duty (in addition to its FRAND duty) to license its SEPs.
to rival modern chip manufacturers. The court enjoined Qualcomm from engaging in these practices going forward, and required it to renegotiate its prior licences. The court’s decision, if it stands on appeal, may well upend the cellular industry just as 5G is being implemented.\textsuperscript{13}

2018 also saw continued policy changes regarding IP antitrust enforcement at the DOJ and FTC. Assistant Attorney General Delrahim, the new head of the Antitrust Division at the DOJ, repeatedly stated that antitrust policy in the Agencies had swung too far 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. He also continued to promote a ‘New Madison’ approach for antitrust enforcement relating to SEPs that the patent owner has committed to license on FRAND terms, that he first announced in 2017, based on the following principles: (1) FRAND is not a compulsory licensing scheme; (2) unilateral refusals to license should be \textit{per se} lawful; (3) patent ‘hold-out’ 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 behaviour’.\textsuperscript{14} FTC chair, Joseph Simons, has indicated that he agrees at least in part with the DOJ’s new approach, saying in a September 2018 address that the FTC ‘agree[s] with the leadership of the Department of Justice Antitrust Division that a breach of a FRAND commitment, standing alone, is not sufficient to support a Sherman Act case, and the same is true even for a fraudulent promise to abide by a FRAND commitment’ and that the FTC also ‘agree[s] with the Division that hold-out in the standard-setting process can raise serious concerns under antitrust law when such hold-out is the result of collusion among potential adopters/licensees’.\textsuperscript{15} Simons’ views stand in contrast to those of former FTC Commissioner, Terrell McSweeny, who disapproved of the New Madison approach.\textsuperscript{16}

Courts also addressed other aspects of SEP licensing. In December 2017, a district court in California issued a 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.

\textsuperscript{13} \textit{FTC v. Qualcomm Inc}, No. 17-cv-00220, Dkt 1490 (N D Cal, 21 May 2019). Qualcomm has since filed a motion to stay the court’s decision pending an appeal to the Ninth Circuit.


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.\(^\text{17}\) Also in 2018, two district courts addressed and reached different conclusions on whether FRAND commitments require FRAND licences to be based on the smallest saleable patent practising unit of cellular handsets.\(^\text{18}\) In April 2018, another district court issued a decision in *Huawei v. Samsung*, granting an antisuit injunction blocking Huawei from enforcing an injunction granted by a Chinese court prohibiting Samsung from making or selling smartphones that the Chinese court held infringed two 4G LTE Chinese SEPs.\(^\text{19}\)

Courts were also busy in 2018 and early 2019 with a number of decisions revamping the contours of US patent law with implications for cases also raising competition issues. The Supreme Court allowed exceptions to the bar against antitrust claims by indirect-purchasers in *Apple Inc. v. Pepper*, holding that, while app developers set the prices of their products sold through Apple’s App Store, purchasers bought the products directly from Apple, and were thus permissible antitrust plaintiffs.\(^\text{20}\) In another decision, the Court ruled that patent owners may recover foreign lost profits in certain circumstances, reversing long-standing doctrine.\(^\text{21}\)

The Federal Circuit Court of Appeals, which is responsible for appeals from patent cases, ruled in 2018 that whether a patent may be held invalid for claiming unpatentable subject matter (such as abstract ideas or scientific principles) cannot generally be decided summarily, before fact issues have been resolved.\(^\text{22}\) That Court also held that its exclusive jurisdiction over patent cases does not extend to ‘Walker Process’ antitrust claims, where the anticompetitive conduct is premised upon the attempted enforcement of a fraudulently obtained patent.\(^\text{23}\)

Courts also issued antitrust decisions regarding patent assertion entities, which may aggregate large portfolios of patents in order to license or enforce them through litigation. In *Intellectual Ventures*, the plaintiff alleged that Intellectual Ventures’ anticompetitive conduct included securing a large portfolio of banking patents, concealing the contents of that portfolio so that the banks could not determine if they needed a licence, and then serially litigating against banks to license the entire portfolio for high royalties. The district court refused to reject the plaintiff’s market definition, which claimed the entire portfolio as a relevant market, and expressed concern about Intellectual Ventures’ conduct, but dismissed

\(^{17}\)  *TCL Communication Technology Holdings v. Telefonaktiebolaget LM Ericsson*, No. SACV 14-341, 2017 WL 6611635 (C D Cal, 21 December 2017).

\(^{18}\)  *FTC v. Qualcomm, Inc*, No. 17-cv-00220, Dkt 1490 (N D Cal, 21 May 2019) (finding that royalties should be based on the smallest saleable patent practising unit – modem chips); *HTC Corp v. Telefonaktiebolaget LM Ericsson*, 2019 WL 126980 (E D Tex, 7 January 2019) (concluding that FRAND commitment does not require the FRAND licence to be based on the smallest saleable patent practising unit).


\(^{21}\)  *WesternGeco LLC v. 101 Geophysical Corp*, 138 S Ct 2129, 2139 (2018).

\(^{22}\)  *Aatrix Software, Inc v. Green Shades Software, Inc*, 882 F 3d 1121, 1125 and 1126 (Fed Cir 2018); *Berkheimer v. HP Inc*, 881 F 3d 1360, 1369 and 1370 (Fed Cir 2018).

\(^{23}\)  *Xitronix Corp v. KLA-Tencor Corp*, 882 F 3d 1075 (Fed Cir 2018).
the antitrust claims on First Amendment and collateral estoppel grounds. In *Cascades*, a
patent assertion entity brought antitrust claims against companies that refused to license its
patents. The court dismissed the claims after the patent was found not infringed, a decision
upheld by the Ninth Circuit.

**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
Products v. PSKS* that minimum resale price maintenance, the practice of setting a minimum
price at which a good can be resold, is not *per se* illegal (as had been reflected in the 1995
Guidelines), but must instead be analysed under the rule of reason.

The 2017 Guidelines also clarified the parameters of the antitrust ‘safety zone’, a
document 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. Practitioners should be aware

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24 280 F Supp 3d 691 (D Md 2017).
25 *Cascades Computer Innovation v. RPX Corp*, No. 12-CV-01143, 2013 WL 6247594 (N D Cal,
26 2017 Guidelines, Section 2.3.
29 2017 Guidelines.
30 id. at Section 3.1.
31 id. at Section 3.4.
32 id. at Section 5.2; see *Leegin Creative Leather Products, Inc v. PSKS, Inc*, 551 US 877 (2007).
33 2017 Guidelines, Section 4.3.
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.

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.34 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 a 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’).35 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.36

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 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

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36 Ericsson, Inc, 773 F 3d at 1209.
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.\(^37\) 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.\(^38\)

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,\(^39\) currently there is less guidance in the United States. While several district courts – most recently in the 2018\(^40\) and 2019\(^41\) TCL decisions and the 2019 Ericsson decision\(^42\) – and one appellate court\(^43\) 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.\(^44\) 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

\(^{37}\) Broadcom Corp. v. Qualcomm, Inc, 501 F 3d 297 (Third Circuit 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 (First Circuit 2017) (citing Allied Tube & Conduit Corp v. Indian Head, Inc, 486 US 492 (1988)).

\(^{38}\) See footnote 34.


\(^{40}\) No. SACV 14-341, 2018 WL 4488286 (C D Cal, 14 September 2018).

\(^{41}\) Godo Kaisha IP Bridge 1 v. TCL Communication Tech Holdings Ltd, No. 15-634, 2019 WL 1877189 (D Del, 26 April 2019) (leaving in place the jury’s determination of FRAND royalty rate).

\(^{42}\) HTC Corp v. Telefonaktiebolaget LM Ericsson, No. 18-cv-00243, Dkt 538 (E D Tex, 23 May 2019) (finding that Ericsson’s offers to HTC were fair, reasonable and non-discriminatory).

\(^{43}\) Microsoft Corp v. Motorola, Inc, 795 F 3d 1024 (Ninth Circuit 2015).

\(^{44}\) In Qualcomm, the district court held that Qualcomm’s rates were ‘unreasonably high’ and thus not FRAND, but did not determine the FRAND rate Qualcomm should have charged.
technologies incorporated into the IEEE 802.11 Wi-Fi standard.\(^45\) 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.\(^46\) The \textit{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.\(^47\) The \textit{CSIRO} decision’s focus on actual quantitative evidence is thus consistent with the Federal Circuit’s 2014 decision in \textit{Ericsson v. D-Link}. \textit{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.\(^48\) In January 2019, the US District Court for the Eastern District of Texas held that the FRAND commitment does not require a FRAND licence to be based on the smallest saleable patent practising unit.\(^49\) In contrast, the \textit{FTC v. Qualcomm} court granted the FTC’s motion for partial summary judgment in November 2018, holding that FRAND licensing obligations required Qualcomm to license its SEPs to competing modem chip suppliers.\(^50\) The same Court later found, in May 2019, that basing royalties on handset value, rather than on the value of modem chips, was contrary to the Federal Circuit’s approach to royalty apportionment and that modem chips were the smallest saleable patent practising unit in cellular handsets.\(^51\)

\section*{V \hspace{1em} INTELLECTUAL PROPERTY AND MERGERS}

In the United States, all mergers and acquisitions, whether or not they involve transfers of IPRs, must comply with Section 7 of the Clayton Act, which prohibits mergers and acquisitions that substantially lessen competition or tend to create a monopoly.\(^52\) 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).\(^53\) 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.

\begin{itemize}
\item \(^45\) \textit{Commonwealth Scientific and Industrial Research Organisation v. Cisco Systems, Inc}, 809 F 3d 1295 (Fed Cir 2015).
\item \(^46\) 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; see footnote 14.
\item \(^47\) id.
\item \(^48\) \textit{Ericsson v. D-Link}, 773 F 3d 1201, 1234 (Fed Cir 2014).
\item \(^49\) \textit{HTC Corp v. Telefonaktiebolaget LM Ericsson}, No. 18-cv-00243, Dkt No. 376, at 12 (E D Tex, 7 January 2019).
\item \(^50\) \textit{FTC v. Qualcomm, Inc}, No. 17-cv-00220, Dkt 792 (N D Cal, 6 November 2018).
\item \(^51\) \textit{FTC v. Qualcomm, Inc}, No. 17-cv-00220, Dkt 1490, at 202 (N D Cal, 6 November 2018).
\item \(^52\) Clayton Act, 15 USC Section 18.
\item \(^53\) 15 USC Section 18a.
\end{itemize}

\footnotesize
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Furthermore, the 2017 Guidelines state the Agencies’ position that complete sales of IPRs 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 as requiring the acquirer to agree to divest certain IPRs. 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 Food and Drug Administration (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. As a general matter, any payments to generic drug manufacturers by brand-name producers are evaluated under the rule of reason because this conduct can have pro-competitive effects. While petitioning the

54 2017 Guidelines, Section 5.7.
57 See Apotex Inc v. Acorda Therapeutics, Inc, 823 F 3d 51 (Second Circuit 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. Remarks at the American Bar Association’s Fall Forum, Maureen K Ohlhausen, reported in Law360, 16 November 2017, available at www.law360.com/articles/986119/ftc-sohlhausen-sees-light-at-end-of-pay-for-delay-tunnel.
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.59

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.60 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 (AG)) to compete with Opana and Lidoderm, once the generic versions finally did hit the market.61 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 payment.62 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 maintained the cases against Impax and Watson.63 Following trial against Impax, an administrative law judge dismissed the FTC’s claims, holding that (1) Impax likely would not have entered the market earlier, (2) the risk of harm from the settlement was ‘largely theoretical,’ even though it included a payment to prevent the risk of competition, and (3) the pro-competitive benefits of the settlement were substantial.64

VII OUTLOOK AND CONCLUSIONS

While still too early for a definitive conclusion, it appears that the regulatory pendulum may be moving in a more favourable position than in previous administrations towards patent holders, although the recent Qualcomm decision appears to be contrary to this trend.

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, the 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.


61 id.

62 id.


Appendix 1

ABOUT THE AUTHORS

RAIS AMILS
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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 upon graduation 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. She has published various articles on a wide array of intellectual property and competition law topics. She has been featured in The Legal 500 in the ‘Next generation lawyers’ category and in Managing Intellectual Property as an ‘IP Rising Star’.

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Gaurav Bansal is a senior associate in the competition law practice group at AZB & Partners. Gaurav has represented clients in several antitrust investigations covering complex cartels investigations, anticompetitive vertical restraints and abuse of dominance. He has also advised clients on a number of global transactions and on some of the most complex merger control
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Gaurav regularly writes on competition law-related issues for leading global journals. He has also been invited to give lectures on competition law, including at Indian Institute of Corporate Affairs.

Prior to joining AZB & Partners, Gaurav has previously worked in-house at one of India’s largest conglomerates and was associated with Tata Group Legal. Gaurav earned his BA LLB at Maharaja Sayajirao University of Baroda in 2010, and completed his LLM in corporate and financial law at Jindal Global Law School in 2012.

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Garrard Beeney is co-head of the firm’s intellectual property and technology group and a member of the firm’s managing partners committee. Mr Beeney has been inducted as a Fellow of the American College of Trial Lawyers. He was counsel in the two major patent cases that were argued before the US Supreme Court in 2016.

Mr Beeney has litigated intellectual property and licensing cases throughout the country in both federal and state courts. Mr Beeney also represents clients before US and European competition law authorities, particularly in the area of the intersection between intellectual property and competition laws.

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 Commonwealth of Independent States (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.

Maxim was chosen as one of the leading practitioners in Russia in the competition and antitrust sphere according to Best Lawyers, Global Competition Review 100 and Client Choice, and has been ranked by Chambers and Partners and Legal 500 legal directories since 2012.
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In areas of antitrust other than the telecommunications and broadcasting sector, Mr Cárdenas 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, and telecommunications, media and technology, which enables him to keep clients abreast of legal developments in a timely fashion. He has represented or provided legal counsel 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, including 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 practice concentrates on the defence of merger transactions, acquisitions and joint ventures before the competition authorities, investigations into anticompetitive and anti-dumping practices, compliance, anticorruption rules, drafting and negotiating corporate acquisition contracts and related documents and advice on corporate and contractual matters.

Between 1998 and 1999, he worked as a foreign associate for Skadden, Arps, Slate, Meagher & Flom (New York) and Haynes & Boone (Houston). In 2000, he was admitted to the Bar of the state of New York.

As a specialist in competition law, he has frequently been recognised by publications such as Chambers Latin America, Best Lawyers, Practical Law, Guide to the World’s Leading Competition and Antitrust Lawyers, International Who’s Who of Competition Lawyers and Economists and Latin Lawyer.

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He is consistently ranked among leading antitrust lawyers in Italy according to independent commentators such as Chambers and Partners. Luciano has more than 20 years’ expertise in this field and provides advice to domestic and international clients in antitrust matters in the food and beverage, retail, insurance, energy and telecommunications sectors. Before joining Clifford Chance in 2013, he spent 10 years at the Italian Competition Authority (ICA) – for two of which he was the ICA’s seconded national expert at the European Commission’s Directorate General of Competition. During his time at the ICA, among other activities, he led teams conducting dawn raids at company premises. He has also worked for a decade as antitrust partner at Bonelli Erede Pappalardo, one of the leading domestic Italian law firms.
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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, IP Com 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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Samir Gandhi is a partner at AZB & Partners. He heads the firm’s competition law practice in New Delhi, and deals with a broad range of competition law and policy issues, as well as international trade and WTO matters.

Samir has worked closely with the Competition Commission of India (CCI) as its counsel at various courts and tribunals, including the erstwhile Competition Appellate Tribunal, the National Company Law Appellate Tribunal, the Delhi High Court and the Supreme Court of India. He has also advised clients, both as complainants and as defendants, in several behavioural cases before the CCI and appellate courts.

Samir’s experience includes defending several companies in complex cartel and dominance cases in sectors such as internet search and advertising, telecommunications, broadcast distribution, automobiles and ports.

AZB & Partners has one of India’s top merger filing practices and Samir has successfully obtained CCI clearances for a number of contentious merger filings since the enforcement of the merger control provisions in India. Samir also routinely advises leading Indian companies, multinational corporations and industry associations on their competition compliance programmes. He has also been involved in formulating competition policy for the Islamic Republic of Afghanistan.

As a member of the antitrust sections of the International Bar Association and the American Bar Association, Samir frequently publishes and speaks on competition law. He is also part of the Confederation of Indian Industry’s group on competition law.

Samir is ranked as a Band 1 lawyer by Chambers and Partners (Asia Pacific) and Chambers Global. Samir features on the list of recommended lawyers for competition and antitrust law by Who’s Who Legal in 2016. Samir is also listed as a leading competition lawyer in India by PLC’s Competition & Leniency Multi-jurisdictional Guide and Asialaw Leading Lawyers and was nominated by Global Competition Review in its list of ‘40 under 40’ leading competition lawyers worldwide.

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She also has experience in drafting merger notifications to the European Commission and the (UK’s erstwhile) Office of Fair Trading in global transactions and has also advised on various contentious and non-contentious competition law issues, including compliance mandates and audits.

She has contributed to international and domestic publications and to leading Indian newspapers on competition law issues. Aditi also participates in policy discussions, which include representations to the CCI on proposed amendments to the Competition Act and associated Regulations. Aditi completed her BA (Hons) in Economics in 2006 and LLB from Campus Law Centre, University of Delhi in 2010. She finished her Masters in Law (LLM) with an antitrust specialisation from the New York University School of Law in 2011.

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Mr Gönenç Gürkaynak is a founding partner of ELIG Gürkaynak Attorneys-at-Law, a leading law firm of 90 lawyers based in Istanbul, Turkey. Mr Gürkaynak graduated from Ankara University, Faculty of Law in 1997, and was called to the Istanbul Bar in 1998. Mr Gürkaynak received his LLM degree from Harvard Law School, and is qualified to practise in Istanbul, New York and Brussels, as well as in England and Wales, where he is currently a non-practising solicitor. Before founding ELIG Gürkaynak Attorneys-at-Law in 2005, Mr Gürkaynak worked as an attorney at the Istanbul, New York and Brussels offices of a global law firm for more than eight years.

Mr Gürkaynak heads the competition law and regulatory department of ELIG Gürkaynak Attorneys-at-Law, which currently consists of 45 lawyers. He has unparalleled experience in Turkish competition law counselling issues, with more than 20 years of competition law experience, starting with the establishment of the Turkish Competition Authority. Every year, Mr Gürkaynak represents multinational companies and large domestic clients in more than 35 written and oral defences in investigations of the Turkish Competition Authority, approximately 15 antitrust appeal cases in the high administrative court and over 85 merger clearances of the Turkish Competition Authority, in addition to coordinating various worldwide merger notifications, drafting non-compete agreements and clauses, and preparing hundreds of legal memoranda concerning a wide array of Turkish and EC competition law topics.

Mr Gürkaynak frequently speaks at conferences and symposia on competition law matters. He has published more than 150 articles in English and Turkish with various international and local publishers. Mr Gürkaynak also holds teaching positions at undergraduate and graduate levels at two universities and gives lectures in other universities in Turkey.

**RENATA B HESSE**

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Renata Hesse is a member of the firm’s litigation group. Her practice focuses on antitrust counselling, cartels and merger clearance. Ms Hesse is frequently recognised as a leading and influential antitrust lawyer, with a particular emphasis on the intersection of antitrust and intellectual property matters in high-tech industries. She is the incoming International Officer of the American Bar Association Antitrust Section and is a frequent speaker at antitrust and legal forums.
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 on 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 has worked extensively with antitrust and competition law enforcement agencies at the highest levels across Asia, Europe, Australia and Latin America.

TOMOKI ISHIARA
*Sidley Austin Nishikawa Foreign Law Joint Enterprise*

Mr Ishiara's practice areas include intellectual property law, antitrust law, telecommunications, data security and privacy law, entertainment law, compliance/investigation, litigation and arbitration. Mr Ishiara has extensive experience in the field of intellectual property law and antitrust law, including giving advice to clients on patent, utility model, design patent, copyright and trademark matters (including advice on employee invention rules), engaging in licensing negotiations and litigations (including actions to annul the trial decisions at the IP High Court and trials for patent invalidation at the Japanese Patent Office), and dealing with M&A transactions.

THOMAS JONES
*Bird & Bird*

Thomas Jones is a partner at Bird & Bird in Sydney, Australia. Mr Jones has particular expertise in competition and commercial law, with deep expertise in telecommunications, regulatory and infrastructure access matters. Mr Jones provides clients with strategic advice on all aspects of regulatory regimes, including the design and implementation of new regimes, access agreements, revenue regulation and, where necessary, challenging decisions of the regulator to achieve the client’s desired outcome. He has been recognised as an Acritas Star since 2018, as well as being ranked in *Chambers and Partners Asia-Pacific* for his telecommunications sector expertise.

An active member of the Law Council's Competition and Consumer Law Committee, Mr Jones is also the founder and director of the Sydney Lawyers Orchestra.

DARU LUKIANTONO
*Hadiputran, Hadinoto & Partners*

Daru Lukiantono is the head of the intellectual property practice group at Hadiputran, Hadinoto & Partners. Daru has more than 20 years’ experience behind him, and he leads the firm’s sizeable IP team. He advises domestic and international clients on the full range of contentious and non-contentious intellectual property work, covering trademarks, patents, copyrights, industrial design, trade secrets, layout designs of integrated circuits, and plant varieties. He has robust skills in handling commercial intellectual property-related
transactions, including licensing, intellectual property rights, acquisition, franchising, domain names and information technology issues, and intellectual property litigation, as well as dealing with a number of anti-counterfeiting projects in several major cities in Indonesia.

Daru is an intellectual property practitioner who has experience in complex intellectual property due diligence and management cases. Moreover, he possesses a range of experience in patent prosecution, patent portfolio management, commercial patent work and patent litigation.

CARLOS MAINERO RUÍZ

White & Case, SC

Carlos Mainero is a local partner at White & Case, SC in Mexico City. Mr Mainero joined the Mexico City office of the firm in 2003, and was promoted to junior associate in 2006. In 2009, Mr Mainero joined the New York office of the firm (2009–2010), participating primarily in capital markets deals involving Latin American issuers. Mr Mainero's practice is primarily focused on capital markets, bank finance and M&A transactions, including advising Mexican and foreign issuers in the public offering of securities on the Mexican Stock Exchange, as well as 144A and Regulation S private offerings by Mexican issuers. His practice also includes advising lenders and borrowers in syndicated loan agreements and the creation and perfection of collateral over assets located in Mexico. Mr Mainero has also participated in a number of M&A transactions, with a particular focus on the competition and antitrust aspects of those deals.

Mr Mainero obtained his master's degree in banking and financial law from Boston University in 2009, and his bachelor's degree from the Panamerican University in 2006. Mr Mainero also obtained certification for his participation in the Antitrust Legal Workshop organised by the International Chamber of Commerce and the Ibero-American University in 2013. Mr Mainero became a local partner at White & Case, SC in January 2017.

BENOÎT MERKT

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Doctor Benoît Merkt is a leading expert in competition law and is renowned for his first-rate practice. He specialises in all areas of Swiss and European merger-control work and competition law, notably in the banking and finance, energy, high-tech, infrastructure (electricity), consumer goods, chemicals, luxury goods, car distribution, public broadcasting and retail sectors. He has been responsible for a large number of merger notifications to the Swiss Competition Commission and coordinated multi-jurisdictional merger filings. Benoît Merkt advises in contentious and non-contentious matters and has acted in high-profile cases on alleged abuses of dominant position, vertical restraints, cartels and public procurement.

Benoît Merkt is also one of the leading Swiss law practitioners in the field of tax-exempt/non-profit organisations. He heads the firm's practice in this field. He has incorporated major foundations and associations of international scope, and regularly advises clients with respect to the structuring and implementation of charitable projects in Switzerland and abroad.
FLORENCE NINANE

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Florence Ninane is a partner in Allen & Overy LLP’s competition department. Florence has significant experience in the areas of French and European competition law (mergers, antitrust and state-aid issues) and has developed a specific expertise in distribution law matters.

She regularly assists companies with their French, EU and multi-jurisdictional merger notifications. She has developed a specific expertise in the digital, energy and financial sectors, as well as in the consumer goods sectors, and has been advising various operators in these areas.

Florence also represents companies in competition law litigation before competition authorities and national courts (in cartel investigations and abuse-of-dominance, state aid and private enforcement matters).

JANE OWEN

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Jane Owen is a partner at Bird & Bird in Sydney, Australia, where she is the partner in charge of the intellectual property practice.

Ms Owen has over 25 years’ experience advising and representing clients on all aspects of intellectual property law. This includes portfolio establishment, IP strategisation, commercialisation, enforcement and contentious IP, patent litigation, complex patent infringement or revocation, trademarks and passing off, design infringement, disputes on ownership of IP and appeals from decisions of the Commissioner of Patents and the Registrar of Trade Marks.

Ms Owen regularly presents on IP issues at continuing professional development and industry-based events and is ranked in publications such as *WTR 1000*, *The Legal 500 – Asia-Pacific* and *IAM Patent 1000* as a leading enforcement, litigation, prosecution and strategy lawyer. Ms Owen’s team was awarded IP Specialist Firm of the Year at the 2017 Australasian Law Awards.

DAVID POR

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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 Unified Patent Court judges on the patentability of pharmaceutical and biotechnological inventions and on Articles 123(2) and 123(3) of the European Patent Convention. He has also become a specialist in the interplay between intellectual property and competition law.
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Diego Ramírez 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 was previously 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 in 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.

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 in Sydney, Australia, where she is a key senior member of the firm’s competition practice 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, also qualified at the Irish Bar, whose practice, encompassing EU and competition law, builds on her experience as a judicial assistant at the United Kingdom Supreme Court as well as her knowledge of French, German and Spanish. She acted for GSK in its appeal against the fine levied by the Competition and...
About the Authors

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 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. Thomas 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 and the Cologne Commentary on Cartel Law and he has published a handbook on cartel investigations and risk management for undertakings. Jörg is a member of Studienvereinigung Kartellrecht, the German association of leading competition law experts, and of GRUR, the German Association for the Protection of Intellectual Property, where he is active on the subcommittee on cartel law.

Jörg is a native German speaker, and is fluent in English and French.
Appendix 2

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