

THE INTELLECTUAL  
PROPERTY AND  
ANTITRUST  
REVIEW

SECOND EDITION

Editor  
Thomas Vinje

THE LAWREVIEWS

THE INTELLECTUAL  
PROPERTY AND  
ANTITRUST  
REVIEW

2ND EDITION

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# THE LAW REVIEWS

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# PREFACE

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 second 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, Milena Robotham and Axelle D’heygere for their important contributions to this second edition of *The Intellectual Property and Antitrust Review*.

**Thomas Vinje**  
Clifford Chance LLP  
Brussels  
July 2017

# AUSTRALIA

*Kathryn Edghill and Jane Owen*<sup>1</sup>

## I INTRODUCTION

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

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

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

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

The precise extent of the Section 51(3) exception is unclear and has been the subject of relatively little judicial comment. In *Transfield Pty Ltd v Arlo International Ltd*,<sup>2</sup> Mason J of the Australian High Court stated, in *obiter dicta*, that Section 51(3) goes no further than determining the scope of restrictions that a patentee may properly impose on use of the patent but not conditions that are collateral to the patent. This is to be contrasted with the decision in *ACCC v Pfizer Australia Pty Ltd*<sup>3</sup> in which the Federal Court held that the Section should not be given a narrow construction.

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

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1 Kathryn Edghill and Jane Owen are partners at Bird & Bird.

2 (1980) 144 CLR 83.

3 [2015] FCA 113.

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

## II YEAR IN REVIEW

On 20 December 2016, the Australian Productivity Commission released its report on its inquiry into intellectual property (IP) arrangements in Australia, *Intellectual Property Arrangements: Productivity Commission Inquiry Report: Overview & Recommendations*.<sup>4</sup> The report recommended that ‘Commercial transactions involving IP rights should be subject to competition law. The current exemption under the Competition and Consumer Act is based on outdated views and should be repealed’ and found that ‘Recognising that competition and IP policy are not at odds, a better approach would allow the ACCC to address any anticompetitive conduct, while minimising uncertainty for rights holders and licensees. Repealing the exemption, combined with ACCC guidance on the application of competition law to IP transactions, would achieve this outcome.’<sup>5</sup> At the time of writing, draft legislation to amend the CCA has not included the repeal of Section 51(3) of the CCA and, accordingly, it remains to be seen whether this important recommendation will be implemented.

In terms of cases concerning the interplay between intellectual property and competition laws, the most significant event (or, more accurately, non-event) of the past year is that judgment on the appeal by the ACCC to the Full Federal Court from the decision of the Federal Court in *Australian Competition & Consumer Commission v. Pfizer Australia Pty Ltd*<sup>6</sup> remains undelivered, despite the fact that the appeal was heard in late November 2015. The ACCC appealed the findings at first instance that Pfizer had not misused its market power in breach of Section 46 of the CCA and engaged in exclusive dealing in breach of Section 47 of the CCA as a result of steps taken to minimise loss of market share to generics following the expiry of its atorvastatin patent. Those steps, taken in anticipation of intense competition from generics, to minimise expected declines in revenue, included restructuring its marketing and distribution arrangements to allow it to sell direct to pharmacies, and restructuring its rebates and discounts. The Court at first instance found that this conduct did not amount to misuse of market power because Pfizer lacked the requisite anticompetitive purpose and that it did not amount to exclusive dealing because its offer of discounts and rebates to pharmacies that purchased directly from Pfizer lacked the requisite conditionality and did not have a purpose of substantially lessening competition. Judgment on the appeal is much anticipated.

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4 [www.pc.gov.au/inquiries/completed/intellectual-property/report](http://www.pc.gov.au/inquiries/completed/intellectual-property/report).

5 Australian Government Productivity Commission, *Intellectual Property Arrangements: Productivity Commission Inquiry Report: Overview & Recommendations*, op. cit., at pp. 2 and 23, respectively.

6 (2015) FCA 113.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

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

- a the prohibition on the making or giving effect to agreements, arrangements or understandings that have the purpose, effect or likely effect of substantially lessening competition in a market (Section 45 of the CCA), but only if it does not fall within one of the exceptions in Section 51(3);
- b the prohibition on exclusive dealing in Section 47 of the CCA (by, for example, the holder of an intellectual property right making the licensing of the right conditional on the acquirer accepting a restriction on its rights to deal with competitors), but, again, only if it does not fall within one of the exceptions in Section 51(3);
- c the prohibition on the making and giving effect to provisions of agreements between competitors by which one or more is restricted, prevented or limited from supplying goods or services to, or acquiring goods or services from, particular persons or classes of person (a primary boycott), which is also prohibited (Section 4D/Section 45 of the CCA), but, again, only if it does not fall within one of the exceptions in Section 51(3); or
- d the prohibition on misuse of market power in Section 46 of the CCA (which is not subject to the exception in Section 51(3)).

#### ii Refusals to license

Australian competition law does not oblige a party to license its intellectual property rights. While a refusal to license by a party that has a substantial degree of market power, done for the purpose of substantially damaging or eliminating a competitor or preventing or hindering a party from entering into or competing in a market, may be a misuse of market power in breach of the current Section 46 of the CCA, the Australian High Court in *Melway Publishing Pty Ltd v. Robert Hicks Pty Ltd*<sup>7</sup> has recognised that, where a party is otherwise entitled to do so without contravention of the CCA, it is not the purpose of Section 46 to dictate how that party should choose its licensees.<sup>8</sup> Whether that reasoning holds true if Section 46 is amended, as discussed in Section IV.i, below, to replace the current 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 the current Section 46 of the CCA, if engaged in by a company with a substantial degree of market power for the purpose of substantially damaging or eliminating a competitor or preventing or hindering a person from entering or competing in a market;

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7 (2001) 205 CLR 1.

8 *Ibid.*, at [17].

- b the prohibition on unconscionable conduct contained in Section 21 of the Australian Consumer Law, which is Schedule 2 to the CCA, particularly where the party imposing the unfair and discriminatory licensing is in a stronger bargaining position than the licensee or where undue influence or pressure is brought to bear; and
- c the prohibition on unfair contract terms in standard form consumer contracts or small business contracts contained in Section 25 of the Australian Consumer Law.

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

#### **iv Patent pooling**

The aggregation of patent rights that are then offered as a joint package and portfolio cross-licensing of patents have been recognised by the ACCC as having the potential to give rise to competition concerns.<sup>9</sup> These concerns include cartel conduct, through facilitation of price-fixing, coordinated output restrictions among competitors; substantial lessening of competition, where there is foreclosure of innovation; and the enabling of the exercise of market power. Notwithstanding the identification of these concerns, no case has been brought before the Australian courts in which allegations of breach of competition laws arising from patent pooling and cross-licensing have been determined.

#### **v Software licensing**

Australian competition law does not contain any provisions that are specific to software licensing. However, in *ACCC v. Valve Corporation (No. 3)*,<sup>10</sup> the Federal Court held that licence agreements under which consumers access certain software constituted a supply of goods for the purposes of the CCA, meaning that software licences are subject to the consumer guarantee provisions of the CCA.

#### **vi Trademark licensing**

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

### **IV STANDARD-ESSENTIAL PATENTS**

To date, Australian courts have not delivered any decisions in which standard-essential patents (SEPs) have been enforced. Similarly, no Australian court has yet delivered judgment on the question of whether conduct involving SEPs amounts to a breach of the Australian competition laws. Rather, there has been one case in respect of SEPs declared essential in respect of certain 3GPP standards, which was commenced and then settled within 18 months

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<sup>9</sup> ACCC Submission to the Productivity Commission Inquiry into Intellectual Property Arrangements in Australia (November 2015), at p. 9.

<sup>10</sup> [2016] FCA 196.

after issue,<sup>11</sup> and the long-running *Apple v. Samsung* dispute,<sup>12</sup> which was settled after the completion of an unprecedented number of trial-hearing days over an 11-month period, imminently hours before the judgment was due to be handed down by the Federal Court.

For this reason, it remains only conjecture as to whether the reasoning of the European Commission in *Huawei*<sup>13</sup> 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 fair, reasonable, and non-discriminatory (FRAND) terms undertaking of a patentee. In this regard, the recent decision of Birss J of the High Court of Justice in *Unwired Planet*<sup>14</sup> provides a sound prediction of the approach of Australian courts: ‘As a matter of French Law, the FRAND undertaking to ETSI is a legally enforceable obligation which any implementer can rely on against the patentee. FRAND is justiciable in an English court and enforceable in that court.’<sup>15</sup>

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 is not on abuse of dominance but rather on a company with a substantial degree of power in an Australian market using or taking advantage of that power for the purpose of eliminating or substantially damaging a competitor, preventing the entry of a person into a market or deterring or preventing a person from competing in a market. At the time of writing, proposed amendments to the Section are currently before the Australian Parliament. The amendments would replace the current purpose test with a test of having the purpose, effect or likely effect of substantially lessening competition in a market.

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 Section 46 of the CCA. Unfortunately (for jurisprudence in the area, at least), the case was settled before judgment was delivered and no indication has been given of the court’s likely attitude to the claim.

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

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11 *Vringo Infrastructure Inc v. ZTE (Australia)* NSD1010/2013.

12 *Apple Inc. & Anor v. Samsung Electronics Co. Limited & Anor* NSD 1243/2011.

13 *Huawei Technologies Co Ltd v. ZTE Corp* ECLI:EU:C:2015:477.

14 *Unwired Planet Ltd v. Huawei Technologies Co Ltd & Anor* [2017] EWHC 711 (Pat).

15 *Ibid.*, at [806].

Where SEPs are truly essential to a relevant standard and allow the holder to act in a manner unconstrained by its competitors,<sup>16</sup> 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 one of the proscribed purposes, or, if, as expected, the amendment referred to above passes into law, 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.<sup>17</sup> The Australian courts have invariably ordered that conduct infringing a patent be restrained by issuing an injunction. In two recent cases in the pharmaceutical area, judges of the Federal Court have expressed, *obiter dicta*, support for a view that the scope of an injunction may not be absolute in all circumstances of a finding of patent infringement.<sup>18</sup> 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.'<sup>19</sup>

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 one of the proscribed purposes in Section 46. 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 under the current law where the patentee has not offered FRAND terms and holds one of the proscribed purposes, as was the case *Apple* alleged against *Samsung*, or under the proposed amendments, where all that is required would be an effect or likely effect of substantially lessening competition in a market.

## iii Licensing under FRAND terms

The question of whether an offer to license SEPs on non-FRAND terms was a breach of Section 46 of the CCA was raised, but not determined in the *Apple v. Samsung* case. Indeed,

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16 e.g., *Melway Publishing Pty Ltd v. Robert Hicks Pty Ltd*, op. cit., at [67].

17 Section 13 Patents Act 1990 (Cth).

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] FCFCFA 99 at 444.

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’.<sup>20</sup>

#### **iv Anticompetitive or exclusionary royalties**

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

- a* the prohibition on misuse of market power in the current Section 46 of the CCA, if engaged in by a company with a substantial degree of market power for the purpose of substantially damaging or eliminating a competitor or preventing or hindering a person from entering or competing in a 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 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 using one of two formal processes (authorisation and formal clearance) or making an informal clearance application to the ACCC. The two formal processes are rarely used, with the vast majority of parties using the informal clearance

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20 ACCC Submission to the Productivity Commission Inquiry into Intellectual Property Arrangements in Australia at <https://www.accc.gov.au/system/files/ACCC%20Submission%20-%20PC%20inquiry%20into%20IP%20arrangements%20in%20Australia%20-%2030%20November.pdf>, p. 11.

process. The ACCC has issued Informal Merger Review Process Guidelines,<sup>21</sup> which set out the administrative steps relevant to an informal merger clearance review, and Merger Guidelines,<sup>22</sup> 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. On occasions this requires the parties to agree to divest certain assets including, but not limited to, intellectual property. The agreement to do so usually takes the form of the provision of a court enforceable undertaking to the ACCC pursuant to Section 87B of the CCA. Two recent merger clearances that have involved the divestiture of intellectual property include:

- a DowDuPont Inc's proposed acquisition of EI du Pont de Nemours and Company and The Dow Chemical Company – in this matter the ACCC raised concerns that 'a potential effect of a merger between two originators (such as Dow and DuPont) is to reduce the rate of innovation by lessening competition between originator companies',<sup>23</sup> but concluded that DowDuPont Inc's divestiture commitments to the European Commission, which included divestiture of certain businesses including intellectual property, would address any competition concerns in Australia.<sup>24</sup>
- b Iron Mountain Incorporated's proposed acquisition of Recall Holdings Limited (2016) – in this matter Iron Mountain undertook to divest most of its Australian business including, relevantly, ownership of, or licences to use, operational, invoice, human resources and finance systems necessary for its business, and all permits and licences granted to it to carry on a physical document management service and a digital document management service in Australia.<sup>25</sup>

## 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.<sup>26</sup>

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

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21 Available at <https://www.accc.gov.au/publications/informal-merger-review-process-guidelines-2013>.

22 Available at <https://www.accc.gov.au/publications/merger-guidelines>.

23 ACCC Statement of Issues, dated 3 November 2016, on the proposed merger of The Dow Chemical Company and EI du Pont de Nemours and Company.

24 <http://registers.accc.gov.au/content/index.phtml/itemId/1202487/fromItemId/751046>.

25 <http://registers.accc.gov.au/content/index.phtml/itemId/1194800/fromItemId/751046>.

26 Sections 11 and 12 Civil Dispute Resolution Act 2011 (Cth).

engaged in unjustified threats of infringement contrary to Section 128 of the Patents Act. In *CQMS Pty Ltd v. Bradken Resources Pty Limited*<sup>27</sup> Drummond J found that issue by the patentee of ‘Notice of Federal Court Proceedings’ to the alleged infringer’s customers that said that its ‘claim of patent infringement [. . .] is in part, based on supplying product to their customers whereby those customers’ use of that product results in [. . .] customers infringing’<sup>28</sup> was an unjustified threat that entitled the respondent to an injunction and damages.

Notably, the mere commencement and prosecution of patent infringement proceedings subsequent to the issue of a threat does not render earlier threats of infringement justifiable.<sup>29</sup> This is in contradistinction to the defence arising for unjustified threats of trademark infringement by the commencement of infringement proceedings.<sup>30</sup>

## ii Misuse of the patent process

The ACCC has recognised that ‘Patents can be used to impose large costs on businesses that need access to licences or filed defensively to stall or exclude the entry of competitors or products. They can also impose costs on society by providing supernormal returns for patent holders, particularly if they are excessively long in duration’ and that ‘if patent protections extend too broadly, and if there are inadequate avenues to access patents on reasonable terms and conditions, then this has the potential to seriously undermine sequential innovation and thus reduce dynamic efficiency’.<sup>31</sup>

## 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 patent expiry of its atorvastatin patent in 2012.<sup>32</sup> 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.<sup>33</sup>

In its report on its inquiry into intellectual property arrangements in Australia,<sup>34</sup> the Productivity Commission raised pay-for-delay settlements as a potential issue in Australia

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27 *CQMS Pty Ltd v. Bradken Resources Pty Limited* [ 2016 ] FCA 847.

28 *CQMS Pty Ltd v. Bradken Resources Pty Limited* [ 2016 ] FCA 847At 171.

29 *CQMS Pty Ltd v. Bradken Resources Pty Limited* [2016] FCA 847At 177.

30 Section 129(5) Trade Marks Act 1995 (Cth).

31 ACCC Submission to the Productivity Commission Inquiry into Intellectual Property Arrangements in Australia at <https://www.accc.gov.au/system/files/ACCC%20Submission%20-%20PC%20inquiry%20into%20IP%20arrangements%20in%20Australia%20-%2030%20November.pdf>, p. 11.

32 *Australian Competition & Consumer Commission v. Pfizer Australia Pty Ltd*, op. cit.

33 *Australian Competition & Consumer Commission v. Pfizer Australia Pty Ltd*, op. cit., at [464].

34 [www.pc.gov.au/inquiries/completed/intellectual-property/report](http://www.pc.gov.au/inquiries/completed/intellectual-property/report).

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

## **VII OUTLOOK AND CONCLUSIONS**

The year ahead may see the repeal of Section 51(3) of the CCA and with it the removal of the exemption of certain intellectual property arrangements from the application of Australia's competition laws. This is a recommendation that has been made many times before and it remains to be seen whether the Australian Parliament has the appetite to enact the necessary legislation.

Seemingly more certain is the likelihood that the prohibition on misuse of market power in Section 46 of the CCA will be amended to prohibit corporations with substantial market power from engaging in conduct that has the purpose, or is likely to have the effect, of substantially lessening competition in any market. Whether such an amendment will result in an increase in cases in which holders of intellectual property rights are held to have misused market power also remains to be seen.

# BRAZIL

*José Alexandre Buaiz Neto*<sup>1</sup>

## I INTRODUCTION

The Brazilian Competition Act, Law 12,529, enacted in 2011, is the main legislation regulating antitrust violations in Brazil. Intellectual property rights and the potential competition issues that may arise from them are not exempt from the scrutiny of the Brazilian competition authority – the Administrative Council for Economic Defence (CADE).

CADE, among other roles, is responsible for ensuring due compliance with the rules provided for in the Brazilian Competition Act with respect to violations to the economic order. According to Article 36 of the Act, antitrust violations include any practices aimed at (1) limiting, restraining or in any way injuring free competition or free initiative; (2) controlling the relevant market of goods or services; (3) increasing profits arbitrarily; and (4) exercising a dominant position abusively.

Among the practices that may be framed as antitrust violations, CADE included (1) the abusive exercise or exploitation of intellectual or industrial property rights, technology or trademarks; and (2) the monopolisation or prevention of exploitation of industrial or intellectual property rights or technology.

Intellectual property rights, such as patents, industrial design rights and trademarks are, in turn, regulated by Law No. 9,279/1996. This Law reinforces the illegality of the abusive exercise of such rights, determining that the abuse may lead to the compulsory licensing of the patent among other sanctions.

Therefore, as in many other jurisdictions, the relevance of the interactions between antitrust and intellectual property has not been neglected by the Brazilian legislation. However, matters concerning potential conflicts between antitrust and intellectual property have been identified recently, as in other countries.

At first, the fact that antitrust law protects intellectual property rights may seem contradictory. On the one hand, the intellectual property law grants a sort of temporary monopoly for the holder of IP rights, which may reduce other companies' chances of competing effectively in the market related to those rights, potentially discouraging free competition. On the other hand, the antitrust law aims exactly at fostering free competition and avoiding the monopolisation of markets.

However, this contradiction was later found to be specious. In line with the specialised literature from other countries, such as the United States, the Brazilian competition authority adopted the understanding that the antitrust and IP laws are, in fact, complementary, having

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<sup>1</sup> José Alexandre Buaiz Neto is a partner at Pinheiro Neto Advogados. Special thanks go to Isabela Pannunzio and Cassia Kinoshita, from Pinheiro Neto Advogados, for their time and valuable assistance in researching and drafting this chapter.

similar purposes. In this context, to ensure the innovation and welfare of consumers, CADE may be lenient in relation to a potential temporary restriction of competition, from a static point of view, in favour of a dynamic efficiency, which will, in the long term, provide the necessary incentives for innovation and for the creation of new and better products and services.<sup>2</sup>

Moreover, as will be demonstrated below, the complementary interactions between antitrust and IP do not imply that IP rights are absolute or that they are immune to antitrust scrutiny.

## **II YEAR IN REVIEW**

CADE and the Brazilian courts were recently confronted with a matter related to the licensing of standard-essential patents (SEPs). The debate about SEPs is very current in Brazil, and the majority of the decisions handed down to date have not been in line with the international precedents.

In the case examined in Brazil in 2015, which is still under discussion, a company that had been deprived of the use of an essential patent argued that the patent holder was abusing its rights and preventing market access. The patent holder was unwilling to negotiate royalty fees under fair, reasonable, and non-discriminatory (FRAND) terms and instigated sham litigation against the company by filing injunctions that aimed at having the company's production discontinued. Although there were no notable developments in the case in 2016, it continues to be the most relevant case involving intellectual property and antitrust in Brazil.

The majority of the decisions handed down in the case by the courts stated that the patent holder was entitled to exercise its IP rights with the purpose of preventing others from using its technology, unless they were willing to pay the prices charged for royalties. Injunctions have been granted in the sense of discontinuing the company's manufacture of the product that contains the patented technology.

A claim for sham litigation was also filed before CADE in relation to the matter. The claim also alleged that the patent holder was abusing its dominant position.

CADE has issued a decision stating that (1) the injunctions filed by the patent holder do not constitute sham litigation; and (2) the negotiations related to the price of royalties are a private commercial matter, and it is not CADE's prerogative to decide on it.

One judicial decision goes in the opposite direction. This decision recognises the obligation imposed on an SEP holder to provide market access to other companies. Although this understanding represents only a minority of the decisions, it could indicate the possibility that Brazilian authorities are likely to start following international decisions in relation to matters involving antitrust and IP. Details of the case will be discussed below.

## **III LICENSING AND ANTITRUST**

### **i Anticompetitive restraints**

As mentioned above, IP rights are neither absolute nor immune to antitrust analysis. In fact, the exercise of such rights does not constitute, by itself, anticompetitive conduct, even if the

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<sup>2</sup> See Administrative Proceeding No. 08012.002673/2007-51.

exclusivity ensured by the law results in market power for the IP right holder. Nevertheless, if such rights are exercised in an abusive way, the exercise may be considered an antitrust violation, subject to CADE's review.

Despite the current low number of IP-related investigations and the lack of final decisions handed down by the Brazilian competition authority, some cases provide some guidance in relation to the analysis of anticompetitive practices concerning the abuse of IP rights.

In a recent decision, CADE, in line with other competition authorities, indicated that the anticompetitive practices concerning IP rights may be classified as (1) violations resulting from fraud or abuse in the registration procedure of the IP right; and (2) violations arising from the abuse of the IP right itself.<sup>3</sup>

According to CADE, practices aimed at manipulating, defrauding or abusing the registration procedure of IP rights may give rise to competition concerns. Based on studies performed by the Organisation for Economic Co-operation and Development, CADE pointed out that cases of fraud or abuse in the registration procedure usually involve anticompetitive strategies aimed at manipulating 'pending patents', given the time lapse in the assessment of the registration request. CADE mentioned patent ambush, patent flooding and the modification of pending patents as examples of relevant illegal conduct in such cases.

Moreover, CADE emphasised that anticompetitive effects may also be caused by the abusive exercise of IP rights, when the rights are not exercised in accordance with their social and economic purposes. Such abuse may be reflected, among other practices, in:

- a* horizontal restraints, such as licensing agreements entered into between parts active in the same segment, which may lead to anticompetitive restraints such as the division of markets;
- b* resale price maintenance, where the holder of the IP right imposes a resale price on the licensed company;
- c* tie-in sales, where the licence of a certain IP right is conditional on the acquisition of another licence or other products;
- d* exclusivity agreements;
- e* cross-licensing and pools;
- f* grant-backs; and
- g* refusal to license.

CADE's analysis with respect to such situations of abuse is based on the rule of reason. In this context, several elements are taken into consideration in the investigation of the anticompetitive practices related to IP rights.

In a recent decision, CADE indicated that to assess whether an abusive exercise of IP rights is indeed illegal, it is necessary to analyse whether (1) the IP right holder has a dominant position within the market concerned in the investigation; (2) there are structural conditions for the exercise of a dominant position; and (3) there was, in fact, abuse, damaging the competition.<sup>4</sup>

In relation to dominant position, the Brazilian Competition Act establishes that dominance is deemed when a company or group of companies (1) is capable of altering, in

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3 See Administrative Proceeding No. 08012.002673/2007-51.

4 See Preliminary Investigation No. 08012.001315/2007-21.

a unilateral or concerted manner, the market conditions; or (2) controls 20 per cent or more of the relevant market. The analysis of an eventual dominance also involves other factors, such as the existence of barriers to entry and effective rivalry within the market under analysis.

Moreover, CADE, in view of the rule of reason, analyses the net effects of the conduct under investigation. In this context, the Authority assesses whether the dynamic efficiencies resulting from the exercise of the IP right surpass its static inefficiencies. If the efficiencies do not outweigh the negative impacts, the conduct will be deemed anticompetitive and will lead to the imposition of sanctions by the Brazilian competition authority.

In cases of antitrust violations, under the Brazilian Competition Act, companies are subject to fines that may vary from 0.1 to 20 per cent of the gross turnover registered in the year prior to the initiation of the investigation, related to the field of activities affected by the practice. In relation to individuals, fines may reach up to 2 billion reais. Specifically in relation to IP rights, in some cases CADE may recommend to the Brazilian Institute of Intellectual Property (INPI) the imposition of compulsory licensing, as the INPI is the competent authority to impose this penalty.

In a recent opinion, rendered in a case involving a potential abusive exercise of IP rights by auto part manufacturers to avoid the production and sale of auto parts supposedly protected by IP rights, CADE emphasised that the exercise of IP rights is not immune to an antitrust assessment. After examining the potential benefits of the conduct under investigation, CADE's investigative body concluded that the manufacturers had exercised their IP rights in an abusive way.<sup>5</sup>

Finally, it is worth noting that besides the role performed in relation to behavioural control, CADE is also responsible for the review of concentration acts. Taking that into account and pursuant to CADE's notification criteria, the transfer of IP rights may be analysed by the Brazilian competition authority, which will assess the potential competition concerns arising from the transaction.

## **ii Refusals to license**

As mentioned above, in a recent decision handed down by CADE,<sup>6</sup> the refusal to license was set out as an example of possible abusive conduct perpetrated by IP holders. According to CADE, in certain circumstances, such a refusal may be subject to antitrust assessment, as it may be related to an eventual abuse of dominant position by the player that refuses to negotiate with its competitors; however, the Brazilian competition authority has not analysed any related cases yet.

In this aspect, in line with competition authorities from other jurisdictions, CADE may examine the application of the essential facility theory, which reflects the idea that a good or service essential to the community cannot be subject to restrictions by those holding the right to explore it.<sup>7</sup> According to CADE, the essential facility theory is based on four premises: (1) the existence of an essential input owned by a monopolist; (2) economic or legal unfeasibility or the lack of alternative means of provision of the input; (3) the refusal of access to the input to a competitor; and (4) if the provision of the input to a new competitor affects the quality of access to companies that already have access to it.<sup>8</sup>

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5 See Administrative Proceeding No. 08012.002673/2007-51.

6 See Administrative Proceeding No. 08012.002673/2007-51.

7 See Preliminary Investigation No. 08012.005181/2006-37.

8 See Preliminary Investigation No. 08012.001315/2007-21.

CADE has already applied the essential facility theory in an investigation involving the refusal to sell. The case referred to the alleged impossibility of a company to comply with its contractual obligations concerning the provision of technical assistance services, in view of the defendant's refusal to sell maintenance parts, whose technology involved licences, patents and industrial secrets.

On that occasion, CADE concluded that the supply of parts and programs necessary for the maintenance of the equipment should be considered as essential facilities, considering that, without them, it would not be possible to continue competing in a consistent manner. However, it is worth noting that the investigation did not involve discussions concerning the right to patents or to royalties.

### **iii Unfair and discriminatory licensing**

The Brazilian competition authority understands that abusive pricing is not illegal *per se*, but it will be deemed as such when it is a result of antitrust violations or when it gives rise to anticompetitive effects, such as the elimination of competition.

According to CADE, excessive prices may be classified as (1) exploitative prices, resulting from market power, when companies that hold a dominant position charge high prices to end consumers, with whom the company does not compete; and (2) exclusionary abuse, which aims at excluding a competitor from the market (usually perpetrated by vertically related companies). In relation to this particular issue, CADE defended its intervention on exclusionary abuse cases.<sup>9</sup>

CADE has analysed only a limited number of cases involving alleged discriminatory practices concerning the abusive pricing of royalties.<sup>10</sup> However, in these limited cases, CADE shelved the investigation because of the lack of evidence that the defendant was indeed charging exclusionary prices.

In fact, in these cases, CADE noted that the dominant position held by the defendant in the case resulted from legal protection of its inventive activity, and that 'excessive' prices, when distinguished from the profits that result from legitimately attained dominant positions, do not necessarily represent an antitrust violation.<sup>11</sup> Taking that into account, CADE concluded that excessive prices are deemed illegal when they arise from the illegitimate use of market power or they give rise directly to anticompetitive effects, which is not the case with the legitimate exercise of IP rights.<sup>12</sup>

Further, it is worth mentioning that, in one of the cases, companies accused the holder of IP rights of discriminatory conduct, as the defendant had not registered patents involved in the manufacture of the product in all countries belonging to Mercosul, but only in Brazil, Argentina and Venezuela. In this sense, according to those companies, the costs of production in any other country bordering Brazil were reduced, in view of the absence of royalty fees, which would create an artificial competitive pressure in Brazil.<sup>13</sup>

However, CADE rejected the allegations, noting that the 'artificial pressure' over the local manufacturers would affect the defendant itself, considering that the company has plants in Brazil. Moreover, even if the products under discussion were manufactured in a country

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9 See Administrative Proceeding No. 08012.000980/2000-23.

10 See Preliminary Investigations Nos. 08012.001315/2007-21 and 08012.005181/2006-37.

11 See Preliminary Investigation No. 08012.001315/2007-21.

12 See Administrative Proceeding No. 08012.000980/2000-23.

13 See Preliminary Investigation No. 08012.001315/2007-21.

where their patents were not registered, the sales in Brazil would depend on the payment of royalties. Finally, CADE pointed out that the decision to register a patent in certain countries is based on the analysis of benefits in relation to the costs and it does not necessarily reflect a strategy to discriminate against competitors.

#### **iv Patent pooling**

The effects of patent pooling on competition have been widely discussed in several jurisdictions, including Brazil. The debate about the manners in which patent pools may affect antitrust-related matters mainly concerns the existence of efficiencies arising from the inclusion of a group of patents in a pool, as well as potential harms that may arise from anticompetitive conduct involving patent pools.

The Brazilian competition authority has handed down decisions<sup>14</sup> in which patent pools and their impact on the competition environment were analysed. In those decisions, CADE expressed an understanding that patent pools can be used as a tool to maintain and improve competition in the markets they relate to.

According to CADE, patent pools have the ability to integrate complementary technologies and reduce transaction costs by promoting the dissemination of those technologies. This would result in a substantial increase of the efficiencies, taking into account that licensees would be able to obtain, at once, the licences to use a group essential of patents necessary for the development of their products.

From the point of view of the Brazilian competition authority, patent pools would also be able to reduce the price of royalties paid for the use of patented technology and reduce the waiting time for the development of new products, taking into consideration that licensees would no longer need to perform multiple licensing operations.

However, CADE considered that patent pools, to bring benefits to competition, could not include technologies that were horizontally integrated, taking into account that competition between patents pertaining to the same pool have anticompetitive effects. This understanding derives from the fact that if companies include horizontally integrated technologies in the pool, the holders of the patents would no longer have an incentive to compete in relation to the process charged for their licences. Moreover, the companies would not have any incentives to compete at all in the markets in which the patents are inserted.

Also, only essential patents can be included in patent pools. The inclusion of non-essential patents into the pool could give rise to the possibility of tied-in sales. This would happen because licensees would be forced to obtain the licence for a non-essential patent wrongfully included in the group of essential patents necessary for the development of certain products.

In conclusion, although CADE considered patent pools as a means to improve competition in markets that use technology protected by essential patents, it also recognised that the pools have the ability to harm competition when misused.

#### **v Software and trademark licensing**

According to information publicly available, CADE has not recently investigated anticompetitive conduct involving software and trademark licensing. Nevertheless, considering the approach adopted by the Brazilian competition authority in cases related

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14 See Concentration Act No. 08012.008810/2009-23.

to other IP rights, it is certainly possible to affirm that software and trademark licensing is not immune to antitrust analysis and CADE will examine the net effects of the exercise of such rights.

#### **IV STANDARD-ESSENTIAL PATENTS**

##### **i Dominance**

The Brazilian Competition Act establishes that to assess whether a player has a dominant position in a certain relevant market the following issues must be considered: (1) the possibility of that player modifying, unilaterally or in a coordinated manner, the conditions of the market; and (2) whether the player holds at least 20 per cent of the market. The market share necessary to assess dominance may be altered by CADE depending on the circumstances and particularities of each market. The same criteria are used to assess a potential dominant position held by patent holders.

CADE has not taken dominant position into account in cases that involve patent rights. Although it has recognised abuses related to patents in the past, those decisions were based on arguments unrelated to the market power obtained through the patent rights.

In the first and only case analysed by CADE involving potential abuses related to SEPs,<sup>15</sup> the authority did not make any considerations concerning the patent holders' dominant position. The claims made against the patent holder referred specifically to abuse of dominant position.

In the decision handed down by CADE, the authority understood that the activities of the patent holder were inserted in a different relevant market than the activities of the company licensees. This understanding was based on the fact that the patent holder only performed research and technology development. Therefore, the activities of the patent holder would be upstream from the market in which the activities of the licensees were included.

This understanding gives rise to potentially anticompetitive conduct, taking into account that the lack of dominant position may lead the competition authority to make a more superficial analysis of conduct related to patent rights. In the case mentioned above, CADE considered that, because the patent holder was not active in the same relevant market as the company allegedly affected by the potentially anticompetitive conduct, there would be no rationale behind promoting a market foreclosure.

##### **ii Injunctions**

Although CADE is the authority in charge of enforcing legislation related to competition matters, cases related to refusals to license have also been questioned before the Brazilian courts. Recent disputes related to the licensing of SEPs<sup>16</sup> demonstrated that, while there has been some advance in ensuring a healthy competition environment in relation to the licensing of SEPs, the debate has a long way to go in Brazil.

Recently, a holder of an essential patent filed four requests for injunctions before the Brazilian courts. The injunctions aimed at preventing a company from continuing to use the patented technology. The company was willing to pay royalties for the use of the technology; however, the holder of the essential patent did not agree to grant the licence for a reasonable and fair price.

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15 See Preparatory Proceeding No. 08700.008409/2014-00.

16 See Preparatory Proceeding No. 08700.008409/2014-00.

In this case, three out of the four injunction requests were granted in favour of the claimant. Consequently, the company was deprived of the right to use the patented technology and was required to take out of the market all products containing the technology. In summary, the essential patent holder was able to restrain the access of the potential licensee to the market through injunctions that prevented the use of an essential patent.

This understanding indicates that the Brazilian judicial branch is not yet factoring the anticompetitive results of refusals to license SEPs in its decision-making process.

However, one injunction request was not granted. A judge handed down a decision in favour of the company that needed the technology protected by the essential patent for the development of its products. The decision determined that the company was allowed to use the technology protected by essential patent, as long as 2 per cent of its profits were reserved for the payment of royalties to the patent holder.

Although this decision does not represent the majority of the cases, it certainly shows progress in the understanding related to the need to ensure market access through patent licensing.

The same case was later taken to CADE.<sup>17</sup> The potential licensee alleged that the patent holder was promoting sham litigations to prevent it from using the essential patent. However, the competition authority deemed that the matter was essentially private and, therefore, it was not CADE's role to decide about it.

### **iii Licensing under FRAND terms**

According to publicly available information, the obligation to license SEPs under FRAND terms has not yet been recognised by the Brazilian competition authority nor by Brazilian courts.

However, in a recent case<sup>18</sup> involving a patent holder's refusal to license an SEP at reasonable and fair prices, the aggrieved company alleged that the patent holder should be obligated to negotiate under FRAND terms. The claimant's allegation was based on the fact that the patent holder had committed to enabling access to the patented technology when it signed an international agreement with the European Telecommunications Standards Institute. Under the agreement, the patent holder would be internationally bound by the obligation to negotiate royalties under FRAND terms.

Although the claimant's request has not been accepted by the courts so far, the mere presentation of such arguments before the Brazilian courts indicates that, in the near future, licensing under FRAND terms is likely to become a topic of discussion for the relevant authorities in Brazil. In this sense, the Brazilian authorities are likely to follow the practices of the European and US authorities, as they have done in other matters related to the intersection between antitrust and IP.

### **iv Anticompetitive or exclusionary royalties**

A discussion concerning anticompetitive and exclusionary royalties related to SEPs has been initiated recently in Brazil.

In the case referred to in Sections IV.i, ii and iii, above, the amount paid for royalties for the licence of an essential patent was superficially discussed. On the occasion, the claimant

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17 See Preparatory Proceeding No. 08700.008409/2014-00.

18 See Preparatory Proceeding No. 08700.008409/2014-00.

alleged that the patent holder should be forced to negotiate royalties under FRAND terms. According to the claimant, the price charged for royalties by the essential patent holder was unreasonable and discriminatory.

The decision handed down by CADE stated that the negotiation of royalty prices was a private commercial matter that should be settled between the licensor and the licensee. In this sense, it may be concluded that, up to this point, the Brazilian competition authority has not issued a merits decision in relation to potentially anticompetitive or exclusionary royalties.

## V INTELLECTUAL PROPERTY AND MERGERS

### i Transfer of IP rights constituting a merger

Besides the role performed in relation to behavioural control, CADE is also responsible for the review and approval of concentration acts.

Pursuant to the Brazilian Competition Act, any economic concentration acts in which (1) at least one of the economic groups involved in the transaction has registered annual gross sales or total turnover in Brazil equivalent or higher than 750 million reais, and (2) at least one other economic group involved in the transaction has registered annual gross sales or total turnover in Brazil the equivalent of 75 million reais or higher, in the year prior to the deal, must be notified to CADE. Moreover, concentration acts may be identified when one or more companies direct or indirectly acquire, through tangible or intangible assets, full or partial control of one or more companies.

Having said that, the transfer of IP rights may be subject to CADE's review. In 2015, the Brazilian competition authority analysed a transaction regarding the acquisition of certain assets, which involved solely the transfer of IP rights, such as the commercial brands related to the acquired business.<sup>19</sup> The deal was approved without conditions by CADE and reinforces the necessity of notifying the transfer of IP rights.

Furthermore, the Brazilian Competition Act also establishes that joint ventures and associative agreements must be notified to the competition authority. In 2016, CADE enacted Resolution No. 17/2016, which provides some guidance for the notification of associative contracts.

According to this Resolution, for the purposes of notification, associative contracts include any agreements with a duration of more than two years that establish a common enterprise involving risk and income sharing and whose contracting parties are competitors in the relevant market related to the object of the agreement.

Since the enactment of Resolution No. 17/2016, no associative agreements involving the transfer of IP rights have been examined by CADE. However, notably, in 2017, CADE assessed whether a licensing agreement entered into by two video-game licensors was subject to mandatory notification under Resolution No. 17/2016. In that case, CADE decided that (1) the companies would not be competitors, because even though they were both video-game licensors, they would take different positions within the agreement – one of the companies

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19 See Consultation No. 08700.008419/2016-08.

would remain as the licensor and the other would be the licensee; and (2) there would be no risk or income sharing. Therefore, CADE understood that the agreement was not subject to mandatory notification.<sup>20</sup>

In this sense, considering this precedent, the discussion as to the necessity of notifying associative agreements involving IP rights – especially licensing – is still open.

## **ii Remedies involving divestitures of intellectual property**

In the analysis of concentration acts, CADE may approve the transaction with or without conditions, depending on the competition concerns resulting from the deal.

When the transaction gives rise to negative effects on the competition, such as market foreclosure or a high degree of concentration, CADE may impose remedies on the companies. To comply with such orders, the applicants usually enter into a merger control agreement.

The remedies imposed by CADE in concentration acts may be classified as behavioural or structural. The structural remedies refer to the divestiture of part or all of the business and it may involve IP rights. In this sense, the divestiture of IP rights has been determined in several cases,<sup>21</sup> which demonstrates its relevance as an instrument to help mitigate the competition concerns resulting from a transaction.

## **VI OTHER ABUSES**

### **i Sham or vexatious IP litigation**

As indicated above, a claim of sham litigation involving the filing for injunction requests that aimed at preventing a company from using an essential patent was recently presented to CADE.

On that occasion, the claimant alleged that the fact that the injunctions filed by the patent holder did not aim at discussing the price of royalties charged for the licensing of the technology, but only at requesting the discontinuance of the manufacture of the claimants' product, would indicate an attempt by the patent holder to restrain market access through sham litigation. The claimant also alleged that the patent holder was imposing an abusive royalty process, which should be negotiated under FRAND terms.

CADE handed down a decision shelving the proceedings because, according to the authority, there were no indicia of violation of the economic order. In its decision, CADE stated that there was no rationale behind the allegation that the patent holder's purpose was market foreclosure, as it is not active in the downstream market.

Moreover, CADE understood that the negotiations to reach an adequate fee for royalties related to the licensing of technology was not within the scope of the matters that should be decided by the competition authority. According to CADE, such negotiations are a private commercial matter, and should be resolved between the parties themselves. However, it is worth mentioning that appeals have been lodged against CADE's decision and these are still pending. Therefore, the authority's decision may still be reconsidered.

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20 See Concentration Act No. 08700.002894/2017-43.

21 See Concentration Acts Nos. 08012.004423/2009-18, 08700.001437/2015-70 and 08700.003462/2016-79.

On past occasions,<sup>22</sup> CADE has stated that patent registries that aim solely at blocking the access of other players to a certain relevant market should be considered as sham litigation. However, only a few decisions have been handed down that recognise this wrongful conduct.

In 2014, CADE analysed a case involving alleged sham litigation related to patent registries for drugs.<sup>23</sup> The case concerned a patent holding company that filed numerous requests before the INPI with the purpose of extending its patent rights. In the multiple requests, the company tried to modify the scope of the patent to prolong the duration of its patent rights.

In this case, CADE recognised that the company had incurred sham litigation, taking into account that it was aware it did not hold the rights it was postulating for, and that it was knowingly trying to benefit from inexistent patent rights. CADE's decision was mainly based on the fact that the change of scope of the patent requests would demonstrate the company was aware it was not entitled to patent rights.

In CADE's understanding, for conduct to be considered as sham litigation, it has to fulfil two requirements: the purpose of obtaining a competitive advantage through litigation, and the known groundlessness of the requests made within that litigation. In the above-mentioned case, CADE understood both requirements were present.

In conclusion, even though only a few decisions handed down by the Brazilian competition authority have recognised abuses of patent rights related to sham litigation, those decisions demonstrate that the topic of abuse of patent rights has not been neglected by CADE.

## **ii Misuse of the patent process**

The case referred to in Section VI.i, above<sup>24</sup> is the most prominent example of misuse of the patent process recognised by CADE. In this case, the patent holder filed multiple requests before the INPI, as well as appeals before Brazilian courts, to have a non-existent patent right acknowledged.

In this case, CADE recognised that there had been a misuse of the patent process in the sense that the company was aware that it did not hold the patent rights it was requesting to have registered. Moreover, in its decision, CADE discussed the fact that the misuse of the patent process can lead to an artificial monopoly and grant undue advantages to the illegitimate patent holder.

## **VII OUTLOOK AND CONCLUSIONS**

In Brazil, the interactions between the IP and antitrust areas are a developing topic. As the number of IP and antitrust-related cases analysed by CADE and the judicial branch are modest, there are still many questions left open for discussion. There is certainly room for creativity and innovative approaches, but this may also mean that there is room for uncertainties.

In 2016, CADE was not faced with significant cases involving intellectual property, and no relevant decisions have been handed down by the competition authority on this topic. CADE continued to focus on the effectiveness of the new Brazilian Competition Act. The enactment of a new resolution on associative agreements, as mentioned above, reflects this

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22 See Preliminary Investigation No. 08012.005727/2006-50.

23 See Administrative Proceeding No. 08012.011508/2007-91.

24 See Administrative Proceeding No. 08012.011508/2007-91.

effort. Considering that the relevance of the topic has been increasingly recognised in Brazil, especially because of the development of technology in the country, further crucial answers are expected to be provided in the coming years.

# CHINA

*Zhaoqi Cen*<sup>1</sup>

## 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 consumer and public interest. 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 requires a clear-cut objection against monopolistic behaviour to protect competition, including competition among different technologies, to promote technological progress, 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, in certain circumstances, trump the technological innovation and fair competition environment, and even result in unfavourable consequences to competition. It would not only violate the basic purpose of the IPR system to encourage innovation, but also raise the concern of IPR abuse, which excludes and restrains competition.

The Anti-Monopoly Law (AML) enacted in 2008, the main legislation regulating antitrust violations in China, also sets out broadly in Article 55 that ‘this Law is applicable to undertakings’ conduct that eliminates or restricts market competition by abusing their IPRs’. In other words, the rules set forth in the AML regarding reaching monopoly agreements, abuses of dominant market position and merger control also apply in the IP field. In practice, the three main AML enforcement authorities<sup>2</sup> enact related regulations and guidelines, and the Supreme Court issues judicial interpretations, on specific issues in application of the AML. These regulations, guidelines and judicial interpretations constitute part of the antitrust regime in China.

This chapter will focus on the latest developments at the intersection of intellectual property (IP) law and antitrust law in China during 2016 and early 2017.

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1 Zhaoqi Cen is a partner at Zhong Lun Law Firm.

2 There are three main AML enforcement authorities in China: the National Development and Reform Commission (NDRC), in charge of price-related monopoly conduct; the State Administration for Industry and Commerce (SAIC), in charge of non-price-related monopoly conduct; and the Ministry of Commerce of the People’s Republic of China (MOFCOM), in charge of merger control.

## II YEAR IN REVIEW

### i Legislative development in IP and antitrust field

In the past year, AML enforcement agencies decided to draft six sets of AML guidelines covering key aspects of enforcement matters, including relief commitments, leniency applications, exemption from agreements, fines calculation and application to the automotive industry and to the IP field. These guidelines assimilate experience from past cases in both China and other jurisdictions, and are expected to provide more clarity on the application of the AML.

#### *AMC Anti-Monopoly Guidelines on the Abuse of Intellectual Property Rights*

The Anti-Monopoly Commission of the State Council (AMC) entrusted the NDRC, SAIC, MOFCOM and the State Intellectual Property Office with the task of preparing their own draft IP and antitrust guidelines. After consolidating these drafts, on 23 March 2017, AMC released its integrated draft Anti-Monopoly Guidelines on the Abuse of Intellectual Property Rights (the Guidelines) on its website and solicited public opinions.<sup>3</sup>

The Guidelines are formulated to provide guidelines for the application of the AML in cases of abuse of IPRs and to improve the transparency of legal enforcement by AML enforcement authorities. The Guidelines are composed of five chapters and 27 articles, basically covering the IP monopolies that occur most frequently and have the most obvious impact on competition in the market.

Chapter one illustrates several key principles and terms for the assessment process, such as ‘General Analytical Principles and Analytical Thinking’, ‘Definition of Relevant Market’ and the factors to consider when assessing anticompetitive effects.

#### *General Analytical Principles and Analytical Thinking*

The Guidelines prescribe that ‘an undertaking shall not be presumed to be dominant in the relevant market merely for the reason of holding the IP rights’.<sup>4</sup> AML agencies are required to adopt the same regulatory standards for other property rights and follow the basic analytical framework of the AML, to take into account the characteristics of intellectual property rights and to consider the positive impact of behaviour on efficiency and innovation on a case-by-case basis. The Guidelines specify five conditions that should be satisfied simultaneously for the behaviour of an undertaking to produce a positive impact: (1) there is a causal link between the behaviour and promotion of innovation, as well as improvement to efficiency; (2) the behaviour has less effect to exclude or restrict market competition when compared with other behaviours that promote innovation and improve efficiency; (3) the behaviour would not seriously restrict competition in the relevant market; (4) the behaviour would not seriously impede innovation by other undertakings; and (5) consumers are capable of sharing the benefits brought by the promotion of innovation and the improvement to efficiency.<sup>5</sup>

#### *Definition of Relevant Market*

The Guidelines provide that in addition to the relevant product market, it is also necessary to consider the relevant technology market when it is difficult to sufficiently assess the

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3 <http://fdj.mofcom.gov.cn/article/zcfb/201703/20170302539418.shtml>.

4 Article 1 of the Guidelines.

5 Article 5 of the Guidelines.

competition impact of a behaviour of IP abuse. The Guidelines stipulate that the relevant technology market should be the market formed by a group or a category of closely substitutable technologies. The Guidelines also list several factors that may be considered when defining the relevant technology market.<sup>6</sup>

Chapter two addresses main issues relating to monopoly agreements involving IPRs, including joint research and development, cross-licensing, exclusive grant-back arrangements, standards, no-challenge clauses and other restrictions. Additionally, the Guidelines set out the safe harbour rules: if an undertaking satisfies any of the specified conditions,<sup>7</sup> the agreement involving IPRs reached by it would generally not be deemed a monopoly agreement; these conditions are (1) the share of the competing undertakings in the relevant market does not exceed 20 per cent in total; (2) the share of non-competing undertakings in any relevant market affected by the agreement involving IPRs does not exceed 30 per cent; or (3) if the share of undertakings in the relevant market is difficult to determine, or the market share cannot accurately reflect the undertakings' market position while there are four or more substitutable technologies in the relevant market under the independent control of other undertakings and that can be obtained at reasonable cost, apart from those under the control of parties to the agreement.

Chapter three stipulates that the AML shall apply to the identification of an abuse of a dominant market position involving IPRs. Article 13 gives a clearer explanation on identifying whether an undertaking holding IPRs has a dominant position in the relevant market. Except for Articles 18 and 19 of the AML, the following factors may also be specifically considered: (1) the possibility of transaction counterparties switching to alternative intellectual property rights or goods and the switching costs; (2) the dependency of the downstream market on the products provided by applying intellectual property rights; and (3) the capability of the transaction counterparty to restrict and balance the undertaking. In particular, to identify whether an undertaking holding a standard-essential patent (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 option 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.<sup>8</sup> Articles 14 to 18 further specify refusal to license, tying, attaching unreasonable transaction conditions, and discriminatory treatment related to IPRs.

Chapter four discusses concentration of undertakings involving IPRs. Because the concentration of undertakings involving IPRs has a unique character, this Chapter mainly addresses the circumstances that constitute the concentration of undertakings in transactions involving IPRs, examination considerations of undertakings involving IPRs, and additional restrictive conditions involving IPRs.

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6 Article 3 of the Guidelines.

7 Article 12 of the Guidelines.

8 Article 13 of the Guidelines.

The final chapter mentions other circumstances involving IPRs that may constitute different types of monopolistic practices. The definitions and considerations to be assessed in relation to patent pools, injunctive relief and copyright collective administration organisations are then discussed in detail.

In a word, the Guidelines have brought more clarity and predictability to AML enforcement agencies.

### ***Interpretations of the Supreme People's Court on Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II)***

On 21 March 2016, the Supreme People's Court published 'Interpretations of the Supreme People's Court on Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II)' (the Interpretation).

In accordance with the Patent Law, the Civil Procedure Law and other relevant laws and regulations, and in the light of judicial practices, Article 24 of the Interpretation is the first clarification from the Court on the legal application of SEPs, which has been a hot topic in the IP and antitrust fields recently. This Article only applies to national, industrial or local SEPs, but not to SEPs established by the International Standards Organization or other international standards-setting organisations. The Interpretation clarifies that the Court shall not uphold the defence made by an alleged infringer that its technical solution or design has been granted a patent and thus does not infringe the patent right involved in the case. And the Court generally does not support the patentee's allegation on ceasing enforcing the standards if (1) the patentee deliberately dishonours the obligations of fairness, reasonableness and non-discrimination (FRAND), thereby resulting in failure to enter into a patent licensing agreement; and (2) the accused infringer has no serious faults during negotiations.

The Interpretation, to a certain extent, avoids the possibility of patentees maliciously raising the threshold of patent licensing by applying injunctive relief, thereby reducing the likelihood of 'patent holdup'.

### ***Guidelines of the Higher People's Court of Beijing Municipality for Judging Patent Infringements***

Following the Supreme People's Court's Interpretation, Beijing Higher People's Court formulated and published a new version of Guidelines for Judging Patent Infringements (the Patent Infringement Guidelines) on 20 April 2017, which is composed of 152 articles in total. The new Patent Infringement Guidelines provide comprehensive aspects for the determination of the scope of invention or utility model patent protection and infringement judgments, the scope of design patent protection and infringement judgments, the identification of infringement behaviour and patent infringement defences. The Patent Infringement Guidelines make further improvements by clarifying judicial rules regarding SEPs, based on existing cases in China and recent cases in other countries, and they are a helpful supplement to the existing Interpretation on SEP-related issues. Article 150 of the Patent Infringement Guidelines states that an infringer who requests a patentee to grant permission on a FRAND basis shall also negotiate in good faith. Article 153 further stipulates that the extent of the fault can be used to determine whether to approve injunctive relief; that is, in the course of the SEP licensing process, 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. Articles 152 and 153 provide details of patentee's FRAND obligations and SEP users' good faith obligations.

The Patent Infringement Guidelines have also explained a number of issues concerning SEPs that are not covered by the Interpretation, and therefore provide better guidance on the judicial trial of SEP cases.

## ii Major cases and investigations in 2015

### *Qualcomm v. Meizu*

On 24 June 2016, US company Qualcomm filed a complaint against Chinese smartphone manufacturer Meizu before the Beijing Intellectual Property Court. The complainant sought a ruling that the licensing terms it offered Meizu complied with China's AML and with the company's commitment to offer its essential technology on FRAND terms. The complainant also requested the court to make a judgment that these provisions for patent licensing constituted the main terms of the Qualcomm and Meizu patent licensing agreement. In addition, Qualcomm asked for compensation of around 500 million yuan. After arm's length negotiations for several months, the parties reached a patent licensing agreement under which Qualcomm grants Meizu a worldwide royalty-bearing patent licence to develop, manufacture and sell CDMA2000, WCDMA and 4G LTE (including '3-mode' GSM, TD-SCDMA and LTE-TDD) complete devices. The royalties payable by Meizu in China are consistent with the terms of the rectification plan submitted by Qualcomm to the NDRC. This agreement resolves all of the patent disputes between Qualcomm and Meizu in China.<sup>9</sup>

### *Apple v. Qualcomm*

In January 2017, Apple filed two lawsuits against chip supplier Qualcomm before Beijing's Intellectual Property Court, claiming that Qualcomm had violated China's AML and abused its position in the market. In addition, Apple claimed that Qualcomm had failed to live up to its promises to license SEPs on FRAND terms. Although Apple attempted to reach a direct licensing agreement with Qualcomm on its SEP portfolios, Qualcomm continued to reject Apple's request and did not offer licence quotas consistent with FRAND obligations. In the abuse-of-market-dominance dispute case, Apple claimed economic losses of one billion yuan, and advocated a reasonable expenditure of 2.5 million yuan over the two cases. Qualcomm has been fined by the NDRC in China for alleged abuse of dominance in the relevant market in 2015, and accordingly Qualcomm set out new royalty rates and procedures for SEPs. Therefore, the outcome of this litigation will have a huge impact on patent licensing that had already been concluded by 2015. On the one hand, the outcome of the lawsuit will affect Qualcomm's previously submitted royalty rates and procedures; on the other hand, the result also has a far-reaching impact on the consistency of administrative determinations and judicial decisions related to IPR monopoly cases.

### *IWNCOMM v. Sony*

On 22 March 2017, Beijing Intellectual Property Court decided a civil case relating to a SEP, in which plaintiff Xi'an Xi Dian Jie Tong Radio Network Co (IWNCOMM) claimed that defendant Sony Mobile Communications (China) Co, Ltd (Sony) had infringed IWNCOMM's SEP for a mandatory national WAPI standard. In the judgment, many critical issues regarding FRAND, injunctions, loyalty fees, damages and so on were involved, which

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<sup>9</sup> [www.qualcomm.com/news/releases/2016/12/30/qualcomm-and-meizu-sign-3g4g-global-patent-license-agreement](http://www.qualcomm.com/news/releases/2016/12/30/qualcomm-and-meizu-sign-3g4g-global-patent-license-agreement).

appears to be of instructive significance in SEP practice. The court reasoned that a FRAND statement is only a commitment by the patentee, and the commitment does not indicate that it has issued a licence. As to injunctions, the court ruled that where both parties cannot reach an agreement during the patent licensing negotiation, the faults of both parties should be considered in deciding whether to grant an injunction. In this case, Sony's request for the plaintiff to provide the claim chart was unreasonable, thus it was Sony's default that caused the parties' failure to reach a licensing agreement.

According to the judgment, Sony Mobile was ordered to immediately cease the infringement of IWNCOMM's SEP found in 35 of Sony's mobile handsets and to pay damages of 8.6 million yuan and reasonable costs of 474,194 yuan. Although the current judgment may not be the final one for this infringement case, it is still significant as regards the manner in which SEP-related litigation is handled. Article 24 of the Supreme Court's 2016 Interpretation recognises injunctive relief in SEP litigation, and in *IWNCOMM v. Sony* the Beijing Intellectual Property Court confirmed that a permanent injunction is available against an accused infringer if it is seriously at fault during negotiations.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

##### *Exclusive transaction*

According to the SAIC Regulations, when exercising IPRs, undertakings with a dominant market position are prohibited from requiring trading counterparties to make transactions exclusively with themselves or with the undertakings designated by them without justifiable reasons if the transactions exclude or restrict competition.<sup>10</sup>

According to Article 11 of the Guidelines, restricting undertakings from using or providing competitive technologies or products in licensing of IPRs may also be considered infringement of the AML if they result in the exclusion of competition or have a restrictive effect on the relevant market. Specifically, the following factors may be considered: (1) the content, degree and manner of implementation of the restrictions; (2) the characteristics of products provided by applying IPRs; (3) the relationship between restrictions and licensing conditions of IPRs; (4) whether there are several restrictions; and (5) if the IPRs of other undertakings involve substitutable technologies, and whether other undertakings impose the same or similar restrictions.<sup>11</sup>

##### *Tying*

According to the SAIC Regulations, 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.<sup>12</sup> The extension of market dominance does not require that both tying and tied products have market dominance, but IP holders may utilise their dominance in the tying market to exclude or restrict competition in tied products.

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10 Article 8 of the SAIC Regulations.

11 Article 11 of the Guidelines.

12 Article 9 of the SAIC Regulations.

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

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

***Restricting use of competing products or IPRs after expiry of the licence***

According to the SAIC Regulations, when exercising IPRs, undertakings with a dominant market position are prohibited from restricting trading counterparties from utilising competing products or technologies upon the expiry of licensing agreements, even in the event of non-infringement of IPRs.<sup>13</sup>

Article 17 of the 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.<sup>14</sup>

**ii Refusals to license**

According to 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.<sup>15</sup>

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 Guidelines confirm in Article 15 that refusal to license IPRs is a way an undertaking exercises IPRs. However, if an undertaking that has a dominant market position unjustifiably refuses to license IPRs, especially when its IPRs constitute essential facilities of production and operating activities, such behaviour may constitute an abuse of a dominant market position to exclude or restrict competition. During assessment, the following factors may be considered: (1) the commitments made by the undertaking as to the licensing of intellectual property rights; (2) whether it is necessary for other undertakings to obtain the licensing of the intellectual property rights for entry into the relevant market; (3) the impact of refusal to license intellectual property rights and degree thereof on innovation by the undertaking; (4) whether the refused party lacks willingness and capability to pay reasonable licence fees; and (5) whether the refusal to license intellectual property rights will damage the interests of consumers or the public.<sup>16</sup>

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13 Article 10.3 of the SAIC Regulations.

14 Article 17 of the Guidelines.

15 Article 7 of the SAIC Regulations.

16 Article 15 of the Guidelines.

### iii Unfair and discriminatory licensing

#### *Unfairly high pricing*

Generally, according to Article 11 of the Provisions on Anti-Price Monopoly, to determine 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.

However, it is difficult to apply the four-factor test to determine an unfairly high price. In practice, one of the possible approaches might be to compare the price with those the undertaking charges to other trading counterparties that have the same conditions. If the former is significantly higher than the latter, then the former price may be determined as unfairly high.

To give more clarity to this problem, Article 14 of the 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.<sup>17</sup>

In *Huawei v. InterDigital*, the court compared the royalty rate InterDigital offered to Huawei with those InterDigital offered to other companies (Apple, Samsung, RIM, etc.) and found that the former was dramatically higher than the latter (the royalty rate for Huawei was 19 times the rate for Apple, and seven to nine times that for Samsung and RIM). The court ruled that the royalty rate for Huawei constituted an unfairly high price.<sup>18</sup>

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.

#### *Differing treatment of trading counterparties whose conditions are the same*

Article 18 of the Guidelines defines how, in transactions involving IPRs, undertakings with a dominant market position may impose, without justified reasons, different licensing conditions on transaction counterparties that have 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.<sup>19</sup>

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17 Article 14 of the Guidelines.

18 *Huawei v. InterDigital*, Yue Gao Fa Min San Zhong Zi, 305, judgment by Guangdong High People’s Court (2013). In this case, Huawei requested the court to order InterDigital to cease abusing its dominant market position in the SEP licence market and pay an amount of 20 million yuan in damages.

19 Article 18 of the Guidelines.

### ***Grant back***

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

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

### ***Prohibiting challenging the validity of IPRs***

Prohibiting challenging the validity of IPRs is also regulated in the Guidelines. Article 10 of the Guidelines provides that a ‘no-challenge clause’ refers to a clause in an agreement concerning the licensing of IPRs whereby the licensor requires the licensee not to raise challenges to the validity of the licensor’s IPRs. The following factors may be considered in the analysis of the competition exclusion or restriction effect of a no-challenge clause on the relevant market: (1) whether the licensor requires all licensees not to challenge the validity of its IPRs; (2) whether the licensing of IPRs affected by the no-challenge clause is paid licensing; (3) whether the IPRs affected by the no-challenge clause may constitute a downstream market entry barrier; (4) whether the IPRs affected by the no-challenge clause obstruct the implementation of other competitive IPRs; (5) whether the licensing of IPRs affected by the no-challenge clause is exclusive licensing; and (6) whether the licensee may suffer material losses if it challenges the validity of the intellectual property rights of the licensor.<sup>20</sup>

### ***Continuing to exercise IPRs whose protection period has expired or IPRs that are found to be invalid***

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

### ***Cross-licensing***

The 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

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20 Article 10 of the Guidelines.

cross-licensing is exclusive licensing; (2) whether the cross-licensing constitutes a barrier to entry into the relevant market for third parties; and (3) whether the cross-licensing excludes or restricts competition in the relevant downstream market.

In *Huawei v. InterDigital*, the courts noted that InterDigital required Huawei to license back all of its global patents on a royalty-free basis (as of 31 December 2010, Huawei owned 31,869 Chinese patents, 8,892 PCT international patent applications and 8,279 overseas patents). This appears to be much harsher than a grant-back requirement and the courts took the view that this was contrary to 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'.<sup>21</sup>

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

### **IV STANDARD-ESSENTIAL PATENTS**

#### **i Dominance**

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

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

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

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21 Article 12 of the SAIC Regulations.

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

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

## ii Injunctions

The issue of whether holders of SEPs may seek injunctions has been heavily discussed in recent years. This issue is not addressed in the AML or the SAIC Regulations.

The SAIC Draft Guidelines mention that SEP holders' abuse of injunctions to force licensees to accept unreasonable licensing terms may constitute an abuse of dominant market position.<sup>22</sup>

In *Huawei v. InterDigital*, the court concluded that by seeking an injunction and forcing Huawei to pay much higher royalties than those paid by Apple and Samsung, InterDigital failed to comply with the FRAND commitments with which it encumbered its SEPs. The court stated that:

*InterDigital failed to fulfil its FRAND obligations without regard to Huawei's good faith and willingness during licensing negotiations. It did not adjust its offer to a reasonable pricing; instead, it initiated a suit and sought injunctions in the US based on the essential patents. While InterDigital seemingly was exercising its legitimate litigation rights, it intended to coerce Huawei, through means of litigation, to accept excessive pricing and to pay consideration on top of the essential patents. This act lacks legitimacy*

In addition, According to Article 24 of the Interpretation, as to those patents that have been disclosed as essential for the implementation of recommended national, industrial or local standards, the court shall, in general, not 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. The Patent Infringement Guidelines enlarge the scope to include standards established by the International Standards Organization or other standards-development organisations on the basis of Article 24 of the Interpretation.<sup>23</sup>

## iii Licensing under FRAND terms

The SAIC Regulations set forth the licensing obligations under FRAND commitments borne by SEP holders, stating that, 'without justification, undertakings with dominant market

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22 Article 23.6 of the SAIC Draft Guidelines.

23 Article 24 of the Interpretation.

positions shall not violate FRAND principles and refuse to license patents, engage in tying, impose other unreasonable conditions during transactions or commit other acts that exclude or restrain competition'.<sup>24</sup>

Article 24 of the Interpretation provides that where no consensus is reached after sufficient consultation, the parties concerned may request the competent people's court to determine exploitation and licensing conditions; in which case, the people's court shall, on fair, reasonable and non-discriminatory terms, take into comprehensive consideration the degree of innovation of the patent, the role of the patent in relevant standards, the technical field to which the standards belong, the nature and scope of application of the standards, relevant licensing conditions and other factors to determine the exploitation and licensing conditions. Based on the Interpretation, the Beijing Higher People's Court provides comprehensive aspects for the determination of FRAND obligations from Article 150 to Article 153. Generally, the patentee shall bear the burden of proof on the promised FRAND obligations and the patentee may use the following materials as evidence: (1) their declaration documents and patent disclosure documents submitted to the relevant standardisation organisations; (2) patent policy documents of related standardisation organisations and (3) the FRAND promise made and published by the patentee.<sup>25</sup> If there is no evidence that the SEP patentee has deliberately violated the FRAND obligations, and the accused infringer is not obviously at fault in the licensing negotiation, the patentee's injunctive relief is generally not supported. However, in the following scenarios the patentee may be considered as being in voluntary breach of the FRAND obligations: (1) the patentee fails to notify the infringer of the infringement of the patent right in writing, and fails to specify the scope and ways of infringement; (2) the patentee 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) the patentee fails to offer a reply period in accordance with business practice and trade practice; (4) the patentee obstructs or interrupts the licensing negotiation without reasonable justification; and (5) the patentee proposes unreasonable licensing conditions in the course of the negotiation, which results in the failure to reach a patent licensing agreement and other conditions.<sup>26</sup> Article 153 explains that if both parties are at fault during the negotiation, it is necessary to analyse the degree of the fault of both parties and judge which has primary responsibility to determine whether to support the patentee's injunctive relief. In *Huawei v. InterDigital*, the court found that InterDigital violated its FRAND commitments by engaging in the following acts:

- a InterDigital offered an unfairly high licensing rate to Huawei, in comparison with the rates it offered to Apple, Samsung, etc.;
- b InterDigital asked for a free licence for all patents owned by Huawei. The court further pointed out that Huawei has a big patent portfolio. The quantity and value of Huawei's patents far exceed those of InterDigital; and
- c InterDigital initiated a suit and sought injunctions in the United States against Huawei to force Huawei to pay much higher royalties than those paid by Apple and Samsung without regard to Huawei's good faith and willingness during licensing negotiations.

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24 Article 13 of the SAIC Regulations.

25 Article 151 of the Patent Infringement Guidelines.

26 Article 152 of the Patent Infringement Guidelines.

#### iv Royalty base

In the *Qualcomm* case, the issue of whether it was appropriate for Qualcomm to charge royalties based on the net sale price of whole devices was discussed. The NDRC mentioned in its decision that '[Qualcomm] has insisted on using a relatively high royalty rate, at the same time that it has charged royalty on the basis of entire devices in excess of the coverage of its wireless SEPs, which is manifestly unfair and has resulted in excessive royalties'. It seems that the NDRC did not conclude whether it was appropriate for Qualcomm to use the net sale price of whole devices as the royalty base, but only regarded the royalty base as one of the factors in determining Qualcomm's unfairly high pricing. The NDRC Draft Guidelines seem to concur with this analysis. Article 3.2.1 stipulates that 'the following factors may be considered in analysing and determining whether undertakings license IPRs at unfairly high prices: [...] (4) whether the undertakings charge licensing fees beyond the geographical scope of, or the product scope covered by, the IPRs involved'.

## V INTELLECTUAL PROPERTY AND MERGERS

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

and other matters. In addition, undertakings may combine structural conditions and behavioural conditions, and put forward suggestions on comprehensive restrictive conditions involving IPRs.

Furthermore, MOFCOM issued the Provisions of the Ministry of Commerce on Imposing Additional Restrictive Conditions on the Concentration of Business Operators (for Trial Implementation) on 4 December 2014, which took effect on 5 January 2015. According to this regulation, MOFCOM can impose the following additional restrictive conditions on mergers to alleviate the adverse impact of the transfer of IPRs on competition: (1) structural conditions requiring the divestiture of IPRs; (2) conditions requiring undertakings to license key technologies (including patents, proprietary technologies or other IPRs); and (3) comprehensive conditions that combine (1) and (2).

In the *Nokia/Alcatel* case, MOFCOM decided to approve the acquisition of Alcatel by Nokia conditionally on Nokia's fulfilment of the following commitments under supervision by MOFCOM: (1) Nokia shall not seek injunctions on SEPs unless it has provided licensing conditions conforming to FRAND principles but the potential licensee has neither entered into the licensing agreement conforming to FRAND principles in good faith nor complied with the licensing agreement; (2) the licensees are entitled to notification of Nokia's SEP transfers to third parties, as well as negotiation and renegotiation with Nokia on royalty rates during or after the transfers; and (3) when Nokia transfers its SEPs to a new owner in the future, Nokia shall make the transfer on the condition that the new owner agrees to be subject to FRAND principles.<sup>27</sup>

## VI OTHER ABUSES

With regard to sham or vexatious IP litigation, the SAIC Draft Guidelines mention that SEP holders' abuse of litigation rights to force licensees to accept unreasonable licensing terms may constitute an abuse of a dominant market position.<sup>28</sup> The Guidelines further spell out several unjustified transaction conditions for transactions related to IPRs: (1) requiring transaction counterparties to offer exclusive grant back; (2) prohibiting transaction counterparties from challenging the validity of their intellectual property rights, or from lodging proceedings for infringement of intellectual property rights against their undertakings; (3) restricting transaction counterparties from using competitive technologies or products; (4) claiming rights over expired or invalid intellectual property rights; (5) requiring transaction counterparties to provide cross-licensing without paying reasonable consideration; and (6) forcing or prohibiting transaction trade between counterparties and third parties, or restricting the conditions for transaction counterparties to trade with third parties. The factors generally considered in analysing the attachment of other unreasonable conditions shall also be considered when analysing whether the above behaviour of undertakings constitutes abuse of a dominant market position.

Regarding anticompetitive settlements of IPR disputes, China's antitrust enforcement authorities, learning from EU and US experience, have paid attention to the 'pay-for-delay'

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27 Announcement [2015] No. 44 of the Ministry of Commerce – Announcement on the Decision of Conditional Approval upon Anti-Monopoly Review of the Concentration of Business Operators by the Acquisition of the Equity of Alcatel Lucent by Nokia Oyj, available at: <http://fdj.mofcom.gov.cn/article/ztxx/201510/20151001139743.shtml>.

28 Article 23.6 of the NDRC Draft Guidelines.

agreements between pharmaceutical companies whereby manufacturers of brand-name drugs might buy off or settle with manufacturers of generics so that the former can continue to enjoy monopoly pricing after their patents have expired. Such conduct may be regarded as reaching horizontal monopoly agreements that 'split the market' or 'restrain development of new products' under the AML.<sup>29</sup>

## **VII OUTLOOK AND CONCLUSIONS**

In recent years, the AML enforcement agencies have been paying closer attention to enterprises' abusive behaviour in relation to IPRs. The Guidelines are supposed to enhance the clarity and practicability of the AML in terms of IPRs. Therefore, it could be reasonably expected that, with the formal release of the Guidelines, IPR abusive behaviour will be subject to more stringent regulation. In addition, AML law enforcement will be further strengthened with the improvement of the IP and antitrust regime, which in turn puts forward new challenges to corporate compliance.

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29 Article 13.2 and 13.4 of the AML.

# ECUADOR

*María Rosa Fabara Vera, Diego Ramírez Mesec and Daniel Castelo<sup>1</sup>*

## 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. On the other hand, since December 2016, intellectual property (IP) has been regulated at a national level by a new piece of legislation, the Organic Code for the Social Economy of Knowledge, Creativity and Innovation (the IP Code), which replaced the Intellectual Property Act of 2006. At a regional level, Decision 486 of the Andean Community (Decision 486) establishes the legal framework for IP in the Andean Community (Bolivia, Colombia, Ecuador and Peru). The LORCPM makes some provision regarding the interplay between competition law and intellectual property law, as do, to a lesser degree, the IP Code and Decision 486.

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

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

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

## II 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,

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

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

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

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

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

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

#### ii Refusals to license

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

Under the LORCPM, refusals to license could be considered under the broader category of refusals to deal or supply. Either as an abuse of dominant position or as an anticompetitive agreement, refusals to deal or supply are considered an infringement to the LORCPM if they

are deemed unjustifiable from a competition perspective. To date there has not been a case where the limits between justifiable and unjustifiable refusals to deal or supply have been established, although such a violation has been alleged (regarding precisely IP rights), but the allegation was considered baseless as the IP owner did offer a licence on fair, reasonable and non-discriminatory terms, whereas the claimant insisted on its own terms.

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

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

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

### **iii Unfair and discriminatory licensing**

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

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

### **iv Patent pooling**

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

Under Article 11 of the LORCPM patent pooling could be considered anticompetitive if it excludes third parties that in consequence are also excluded from a given market or markets. There are several provisions in Article 11 that could be used to challenge patent pooling; for example, refusals to deal if a third party is 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. This Article could also be used to create a case of collective dominance. In this Article, there are several provisions that could be used to challenge patent pooling;

for example, refusals to deal, unjustified disturbance of technological development, or if conditions imposed on non-participants are deemed exploitative (unfortunately there is no standard or guideline as to what may be exploitative).

**v Software licensing**

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

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

**vi Trademark licensing**

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

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

**IV STANDARD-ESSENTIAL PATENTS**

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

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

**i Dominance**

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

## **ii Injunctions**

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

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

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

## **iii Licensing under FRAND terms**

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

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

## **iv Anticompetitive or exclusionary royalties**

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

# **V INTELLECTUAL PROPERTY AND MERGERS**

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

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

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

In essence, IP rights are considered an asset and treated no differently from other tangible assets, so if one of the criteria required for approval is met, the transfer of IP rights would

indeed be deemed a ‘merger’ and need to be notified and obtain an approval. The criteria are: (1) when the combination of the market share of the parties involved reaches or exceeds 30 per cent of the relevant market; or (2) when the total turnover of the parties involved in the merger surpasses US\$75 million (unless in the financial or insurance industries, where the threshold is US\$1.2 billion or US\$80.25 million respectively).

## **ii Remedies involving divestitures of intellectual property**

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

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

## **VI OTHER ABUSES**

### **i Sham or vexatious IP litigation**

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

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

### **ii Misuse of the patent process**

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

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

### **iii Anticompetitive settlements of IP disputes**

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

Any settlement agreement of IP disputes that limits market entry (i.e., generic producers in the pharmaceutical sector) could violate the LORCPM as it may be deemed to constitute incitement or persuasion to refuse selling or delivering goods (Article 9.10), the conditioning of acts or agreements to acceptance of terms that according to their nature or commercial use are not related thereto (Article 9.13), an exclusionary practice (Article 9.15), abuse of an

IP right (Article 9.17), unjustified implementation of legal actions that result in restricting access to the market of actual or potential competitors (Article 9.18), or finally preventing or impairing market access to actual or potential competitors for reasons other than economic efficiency (Article 9.22).

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

## **VII OUTLOOK AND CONCLUSIONS**

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

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

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

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

# EUROPEAN UNION

*Thomas Vinje*<sup>1</sup>

## 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.’<sup>2</sup> This reflects the current global consensus that the overall goals of antitrust rules and intellectual property rights (IPRs) are consistent and that the two bodies of law are generally complementary. Nevertheless, circumstances do arise where exercises of IPRs conflict with antitrust laws and antitrust is deemed to prevail.

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

Article 101 TFEU prohibits agreements and concerted practices that ‘have as their object or effect the prevention, restriction or distortion of competition’.<sup>3</sup> Several pieces of EU secondary legislation and EC guidelines must be taken into account in applying Article 101 TFEU to IPR-related agreements. They include:

- 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 or 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 co-operation agreements, 2011 (the Horizontal Co-operation Guidelines).

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1 Thomas Vinje is a partner at Clifford Chance LLP. Special thanks go to Dieter Paemen, Ashwin van Rooijen, Milena Robotham, Stavroula Vryna, Victoria Baltrusch, Jonathan Blondeel and Axelle D’heygere for their valuable assistance in preparing this chapter.

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

3 Article 101 TFEU.

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

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

## II YEAR IN REVIEW

### i 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<sup>4</sup> were major steps towards bringing legal certainty to SEP owners and implementers. To date, the Court of Justice of the European Union (CJEU) ruling in *Huawei Technologies Co Ltd v. ZTE Corp*<sup>5</sup> is the only ruling by the CJEU dealing directly with the application of Article 102 TFEU to the exercise of SEPs, as described in Section IV, below. 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 TFEU where a potential licensee is willing to negotiate a licence on fair, reasonable and non-discriminatory (FRAND) terms. On 10 April 2017, the EC published a 'roadmap' entitled 'Standard Essential Patents for a European digitalised economy'<sup>6</sup> for its forthcoming policy paper on SEPs. The initiative aims to tackle three main problems: (1) opaque information about SEP exposure, (2) unclear valuation of the patented technologies, and (3) risks of uncertainty in the enforcement framework post-*Huawei*. The roadmap states that the EC expects to publish a Communication during June 2017.

### ii E-commerce sector inquiry

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

In particular, the EC has identified the practice of geo-blocking, defined by the EC as 'commercial practices whereby online providers prevent users from accessing and purchasing consumer goods/digital content services offered on their website based on the location of the

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4 Case COMP/C-3/39.939 *Samsung Electronics – Enforcement of UMTS standard essential patents* and Case AT.39985 *Motorola – Enforcement of GPRS standard essential patents*.

5 Case C-170/13 *Huawei Technologies* [2015] not yet published.

6 The EC roadmap is available at <http://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-1906931>.

user in a Member State different from that of the provider<sup>7</sup>,<sup>7</sup> as a potential barrier to trade and as a potential violation of Article 101 TFEU.<sup>8</sup> Online providers may sometimes rely on IPRs to restrict cross-border sales, and hence IPRs are relevant to the e-commerce sector inquiry.

On 10 May 2017, the EC published its final report to the Council and the European Parliament setting out the main findings and conclusions from the sector inquiry in relation to the development of e-commerce for consumer goods and e-commerce in digital content.<sup>9</sup> The report confirms that the growth of e-commerce has resulted in the emergence and evolution of certain business practices that raise competition concerns.

In particular, in relation to e-commerce in various consumer goods, manufacturers are increasingly using selective distribution systems and contractual restrictions to better control product distribution. Other contractual restrictions that might raise competition concerns, according to the Commission's final report, relate to resale pricing restrictions, restrictions on selling on online marketplaces, and territorial restrictions and geo-blocking. The report contends that geo-blocking is widespread throughout the EU and is implemented by way of restrictive agreements between suppliers and distributors rather than as a result of unilateral business decisions not to sell abroad.

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

The EC does not consider that the findings of the sector inquiry necessitate an early review of Commission Regulation (EU) No. 330/2010 on the application of Article 101(3) of the TFEU to categories of vertical agreements and concerted practices (the Vertical Restraints Block Exemption or the VRBE), 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.

### **iii 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

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7 Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition; paragraph 32.

8 Issues paper presenting initial findings of the e-commerce sector inquiry conducted by the Directorate-General for Competition; paragraph 49.

9 EC press release available at: [http://europa.eu/rapid/press-release\\_IP-17-1261\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1261_en.htm).

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.<sup>10</sup>

On 26 July 2016, the EC published its decision accepting Paramount Pictures' proposed commitments, which will last for five years.<sup>11</sup> 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.

The EC investigation is still ongoing and it remains to be seen whether any other studios will come forward with proposed commitments or whether the EC will proceed to infringement findings and perhaps impose fines on the other companies involved.

#### **iv Reverse patent settlements**

On 8 September 2016, the General Court (GC) issued its ruling in *Lundbeck*, the first EU court ruling with respect to reverse patent settlements. The GC confirmed the EC's decision that the reverse patent settlements between pharmaceutical company Lundbeck and a number of generic manufacturers constituted anticompetitive agreements. The GC clarified the applicable legal test for determining when generic drug manufacturers can be considered potential competitors to the patent holder (i.e., the branded drug manufacturer) in the context of patent litigation and for the first time ruled that reverse patent settlements can be a competition infringement 'by object' (i.e., conduct that is, by its very nature, harmful to the functioning of competition<sup>12</sup> without the need to demonstrate (actual or potential) anticompetitive effects). The judgments are an important clarification on the interaction between intellectual property law and the application of competition law. Lundbeck appealed the GC's decision on 18 November 2016 before the CJEU.

### **III LICENSING AND ANTITRUST**

#### **i Anticompetitive restraints**

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

Many restraints qualified as anticompetitive by these instruments – such as restrictions on a buyer's freedom to determine its own resale price, or provisions restricting to whom or

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10 EC press release available at [http://europa.eu/rapid/press-release\\_IP-16-2645\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2645_en.htm).

11 EC press release available at [http://europa.eu/rapid/press-release\\_IP-16-2645\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2645_en.htm).

12 Case C-209/07, *The Competition Auth.v. Beef Indus. Dev. Soc'y Ltd.*, 2008 E.C.R. I-08637, paragraph 17.

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

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

### ***Territorial restrictions and exhaustion***

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

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

### ***Grant-back obligations***

Unlike the old TTBER, the new TTBER no longer exempts exclusive 'grant-back' obligations, pursuant to which a licensee is required to license or grant back to the licensor on an exclusive basis any technology derived from or improving on that of the licensor. Whereas the old regime exempted exclusive grant-back obligations in limited circumstances, namely where

they pertained only to ‘non-severable’ technology, or technology that necessarily infringes on the licensor’s IPRs, exclusive grant-back obligations are now excluded entirely from the scope of the TTBER. While exclusive grant-back obligations are not considered hardcore restrictions, their compatibility with competition law will need to be assessed on an individual basis. Licensors may alternatively negotiate a grant-back provision on a non-exclusive basis.

### ***No-challenge clauses***

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

### **ii Refusals to license**

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

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

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

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

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

### **iii Unfair and discriminatory licensing**

Certain licensing terms imposed by dominant firms may be deemed unfair or discriminatory and as such could be held abusive under Article 102(a) TFEU. A number of cases have in particular dealt with alleged excessive pricing by dominant right holders. Nonetheless, excessive pricing cases remain relatively rare due in part to the difficulty of establishing an appropriate counterfactual royalty in a but-for competitive market. *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 or (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, *supra*).

Software licences between undertakings may be subject to Article 101 TFEU, in which case the above-mentioned rules on anticompetitive restraints would generally apply. The TTBER covers a subset of software licences, namely those agreements pursuant to which software is licensed to enable the licensee to produce goods or services, including through incorporation of the software into contract products.<sup>13</sup> 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’.<sup>14</sup> Such agreements are governed instead by the Vertical Block Exemption Regulation and the accompanying Guidelines on Vertical Restraints.

#### vi Trademark licensing

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

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

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13 Technology Transfer Guidelines: paragraph 63.

14 See recital 7 to the TTBER.

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

Co-existence 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 co-existence agreements are relatively common, early case law on enforceability of such agreements<sup>15</sup> 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.

Co-existence 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'.<sup>16</sup> 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

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15 Case 35/83 *BAT v. European Commission* (Toltecs/Dorcet) [1985] ECR 363.

16 Commission Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements [2011] OJ C 11/1, paragraph 287.

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.<sup>17</sup>

Moreover, it is commonly accepted that standards are beneficial for the economy, facilitating interoperability and cross-border trade and fostering innovation;<sup>18</sup> standard-setting allows for a common technological specification to be established, enabling multiple devices and systems to be compatible regardless of manufacturer or the platform on which those devices or systems are being used. However, uncertainty as to how to apply EU competition law to the exercise of SEPs had led to a fierce debate in Europe.

Enforcement in the EU has centred on the issue of whether and in which circumstances seeking an injunction for an SEP against an alleged patent infringer constitutes an abuse of dominant position pursuant to Article 102 TFEU. The EC has considered this issue in its fully reasoned Article 7 infringement decision in the *Motorola* case, and made preliminary findings on this issue in its *Samsung* Article 9 commitments decision. The issue is also the subject of the CJEU's judgment in *Huawei Technologies Co Ltd v. ZTE Corp*, now the leading EU precedent on this subject.<sup>19</sup> 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, *infra*). 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 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.<sup>20</sup> 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*,<sup>21</sup> 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.<sup>22</sup> In the EC's view, the lack

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17 Id., Section 7.

18 See, e.g., Horizontal Guidelines (n 1) paragraph 308; Case AT.39985 *Motorola – Enforcement of GPRS standard essential patents*, paragraph 46; and Regulation (EU) No. 1025/2012 of the European Parliament and of the Council of 25 October 2012 on European standardisation, OJ L 316/12, recital 3.

19 Case C-170/13 *Huawei Technologies* [2015] not yet published.

20 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.

21 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.

22 Case COMP/M.6381 – *Google/MMI*, paragraph 54.

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.<sup>23</sup>

This approach to market definition leads to each SEP holder having a 100 per cent market share on a narrowly defined market. Therefore, SEP holders face the challenge of demonstrating that they face competitive constraints that prevent them from exercising market power notwithstanding their 100 per cent market share. The EC did not accept Motorola's argument that its market power was constrained by the countervailing buyer power of Apple – the potential licensee in that case – by virtue of Apple's own portfolio of SEPs and non-SEPs. Rather, the EC took the view that it was impossible for Apple to find an alternative supplier of that particular essential technology, if Apple were to comply with the standard on which Motorola's patent reads.

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

## ii Injunctions

The CJEU judgment in *Huawei* is the leading EU case setting out the circumstances in which the seeking and enforcing of injunctions for FRAND-encumbered SEPs against an alleged infringer will be deemed contrary to Article 102 TFEU. The judgment was handed down following a request for a preliminary ruling from the Landgericht Düsseldorf in the course of a national dispute between Huawei Technologies Co Ltd (Huawei) and ZTE Corp, together with ZTE Corp's German subsidiary (ZTE).<sup>24</sup> The Landgericht Düsseldorf sought guidance from the CJEU as to whether and in what circumstances a dominant SEP holder infringes Article 102 TFEU by seeking an injunction against a potential licensee.

The CJEU held that it is in principle possible for an SEP holder to infringe Article 102 TFEU by seeking an injunction for FRAND-encumbered SEPs.<sup>25</sup> In reaching this initial conclusion, the CJEU considered the balance between 'maintaining free competition' pursuant to Article 102 TFEU and protecting the fundamental rights to property (including intellectual property) and access to effective judicial remedy, guaranteed by Article 17(2) and Article 47 of the Charter of Fundamental Rights of the EU.<sup>26</sup> The CJEU noted that patent implementers require licences and that the act of seeking injunctive relief, as a manifestation of

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23 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 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).

24 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.

25 *Supra*, footnote 4, paragraphs 53 and 54.

26 *Id.*, paragraph 42 et seq.

the right to exclude by opposing infringement, falls within the scope of IP rights.<sup>27</sup> 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.<sup>28</sup> The CJEU thus considered that the standard setting context, which renders 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.<sup>29</sup> 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.<sup>30</sup>

Having established that seeking an injunction for SEPs could in principle infringe Article 102 TFEU, the CJEU went on to define the circumstances in which an injunction for SEPs would be permissible, and in doing so sought to balance two opposing interests: (1) that of potential licensee with the legitimate expectation created by the FRAND commitment that the SEP holder would provide a licence, against (2) that of the SEP holder to obtain FRAND remuneration for the use of the SEP holder's patents.<sup>31</sup> 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'.<sup>32</sup>
- 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.<sup>33</sup>
- 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'.<sup>34</sup> 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'.<sup>35</sup>
- 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'.<sup>36</sup>

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27 See, e.g., Case C-170/13 *Huawei Technologies* [2015] not yet published, paragraphs 58 and 59.

28 Cited by the CJEU: *Volvo*, 238/87, EU:C:1988:477, paragraph 9; *RTE and ITP v. Commission*, C-241/91 P and C-242/91 P, EU:C:1995:98, paragraph 50; and *IMS Health*, C-418/01, EU:C:2004:257, paragraph 35.

29 *Supra*, footnote 4, paragraphs 50–52. See also, AG Wathelet's Opinion, paragraph 70 et seq.

30 *Id.*, paragraphs 53 and 54.

31 *Id.*, paragraphs 54–55.

32 *Id.*, paragraph 61.

33 *Id.*, paragraph 63.

34 *Id.*, paragraph 65.

35 *Id.*, paragraph 67.

36 *Id.*, paragraph 69.

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.<sup>37</sup>

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 the reasoning in the EC *Motorola* decision, where the lack of willingness of Apple was raised as an objective justification for Motorola's conduct<sup>38</sup> – 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.

### 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.<sup>39</sup>

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.<sup>40</sup> 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 (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 TFEU. Accordingly, the EC's theory of harm did not include any reference to the exclusionary object or effect of Rambus' conduct.<sup>41</sup> 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.<sup>42</sup>

To minimise the risk of patent ambush, the European SSOs – in collaboration with the EC<sup>43</sup> – have all adopted IPR policies that impose, *inter alia*, an obligation on SEP holders to disclose their SEPs.

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37 Id., paragraph 68.

38 Case AT.39985 *Motorola – Enforcement of GPRS standard essential patents*, paragraphs 430–464.

39 Horizontal Guidelines (n 1) paragraph 286.

40 Case COMP/38.636 *Rambus*.

41 Under EU competition law, a dominant undertaking that imposes excessive prices infringes Article 102 TFEU.

42 Case COMP/38.636 *Rambus*, paragraph 71.

43 For example, the European Telecommunications Standardisation Institute (ETSI) changed its standard-setting rules to strengthen the requirement for early disclosure of essential IPRs,

#### iv Excessive pricing of SEPs

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

However, by closing its investigation in *Qualcomm*,<sup>44</sup> the EC passed upon the only opportunity thus far to decide whether 'mere' supra-FRAND pricing of SEPs can constitute an abuse of dominance. Instead, it noted that the case had raised 'complex' issues and that regulators should be 'careful about overturning commercial agreements'.<sup>45</sup>

*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,<sup>46</sup> it remains difficult to establish what constitutes a FRAND rate, in particular if one accepts that not all technologies covered by SEPs contribute the same added value to a given standard. Further clarification cannot be found in the EC's decisions. Therefore, it remains an open question as to how the EC would determine that royalties actually charged were significantly above FRAND.

Nevertheless, charging a supra-FRAND price for an SEP licence could possibly be regarded as an exclusionary abuse under Article 102 TFEU, in the form of a constructive refusal to license. By requiring potential licensees to pay excessive royalty fees under the threat of an injunction, SEP holders could prevent effective access to the adopted standard.<sup>47</sup> Therefore, the threat or act of seeking injunctions has been considered by the EC as having the potential to anticompetitively exclude, as well as exploit (through eliciting supra-FRAND royalty rates) potential licensees.<sup>48</sup> 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.<sup>49</sup>

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'.<sup>50</sup>

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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](http://europa.eu/rapid/press-release_IP-05-1565_en.htm?locale=en)).

44 Case COMP/39.247 – *Texas Instruments/Qualcomm*.

45 European Commission, MEMO/09/516, *Antitrust: Commission closes formal proceedings against Qualcomm*, available at: [http://europa.eu/rapid/press-release\\_MEMO-09-516\\_en.htm](http://europa.eu/rapid/press-release_MEMO-09-516_en.htm).

46 Horizontal Guidelines (n 1) paragraphs 289–290.

47 Horizontal Guidelines (n 1) paragraphs 269 and 287.

48 See Case AT.39985 *Motorola – Enforcement of GPRS standard essential patents*; and Case COMP/C-3/39.939 *Samsung Electronics – Enforcement of UMTS standard essential patents*.

49 EU Merger Regulation, Article 2(2).

50 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.

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).<sup>51</sup> 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.<sup>52</sup>

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’.<sup>53</sup> In such circumstances, the joint venture must have sufficient resources, including intangible assets such as IPRs, to operate independently on a market.<sup>54</sup> 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.<sup>55</sup>

In this context, the EC approved on 16 June 2015 in *PRSFm/STIM/GEMA/JV* the proposed creation of a joint venture for cross-border online music licensing and copyright administration services by three British, Swedish and German music collecting societies.<sup>56</sup> 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

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51 EC Consolidated Jurisdictional Notice under Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings (Consolidated Jurisdictional Notice), paragraphs 24 and 18.

52 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.

53 EU Merger Regulation, Article 3(4).

54 Consolidated Jurisdictional Notice, paragraph 94.

55 Consolidated Jurisdictional Notice, paragraphs 106–108.

56 Case No. COMP/M.6800 – *PRSFm/STIM/GEMA/JV*, decision of 16 June 2015.

licence processing tools.<sup>57</sup> 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.<sup>58</sup> 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.<sup>59</sup>

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.<sup>60</sup> For instance, on 2 December 2015, the EC approved the proposed acquisition of Cytec by Solvay subject to Solvay divesting the entirety 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.<sup>61</sup>

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.<sup>62</sup> For instance, in *GlaxoSmithKline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business*,<sup>63</sup> 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,

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57 Case No. COMP/M.6800 – *PRSF/M/STIM/GEMA/JV*, decision of 16 June 2015, paragraph 59.

58 EU Merger Regulation, Articles 6(2) and 8(2).

59 EU Merger Regulation, Recital 30, Articles 6(2) and 8(2).

60 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 – *Altice/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, *supra*, and paragraph 38.

61 Case No. COMP/M.7777 – *Solvay/Cytec*, decision of 2 December 2015, Section IV, *supra*.

62 Remedies Notice, paragraph 38.

63 Case No. COMP/M.7276 – *Glaxosmithkline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business*, decision of 28 January 2015.

given the importance of the IPRs to the merged entity's retained business.<sup>64</sup> The EC has stated that licensing remedies should be as effective as divestitures in enabling the licensee to compete with the merged entity.<sup>65</sup>

Finally, the EC reaffirmed the acceptability of the scarcely used rebranding commitments in *Merck/Sigma-Aldrich*. Such commitments entail the granting of an exclusive, time-limited licence to use a brand.<sup>66</sup> In particular, rebranding commitments provide for a period within which the licensee must rebrand the product under the licensee's own brand.<sup>67</sup> Similarly, in *Honeywell/Elster* and *DEMB/Mondelez/Charger OpCo*, the EC accepted a remedy whereby the merged entity committed to a full transfer of the licence for a brand with a temporary licence back from the purchaser to the entity for the purpose of rebranding certain products that were not being divested.<sup>68</sup>

### **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.<sup>69</sup> Such an alternative remedy must have effects at least equivalent to a divestiture of the IPRs.<sup>70</sup>

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 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.<sup>71</sup>

## **VI OTHER ABUSES**

While these types of conduct can potentially emerge in any industry that relies on IP rights, we will focus on the pharmaceutical sector, which has generated the vast majority of precedents. Indeed, the EC 2009 report on its Pharmaceutical Sector Inquiry (PSI) identified the below types of conduct as part of the 'tool box' that originator pharmaceutical companies

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64 Case No. COMP/M.7276 – *Glaxosmithkline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business*, decision of 28 January 2015, paras. 366 and 370-371.

65 Remedies Notice, paragraph 38.

66 Case No. COMP/M.7435 – *Merck/Sigma-Aldrich*, decision of 15 June 2015.

67 Remedies Notice, paragraphs 39–42.

68 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.

69 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.

70 Remedies Notice, paragraph 61.

71 Case No. COMP/M.7822 – *Dentsply/Sirona*, decision of 25 February 2016.

(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.).<sup>72</sup>

### **i Sham or vexatious IP litigation**

It follows from the obligations imposed on dominant companies by Article 102 TFEU that, in specific circumstances, they may be deprived of the right to adopt a course of conduct that is not in itself abusive and that would even be unobjectionable if adopted by non-dominant companies.<sup>73</sup>

This can also be the case with respect to fundamental rights, such as the right of access to a court.<sup>74</sup> 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*<sup>75</sup> – 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.

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’.<sup>76</sup>

Similarly, an interesting CJEU ruling under Article 101 TFEU is expected in *Genentech Inc. v. Hoechst GmbH*.<sup>77</sup> The CJEU’s ruling will give insights into whether EU competition law precludes parties from enforcing patent licensing agreements, requiring royalties, after the invalidation of the patent.

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72 Commission Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.1 ff.

73 Case T-111/96 *ITT Promedia v. European Commission*, judgment of 17 July 1998, ECLI:EU:T:1998:183, paragraph 139.

74 See Article 47 of the Charter of Fundamental Rights of the EU.

75 Case T-119/09 – *Protégé International v. Commission*, judgment of 13 September 2012, ECLI:EU:T:2012:421.

76 Case T-111/96 *ITT Promedia v. European Commission*, judgment of 17 July 1998, ECLI:EU:T:1998:183, paragraph 140.

77 Case C-567/14, *Genentech Inc. v. Hoechst GmbH*, not yet published. This case was brought as a request for a preliminary ruling by the Paris Court of Appeal.

## ii Misuse of the patent process

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

The key EU precedent remains the CJEU's 2012 *AstraZeneca* judgment,<sup>78</sup> which upheld a GC judgment and EC decision finding that AstraZeneca had abused its dominance in two ways:<sup>79</sup>

- a making false representations to patent authorities in various EEA Member States fraudulently to obtain or maintain supplementary protection certificates (SPCs) for its anti-ulcer medicine, Losec; and
- b submitting requests to deregister the marketing authorisation for Losec capsules in Denmark, Norway and Sweden in combination with the withdrawal of Losec capsules from the market and the launch of 'new-generation' Losec tablets, thereby preventing generic competitors from relying on that marketing authorisation to enter the market.

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

AstraZeneca argued that the alleged anticompetitive effects of its conduct could only materialise if the relevant public authorities were actually misled into granting the requested SPCs. The CJEU rejected this argument, stating that where it is established that behaviour is objectively of such a nature as to restrict competition, the question whether it is abusive in nature cannot depend on the contingencies of the reactions of third parties. Therefore, the fact that certain public authorities were not misled by AstraZeneca's false representations did not negate the abusive nature of AstraZeneca's conduct.<sup>80</sup>

AstraZeneca's second abuse marked the first time the EC dealt with 'evergreening' or 'product-hopping' practices.<sup>81</sup> 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.<sup>82</sup> The

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78 Case C-457/10 P, *AstraZeneca AB and AstraZeneca plc v. European Commission*, judgment of 6 December 2012, ECLI:EU:C:2012:770.

79 Case COMP/A. 37.507/F3 – *AstraZeneca*, decision of 15 June 2005.

80 Case T-321/05 *AstraZeneca v. Commission*, judgment of 1 July 2010 ECLI:EU:T:2010:266, paragraph 360.

81 These practices were also identified in the EC's Pharmaceutical Sector Inquiry. See Commission Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.6.

82 Article 4 of Council Directive 65/65/EEC of 26 January 1965 on the approximation of provisions laid down by Law, Regulation or Administrative Action relating to proprietary medicinal products, OJ 022 , 9 February 1965 P. 0369–0373.

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).<sup>83</sup>

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'<sup>84</sup> in establishing an abuse.

*AstraZeneca* makes clear that the manner in which an undertaking acquires IP protection can amount to a competition law violation.<sup>85</sup> Exploiting 'loopholes' in the regulatory system may entail a significant antitrust risk, even in the absence of intent to affect competition on the market.

### iii Anticompetitive settlements of IP disputes

Settlements between patent holders and firms challenging patent validity are common and generally recognised as efficient tools to resolve patent disputes: they are cost-effective and provide legal certainty to the parties.<sup>86</sup>

Nonetheless, competition concerns can arise where the defendant's claims challenging validity or infringement of the defendant's patent, or both, are sufficiently strong not to warrant concessions from the plaintiff in relation to timing and scale of market entry.

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

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83 Case T-321/05 *AstraZeneca v. Commission*, judgment of 1 July 2010 ECLI:EU:T:2010:266, paragraph 812.

84 Case T-321/05 *AstraZeneca v. Commission*, judgment of 1 July 2010 ECLI:EU:T:2010:266, paragraph 359. See also paragraph 813.

85 Case COMP/A. 37.507/F3 – *AstraZeneca*, decision of 15 June 2005, paragraphs 742–743.

86 See M Besen, 'Antitrust Aspects – Misuse of Patents', in C Milbradt, ed., *Patent Litigation in Germany* (GLP, 2011), p. 282.

Prior to the 2009 PSI Report, the compatibility of reverse payment patent settlements with EU competition law was considered a 'legal grey area'.<sup>87</sup> 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.<sup>88</sup>

Contrary to cases involving misuse of the patent process,<sup>89</sup> the EU courts have yet to express their views on pay-for-delay cases.

In its 2013 *Lundbeck* decision, the EC provided its first analysis of pay-for-delay agreements.<sup>90</sup> The EC found that six (relatively short-term) patent settlements between originator Lundbeck and various companies intending to market generic versions of antidepressant drug citalopram had as their object the restriction of competition in violation of Article 101 TFEU.

Pursuant to these settlement agreements, Lundbeck agreed to make cash payments to the generic companies, or guarantee certain profits for them under distribution agreements or purchase their citalopram stock (to take it out of circulation), or a combination of these.<sup>91</sup> The EC alleged that, in return, the generic companies agreed to delay their entry in the EEA.<sup>92</sup>

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 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.<sup>93</sup>

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87 According to a 28 January 2004 press release by the Danish Competition Authority, which at the time, together with the European Commission, was investigating a series of settlement agreements between Lundbeck and generic companies. The press release is available at: [www.kfst.dk/Afgoerelsesdatabase/Konkurrenceomraadet/Styrelsesafgoerelser/2004/Undersoegelse-af-Lundbeck?tc=A23BBB6AE22D4D28A9CDB2A04F087E18](http://www.kfst.dk/Afgoerelsesdatabase/Konkurrenceomraadet/Styrelsesafgoerelser/2004/Undersoegelse-af-Lundbeck?tc=A23BBB6AE22D4D28A9CDB2A04F087E18).

88 Commission Staff Working Document, Technical Annex to the Commission Communication Part 1 (8 July 2009) available at: [http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff\\_working\\_paper\\_part1.pdf](http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf), paragraphs 270, 277. ff. Commission Communication, Executive Summary of the Pharmaceutical Sector Inquiry Report (8 July 2009), 3.2.4.

89 See Section VI.ii, *supra*.

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

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

92 Following up on the Pharmaceutical Sector Inquiry, the Commission 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](http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/patent_settlements_report6_en.pdf).

93 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.

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.<sup>94</sup>

Notably, the GC confirmed the EC's view that agreements such as the ones that Lundbeck signed with the potential generic entrants can constitute by-object infringements<sup>95</sup> 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).<sup>96</sup>

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.<sup>97</sup>

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.

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94 Case T-472/13, *H. Lundbeck A/S, Lundbeck Ltd v. European Commission*, ECLI:EU:T:2016:449.

95 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.

96 A contractual restriction can escape the Article 101(1) TFEU prohibition if it is ancillary to a main agreement that is itself not anticompetitive in nature and the main agreement would be impossible to carry out without the existence of the restriction in question. The fact that the main agreement would simply be rendered more difficult to implement/less profitable without the restriction in question is not sufficient to make the restriction lawful. (see Case C-382/12, *MasterCard and Others v. Commission*, EU:C:2014:2201, paragraph 91).

97 Case T-472/13, *H. Lundbeck A/S, Lundbeck Ltd v. European Commission*, ECLI:EU:T:2016:449, paragraph 149 et seq.

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.<sup>98</sup> The parties also argued that the settlements could lead to efficiency gains. The GC rejected this argument, as it held that the efficiency gains were not proven by the parties to the required standard of proof. In relation to the imposition and level of the fine, the GC held that it was not unforeseeable by the parties that the agreements were anticompetitive at the time of conclusion, and so the imposition of a fine was warranted. The fact that the EC in 2005 had expressed doubts as to whether the agreements were in fact anticompetitive did not make a difference in this respect, as this was merely a preliminary assessment, and significant emphasis was placed on the size of the reverse payment as a relevant factor in that assessment.

In July 2014, the EC fined originator Servier and five generic companies for having concluded patent settlements aimed at delaying entry of generic versions of the cardiovascular medicine perindopril. As in *Lundbeck*, the EC found that Servier's settlements violated Article 101 TFEU by object (i.e., removing the need for the EC to prove concrete harmful effects on competition).<sup>99</sup> However, unlike *Lundbeck*, the EC based its infringement decision against Servier also on Article 102 TFEU: the EC found that Servier had not only induced the settlements, but also acquired (scarce) technology essential to generic entry.

The GC's judgment on appeal is currently pending.<sup>100</sup>

In 2011, the EC opened an *ex officio* investigation against Cephalon and Teva related to their 2005 patent settlement regarding the sleeping disorder drug modafinil.<sup>101</sup> The investigation 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'<sup>102</sup> 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.<sup>103 104</sup>

Determining whether generic suppliers present at least potential competition opens the door for the EC to tread dangerously close to assessing patent validity.<sup>105</sup> Potential competition is established when it is 'based on realistic grounds' while 'the mere theoretical

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98 Case T-472/13, *H. Lundbeck A/S, Lundbeck Ltd v. European Commission*, ECLI:EU:T:2016:449, paragraph 168 et seq.

99 Case COMP/AT.39612 – *Perindopril (Servier)*, decision of 9 July 2014.

100 Case T-691/14 – *Servier SAS and Others v. Commission*.

101 The European Commission's press release on the *Cephalon/Teva* investigation is available at: [http://europa.eu/rapid/press-release\\_IP-11-511\\_en.htm?locale=fr](http://europa.eu/rapid/press-release_IP-11-511_en.htm?locale=fr).

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

103 Ibid.

104 This approach is similar to the EC's approach to 'co-existence agreements' between trademark owners; see Section III.vi, *supra*.

105 See for instance the EC's analysis in *Lundbeck*. Ibid, paragraphs 667–671.

possibility to enter a market is not sufficient'.<sup>106</sup> 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*.<sup>107</sup>

The EC and the courts have interpreted the notions of 'limiting entry' and 'value transfer' broadly.<sup>108</sup> 'Limiting entry of generic competition' could range from an absolute restriction on entry to limited forms of non-immediate or non-independent entry.<sup>109</sup> Similarly, 'value transfers' are not limited to direct monetary payments, but can also include more covert transfers of value.<sup>110</sup> 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.<sup>111</sup>

## 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 *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.

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

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

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106 Communication from the Commission – Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ C 11, 14 January 2011, page 1, point 10.

107 Case T-321/05, *AstraZeneca AB and AstraZeneca plc v. Commission*, judgment of 1 July 2010, paragraph 362.

108 Commission Staff Working Document, Technical Annex to the Commission Communication Part 1 (8 July 2009), available at [http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff\\_working\\_paper\\_part1.pdf](http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf), paragraph 269.

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

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

111 Case COMP/AT.39226 – *Lundbeck*, decision of 19 June 2013, paragraph 660.

# FRANCE

*David Por and Florence Ninane*<sup>1</sup>

## I INTRODUCTION

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

## II YEAR IN REVIEW

Over the past year, the main developments affecting the interplay between IP and antitrust laws occurred at the European level, with the General Court's first rulings on 'pay-for-delay' agreements.<sup>2</sup> After the expiration of its patent for a medical molecule used in antidepressant medicines, Lundbeck concluded agreements with different companies active in the sale of generic medicinal products. Under these agreements, the generic companies would stay out of the market, in exchange for different kinds of monetary and commercial consideration. The Commission considered these agreements as restrictive by their object and sanctioned both Lundbeck and the generic companies.<sup>3</sup> Lundbeck and the generic companies lodged a total of six appeals against the Commission decision. The General Court endorsed the Commission's view that Lundbeck and the generic companies were potential competitors when the agreements were concluded. It thus ruled that the Commission was entitled to find that the agreements were restrictive by their object. Appeals are still pending before the European Court of Justice.

The past year has also seen a significant uptake in litigation involving standard-essential patents (SEPs). These cases have been brought in the wake of the *Huawei v. ZTE* decision of the Court of Justice of the European Union (CJEU), which laid down a road map for SEP owners and implementers of standards.<sup>4</sup> After a period without significant litigation in this

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2 General Court, 8 September 2016, *inter alia*, T-460/13, *Sun Pharmaceuticals Industries Ltd and Ranbaxy Ltd v. Commission*, and T-472/13, *H. Lundbeck A/S and H. Lundbeck Ltd v. Commission*.

3 Commission Decision C(2013) 3803 final of 19 June 2013 relating to a proceeding under Article 101 [TFEU] and Article 53 of the EEA Agreement (Case AT.39226 – *Lundbeck*).

4 CJEU, 15 July 2015, C-170/13, *Huawei v. ZTE*.

space, multiple lawsuits have been brought by SEP owners, including in France. They have not yielded significant decisions yet, but many of the cases ask the French courts to take positions on matters of principle turning around the substantive definition of the way to determine fair, reasonable and non-discriminatory (FRAND) terms and conditions.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

Under French law, anticompetitive restraints imposed in the context of licensing agreements fall under either Article L.420-1 or Article L.420-2 of the FCC or under the corresponding EU provisions, respectively Article 101 and Article 102 TFEU. This includes, *inter alia*, non-compete obligations, resale price maintenance, market and customer allocation. In addition, Regulations No. 330/2010 (block exemption regulation applicable to vertical restraints – VBER), No. 316/2014 (technology transfer block exemption – TTBE), No. 1218/2010 (specialisation agreements) and No. 1217/2010 (R&D agreements) are directly enforceable where EU competition law applies, and the positions taken in the set of guidelines<sup>5</sup> published by the European Commission may be relied on by the FCA and the courts in their assessment.

Anticompetitive restraints in the context of licensing agreements may take several forms, such as abusive tying. In the audio-visual broadcasting rights sector, the FCA has found that Canal Plus, a provider of pay-TV services, abused its dominant position by subjecting its pre-purchase of exclusive broadcasting rights for French movies to the producers' commitment not to transfer the broadcasting rights for pay-per-view during Canal Plus's exclusivity period.<sup>6</sup> The French Supreme Court upheld this decision.<sup>7</sup>

Furthermore, resale price maintenance is prohibited by Article L.420-1 of the FCC and its EU equivalent, Article 101 TFEU. This rule applies to distribution agreements involving products or services protected by IP rights.

#### ii Refusals to license

Although French law does not make any specific provision on the refusal to license, it may be considered an abuse of dominant position under Article L.420-2 of the FCC and its EU equivalent, Article 102 TFEU.

In an Opinion<sup>8</sup> relying on *Magill*,<sup>9</sup> the FCA considered that an intellectual property right could be considered an essential facility. The FCA went on to find that a software could be an essential facility. This would not be the case, however, where (1) the undertaking requesting to be granted access operates without the software, or (2) if equivalent software

5 These guidelines include, for example, the Guidelines on Vertical Restraints (OJ C130/01 of 19 May 2010) or the Guidelines on the application of Article [101(3)] TFEU (OJ C101 of 27 April 2004).

6 FCA, decision 98-D-70 of 23 November 1998 concerning a complaint filed by Multivision and Télévision Par Satellite in the audiovisual broadcasting rights sector.

7 French Supreme Court, judgment of 30 May 2000, No. 00-17.038.

8 FCA, Opinion 02-A-08 of 22 May 2002, concerning the request lodged by the Association for the promotion of press distribution.

9 CJEU, judgment of 6 April 1995, C-241/91 P and C-242/91 P, *Magill*.

could be developed under reasonable economic conditions. The FCA<sup>10</sup> and the Paris Court of Appeal<sup>11</sup> 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.<sup>12</sup>

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.<sup>13</sup> This decision was handed down against the background of ongoing patent litigation between Nespresso and manufacturers of compatible capsules, and the behaviour at stake involved both technical aspects (redesigns of the coffee machines that had the effect of making the entry of competing capsules more difficult) and patent strategies.

### **iii Unfair and discriminatory licensing**

Unfair or discriminatory licensing may fall under either Articles L.420-1 or L.420-2 FCC and their EU equivalents, Article 101 and 102 TFEU. The FCA recently held that ongoing IP litigation with regard to certain rights cannot justify abusive discrimination on the part of a dominant undertaking. As a result, the FCA considered that a dominant undertaking abused its position by refusing to license its leading database to laboratories using the software manufactured by a specific company, while it simultaneously agreed to license the database to laboratories using the software manufactured by competitors.<sup>14</sup> This decision was upheld by the Paris Court of Appeal.<sup>15</sup>

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.<sup>16</sup> This decision was essentially upheld by the Paris Court of Appeal.<sup>17</sup> However, the FCA does not easily concede the unfair nature of the attribution of TV rights. Indeed, it

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10 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.

11 Paris Court of Appeal, judgment of 29 June 1999 No. 1999/01269.

12 FCA, decision 04-D-09 of 31 March 2004, concerning certain practices by Codes Rousseau in the sector of teaching material for driving schools.

13 FCA, decision 14-D-09 of 4 September 2014 concerning practices engaged in by Nestlé, Nestec, Nestlé Nespresso, Nespresso France and Nestlé Entrepise in the espresso coffee-machines sector.

14 FCA, decision 14-D-06 of 8 July 2014 regarding certain practices by Cegedim in the medical information databases sector.

15 Paris Court of Appeal, judgment of 24 September 2015, No. 2014/17586.

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

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

recently rejected a complaint by Ma Chaîne Sport (MCS), which argued that the attribution of certain allegedly semi-premium TV rights by the National Rugby League to certain entities was the result of an anticompetitive agreement, and that the attribution process was discriminatory. The FCA considered that the evidence brought forward by the applicant was insufficient to establish that the defendant's conduct was anticompetitive.<sup>18</sup>

Finally, in an opinion,<sup>19</sup> 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.

#### **iv Patent pooling**

Patent pooling may have as its object or effect the restriction of competition, and may therefore fall under Article L.420-1 FCC or 101 TFEU, or both. In a thematic study published in 2004, the FCA recognised that cross-licensing between competitors gives the undertakings 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.<sup>20</sup> 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, above, concerning refusal to license, software may be considered an essential facility by the FCA or by French courts. This question was addressed extensively in a series of judgments and decisions involving the Nouvelles Messageries de Presse Parisienne (NMPP). The FCA ordered NMPP to set up a connection between its software and Messageries Lyonnaises de Presse's (MLP) on two grounds: (1) there were doubts as to whether the software could be reproduced, and (2) the lack of access to the software could jeopardise MLP's activities.<sup>21</sup> The Paris Court of Appeal dismissed the appeal,<sup>22</sup> 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.<sup>23</sup> 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

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

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

20 FCA, 2004 Annual Report, Thematic Study, pages 124-125.

21 FCA, decision 03-MC-04 of 22 December 2003, concerning Messageries Lyonnaises de Presse's request for interim measures.

22 Paris Court of Appeal, judgment of 12 February 2004, No. CT0175.

23 French Supreme Court, judgment of 12 July 2005, No. 04-12.388.

could set up its own distribution network.<sup>24</sup> The French Supreme Court dismissed the appeal filed against that judgment.<sup>25</sup> 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.<sup>26</sup>

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

#### **vi Trademark licensing**

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

### **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.<sup>29</sup> The reasoning of the Court does not appear to be based on contract law, but instead on public policy considerations; arguably, thus, despite the issue not being explicitly decided, the Court appears to have assumed the existence of a dominant position.

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

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24 Paris Court of Appeal, judgment of 31 January 2006, No. 2005/14782.

25 French Supreme Court, judgment of 20 February 2007, No. 06-12.424.

26 FCA, decision 08-D-04 of 25 February 2008 concerning certain practices by NMPP.

27 FCA, decision 12-D-01 of 10 January 2012, concerning a request for interim measures in relation to certain practices by Oracle Corporation and Oracle France.

28 French Supreme Court, judgment of 23 March 2010, No. 09-66522.

29 Paris First Instance Court (PI proceedings), judgment of 8 December 2011, *Samsung v. Apple*, No. 11/58301.

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.<sup>30</sup>

## ii Injunctions

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

There are two precedents where the court, ruling on the merits, issued such injunctions.<sup>31</sup> In both cases, the court explicitly noted that licences – which seem to have been on standard terms – were made available by the patentee. In *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 *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.<sup>32</sup> 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<sup>33</sup> or of invalidity.<sup>34</sup> 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.<sup>35</sup>

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

31 Paris First Instance Court, *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, *Koninklijke Philips Electronics NV v. TX Western Europe and Africa and CDVD SL*, 23 July 2011.

32 Paris First Instance Court, *Sisvel, France Telecom, TDF, Audio MPEG, Institut für Rundfunktechnik GmbH and Philips Electronics NV v. Leroy Merlin*, 20 October 2011.

33 Paris Court of Appeals, *LUPA Finances v. Motorola, Nokia and Ericsson*, 14 April 1999 and 23 October 2002.

34 Paris Court of First Instance, *Melco & MMCE v. CP8*, 9 March 2007.

35 Paris Court of First Instance, *Koninklijke Philips Electronics NV v. Maître Anny H. ès qualités de liquidateur de la Société Manufacturing Advanced Media Europe*, 14 September 2007.

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

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 pre-date 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*,<sup>38</sup> 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<sup>39</sup> would need to be brought in main proceedings.

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

### 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*,<sup>40</sup> 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.

36 President of the Paris First Instance Court, *Sisvel, France Telecom, TDF, Audio MPEG, Institut für Rundfunktechnik GmbH and Philips Electronics NV v. Carrefour*, 1 February 2011; Paris Court of Appeals, *Sisvel, France Telecom, TDF, Audio MPEG, Institut für Rundfunktechnik GmbH and Philips Electronics NV v. Carrefour*, 27 April 2011; President of the Paris First Instance Court, *Sisvel, France Telecom, TDF, Audio MPEG, Institut für Rundfunktechnik GmbH and Philips Electronics NV v. Electro Depot*, 28 June 2011; Paris First Instance Court, *Sisvel, France Telecom, TDF, Koninklijke Philips Electronics, Institut für Rundfunktechnik, Audio MPEG Inc v. Lema SAS*, 8 April 2010; Paris First Instance Court, *Sisvel, France Telecom, TDF, Koninklijke Philips Electronics, Institut für Rundfunktechnik, Audio MPEG Inc v. Demsa SAS*, 8 April 2010; Paris First Instance Court, *Sisvel, France Telecom, TDF, Koninklijke Philips Electronics, Institut für Rundfunktechnik, Audio MPEG Inc v. DIECI SA and DAT SARL*, 28 May 2010; Paris First Instance Court, *Sisvel, France Telecom, TDF, Koninklijke Philips Electronics, Institut für Rundfunktechnik, Audio MPEG Inc v. D.A.G. Import and I.D. Com*, 4 June 2010.

37 Cass. com., 21 October 2014, No. 13-15.435.

38 Paris First Instance Court (PI proceedings), judgment of 8 December 2011, *Samsung v. Apple*, No. 11/58301.

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

40 Paris First Instance Court (PI proceedings), judgment of 8 December 2011, *Samsung v. Apple*, No. 11/58301.

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.

Multiple cases are currently pending, which should provide additional guidance on these issues.

#### **iv Anticompetitive or exclusionary royalties**

In one case,<sup>41</sup> the Paris First Instance Court, ruling in summary proceedings, accepted that a change of licensing terms, which made them more onerous to the licensee, could possibly amount to an abuse of a dominant position. The possibility that such an abuse might exist led the Court to refuse to issue an injunction. The Court noted that:

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

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

## **V INTELLECTUAL PROPERTY AND MERGERS**

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

Under French merger control law, acquisition of control over intellectual property rights may constitute a merger provided that the rights ‘constitute an activity that results in a presence on a market, to which a turnover can unambiguously be attached’.<sup>42</sup> Such was the case, for instance, when the FCA reviewed the acquisition by Sara Lee of certain brands and industrial equipment from Benckiser.<sup>43</sup>

### **ii Remedies involving divestitures of intellectual property**

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

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41 President of the Paris First Instance Court, *Universal v. Blogmusik*, 5 September 2011.

42 FCA’s Merger Control Guidelines, para. 19.

43 FCA, opinion 00-A-07 of 28 March 2000 concerning the acquisition by the Sara Lee group of certain assets belonging to the Benckiser group.

to commit to divest its free-to-air broadcasting rights for important sporting events.<sup>44</sup> This decision was later set aside for unrelated reasons, and the transaction had to be notified again. However, this commitment remained unchanged.<sup>45, 46</sup>

## 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.<sup>47</sup> It is, however, worth mentioning a decision of the Paris First Instance Court of 26 January 2005,<sup>48</sup> 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<sup>49</sup> finding the patentee to be in a dominant position, but it seems that the litigation stopped there.

### ii Misuse of the patent process

In the *Luk Lamellen v. Valeo* case referred to above,<sup>50</sup> 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,<sup>51</sup> which formed part of the behaviour scrutinised by the FCA.

44 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.

45 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.

46 See also letter from the Minister for Economic Affairs, Finance and Industry, of 30 August 2006, to Vivendi Universal’s counsel concerning a merger in the pay-TV sector (Case C2006-02).

47 Abusive litigation constitutes a civil tort in general.

48 Paris First Instance Court, *Luk Lamellen v. Valéo*, 26 January 2005, Docket No. 00/16758.

49 FCA, opinion 05-A-20 of 9 November 2005 concerning a request by the Paris First Instance Court concerning a dispute between Luk Lamellen and Valeo.

50 Paris First Instance Court, *Luk Lamellen v. Valeo*, 26 January 2005, Docket No. 00/16758.

51 FCA, decision 14-D-09 of 4 September 2014 concerning practices engaged in by Nestlé, Nestec, Nestlé Nespresso, Nespresso France and Nestlé Entreprise in the espresso coffee-machines sector.

### iii Anticompetitive settlements of IP disputes

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

## VII OUTLOOK AND CONCLUSIONS

Many questions that have been addressed at the European level or in other Member States have yet to be tackled under domestic law. It would not be unreasonable to expect the FCA and the French jurisdictions to draw inspiration from the recent findings made by the European Commission and the European courts, in particular in the pharmaceutical sector. It must also be noted that certain high-profile cases are still pending in French jurisdictions. The French Supreme Court, for instance, has yet to rule on the *Cegedim/Euris* case, which raises issues as to whether ongoing IP litigation can justify a refusal to license a database, and whether the OneKey database can be considered as an essential facility (see Section III.iii, above, on unfair and discriminatory licensing). In addition, a number of cases involving SEPs are currently pending, and some of them will require French courts to opine on the principles underpinning the determination of FRAND terms.

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

# GERMANY

Jörg Witting<sup>1</sup>

## 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 ARC, which corresponds with Article 101 of the Treaty on the Functioning of the European Union (TFEU) (prohibition of agreements restricting competition) and Sections 19 and 20 ARC, which mainly correspond with Article 102 TFEU (abuse of a market dominant position).

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

For the sake of completeness, it should be noted that some IP-related statutory provisions, at least in appearance, have some similarity to competition law aspects; however, in substance they have a different, IP-related background. For example, Section 24 of the Patent Act provides for a compulsory licence based on public interest considerations. The German Federal Supreme Court has clarified already in its *Standard-Spundfass* judgment in 2004<sup>2</sup> 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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2 Federal Supreme Court, judgment of 13 July 2004, KZR 40/02, *Standard-Spundfass*. On the differences between a compulsory licence based on Section 24 of the Patent Act and a competition law-based compulsory licence, see also recently BPatG, judgment of 31 August 2016 – 3 LiQ 1/16 (EP) – *Isentress*.

## II YEAR IN REVIEW

2017 has seen a revised version of the German competition act, the ARC, coming into force. However, the new law, in effect from 9 June 2017, mainly aims to facilitate cartel damages law claims by implementing the relevant EU Directive 2014/104/EU. Beyond that, the ARC has been modified with regard to various other aspects, none of which specifically targets the application of German competition law in the IP-related context.

The application of IP-related competition law in Germany remained especially marked during the past year by various court decisions dealing with the assertion of standard-essential patents, and thereby implementing and specifying the criteria for enforcing such patents, following the *Huawei v. ZTE*<sup>3</sup> decision handed down the year before by the Court of Justice of the European Union (CJEU), on 16 July 2015.<sup>4</sup> This decision, rendered in preliminary proceedings based on a set of questions referred to the CJEU by the Regional Court of Düsseldorf in 2013,<sup>5</sup> developed a set of criteria under which the proprietor of an SEP can legitimately, without violating Article 102 TFEU, seek an injunction based on such a patent (and claim for recall and destruction).

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).<sup>6</sup>

## III LICENSING AND ANTITRUST

### i Anticompetitive restraints

In German law, anticompetitive restraints in licensing agreements fall under Section 1 ARC, Article 101(1) TFEU. This includes, *inter alia*, market and customer sharing, pricing, output limitations or no-challenge clauses.<sup>7</sup> In this context, the Horizontal Guidelines of the Commission (2011/C 11/01) and Commission Regulation (EU) No. 316/2014 on technology transfer agreements (TT-BER), which is applicable in German law according to Section 2(2) ARC, are of particular importance. Based on the TT-BER, in particular, hardcore restrictions are of crucial relevance, such as the restriction of a party's ability to determine its prices when selling products to third parties, limitation of output, allocation of markets or customers, and restriction of the licensee's ability to exploit its own technology rights.

The Higher Regional Court of Celle decided in its decision of 14 October 2016 on several contractual restrictions in a research and development and technology transfer agreement between two parties in the sugar beet cultivation sector.<sup>8</sup> The agreement involved various restrictions imposed upon one party, such as a far-reaching non-compete obligation and obligations to comprehensively transfer, or retransfer, the results of its research and development activities to the other party. On basis of the TT-BER and the R&D-BER, the

3 CJEU, judgment of 16 July 2015, C-170/13, *Huawei Technologies v. ZTE*.

4 CJEU, judgment of 16 July 2015, C-170/13, *Huawei Technologies v. ZTE*.

5 Regional Court of Düsseldorf, decision of 21 March 2013, 4b O 104/12, *LTE-Standard*.

6 FCO, decision of 11 April 2016, B6-32/15.

7 See Nordemann, *Loewenheim/Meessen/Riesenkampff/Kersting/Meyer-Lindemann*, 3rd Edition 2016, Chapter 3, paragraph 14 et seq.

8 Higher Regional Court of Celle, decision of 14 October 2016, 13 Sch 1/15.

Court considered the restrictions in question partly as hardcore but nevertheless saw them as ‘ancillary’ to the competitively neutral main agreement between the parties and thus to a large extent compliant with Article 101 TFEU.

In the above-mentioned case regarding football media rights, the FCO had considered the centralised marketing by the German Federal Football League to fall under Section 1 ARC, Article 101(1) TFEU, and had cleared it on the basis of a commitment decision pursuant to Article 32b ARC.<sup>9</sup> 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.<sup>10</sup> It held the complaint to be inadmissible.

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

9 FCO, decision of 11 April 2016, B6-32/15.

10 Higher Regional Court of Düsseldorf, decision of 3 May 2017, VI Kart 6/16.

## ii Refusals to license

There are no specific statutory provisions regarding the refusal to license. Abuse of a market dominant position pursuant to Section 19(1) ARC is interpreted closely along the lines of its EU counterpart, Article 102 TFEU. In particular the conditions under which a refusal to license is deemed abusive derive from the case law of the CJEU, which has mainly been formed by the leading judgments in *Magill*<sup>11</sup> and *IMS Health*.<sup>12, 13</sup> 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.<sup>14</sup>

As regards patents that have already been licensed out by the patent owner, a refusal to license may be abusive and thus lead to a compulsory licence if the licensing practice of the patent owner is discriminatory or exploitative under Sections 19 and 20 ARC, Article 102 TFEU.<sup>15</sup>

Refusal to license regarding SEPs is discussed in Section IV, below.

## iii Unfair and discriminatory licensing

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

## iv Patent pooling

In practice, the rules established at EU level apply.

## v Software licensing

A case before the Regional Court of Hamburg<sup>16</sup> 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 ARC and not objectively justified, referring to the *UsedSoft* judgment of the CJEU<sup>17</sup> and stating that the applicable right was exhausted.

11 CJEU, judgment of 6 April 1995, C-241/91 P and C 242/91 P, *Magill*.

12 CJEU, judgment of 29 April 2004, C-418/01, *IMS Health*.

13 See Wolf, *Münchener Kommentar zum Kartellrecht*, 2nd Edition 2015, Section 19 GWB, paragraph 33.

14 Higher Regional Court of Düsseldorf, judgment of 20 January 2011, I-2 U 92/10. See Kühnen, *Handbuch der Patentverletzung*, 8th Edition 2016, Chapter E., paragraph 212; see also recently Higher Regional Court of Düsseldorf, judgment of 29 April 2016, I-15 U 47/15.

15 Kühnen, *Handbuch der Patentverletzung*, 8th Edition 2016, Chapter E., paragraph 214.

16 Regional Court of Hamburg, judgment of 25 October 2013, 315 O 449/12.

17 CJEU, judgment of 3 July 2012, C-128/11, *UsedSoft*.

## vi Trademark licensing

In general, restrictions of competition in trademark licensing agreements are compatible with the cartel prohibition of Section 1 ARC, Article 101(1) TFEU if they are necessary to protect the continued existence of the trademark and legitimate interests for the restriction are given.<sup>18</sup> Agreements on territorial protection, prohibition or restrictions on exercising, restrictions in quantity, reservation of customer groups, non-assertion and no-challenge agreements are principally deemed to be infringing Section 1 ARC, Article 101(1) TFEU.<sup>19</sup>

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, below.

## 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 TFEU, and of the safeguards under which such an assertion constitutes the legitimate use of a granted exclusionary right.<sup>20</sup>

### 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.<sup>21</sup> The CJEU did not deal with market dominance and confined his assessment explicitly to the criterion of an abuse in the sense of Article 102 TFEU.

German courts so far have not relied on a presumption of market dominance. In its decision of 26 March 2015 (i.e., prior to the CJEU's decision in *Huawei v. ZTE* of July 2015), the Regional Court of Düsseldorf<sup>22</sup> rejected the alleged infringers' antitrust objection, or 'FRAND defence',<sup>23</sup> 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; rather, the existence of market

18 See, e.g., Federal Supreme Court, judgment of 12 March 1991, KVR 1/90, *Golden Toast*; Higher Regional Court of Hamburg, judgment of 12 December 2013, 3 U 38/11, *St. Pauli II*; Bechtold/Bosch, *GW*B, 8th Edition 2015, Section 1, paragraph 79.

19 See Jestaedt, *Langen/Bunte*, Volume 2, *Europäisches Kartellrecht*, 12th Edition 2015, Nach Article 101 AEUV, paragraph 1252.

20 CJEU, judgment of 16 July 2015, C-170/13, *Huawei Technologies v. ZTE*.

21 Advocate General's Opinion of 20 November 2014, C-170/13, *Huawei Technologies v. ZTE*, paragraphs 57 and 58.

22 Regional Court of Düsseldorf, judgment of 26 March 2015, 4b O 140/13.

23 'FRAND' refers to fair, reasonable and non-discriminatory terms.

dominance should be assessed on basis of the scope of the patent in suit and its actual significance in the relevant product markets. The court specified that an SEP leads to market dominance where the use of the patent is mandatory to enter the relevant downstream product market or where it is at least necessary to compete effectively in the market. Accordingly the Higher Regional Court of Düsseldorf stated in a recent decision that a dominant market position of the patent owner has to be determined by the court, with the defendant having to bear the burden of evidence.<sup>24</sup>

In cases where the CJEU's criteria are considered to be fulfilled (i.e., where an abuse by the plaintiff and patent owner is denied), there is a tendency not to address the patent owner's market position and leave it open whether the patent owner actually is market dominant.<sup>25</sup>

## ii Injunctions

The question of whether or not an SEP holder acts abusively within the meaning of Section 19 ARC, Article 102 TFEU by bringing an action of injunction against an alleged infringer has been dealt with by German courts for years. This case law has most importantly been framed by the Federal Supreme Court's decision of 2009 in the *Orange-Book-Standard*<sup>26</sup> case and a large number of subsequent cases of the instance courts.

Differing significantly from this German case law, the CJEU<sup>27</sup> set forth specific requirements under which claiming for injunctive relieve (or recall or destruction) is not abusive under Article 102 TFEU:

- a First, prior to bringing an action, the SEP holder must alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed.
- b Second, the SEP holder is obliged to provide an offer for a licence on FRAND terms after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms. This offer must also be submitted to the alleged infringer prior to bringing an action.<sup>28</sup> 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 has to date focused on two aspects.

One major issue is the question as to whether some sort of 'transitional law' applies to cases that were pending prior to the CJEU's judgment. In its judgment in May 2016, the

24 Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15.

25 See, for example, Regional Court of Mannheim, judgment of 8 January 2016, 7 O 96/14.

26 Federal Supreme Court, judgment of 6 May 2009, KZR 39/06, *Orange-Book-Standard*.

27 CJEU, judgment of 16 July 2015, C-170/13, paragraph 60 et seq., *Huawei Technologies v. ZTE*.

28 See Kühnen, *Handbuch der Patentverletzung*, 8th Edition 2016, Chapter E., paragraph 295, footnote 407.

Regional Court of Mannheim<sup>29</sup> argued in favour of such a ‘transitional law’ and considered the plaintiff and patent owner in this case not to have acted abusively even though he did not entirely fulfil the CJEU’s criteria as to the pretrial obligations, namely the obligation to alert the standard user about the infringement by designating the SEP and specifying the way in which it has been infringed. The Regional Court of Mannheim mainly stressed that the patent owner, by bringing the action, had acted in good faith by applying the then existing German case law. The Court also interpreted the *Huawei v. ZTE* judgment as allowing the national courts to consider some of the CJEU’s requirements not to be relevant, and based this interpretation, *inter alia*, on paragraph 70 of the CJEU’s decision, according to which ‘it is for the referring court to determine whether the above-mentioned criteria are satisfied in the present case, in so far as they are relevant, in the circumstances, for the purpose of resolving the dispute in the main proceedings’. The decision is under appeal, but the Higher Regional Court of Karlsruhe meanwhile handed down a decision in corresponding enforcement protection proceedings.<sup>30</sup> The Higher Regional Court criticised the first instance approach as such but indicated that it is necessary to differentiate between a potential abuse in bringing action on the one hand and asserting the patent abusively up until the end of the court proceedings on the other hand.

Comparable to the Court of Mannheim’s approach, the Regional Court of Düsseldorf<sup>31</sup> also decided in favour of a ‘transitional period’. The Higher Regional Court of Düsseldorf, in enforcement protection proceedings, stressed that the principles developed by the CJEU in the *Huawei v. ZTE decision* also apply in cases prior to the decision.<sup>32</sup>

One other major issue currently is the question of whether the *Huawei v. ZTE* criteria must be fulfilled ‘step by step’ or whether a more general approach, weighing each parties’ activities, is appropriate. Both the Regional Court of Düsseldorf<sup>33</sup> and the Regional Court of Mannheim<sup>34</sup> 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<sup>35</sup> and Karlsruhe<sup>36</sup> respectively overturned this approach (in enforcement protection proceedings) and ruled in favour of a step-by-step approach according to which a plaintiff and patent owner’s licence offer has to be scrutinised in detail as to whether it is FRAND; only upon such a FRAND offer are standard users and defendants obliged to make a FRAND counter-offer.<sup>37</sup>

29 Regional Court of Mannheim, judgment of 4 March 2016, 7 O 96/14.

30 Higher Regional Court of Karlsruhe, decision of 31 May 2016, 6 U 55/16.

31 Regional Court of Düsseldorf, judgment of 3 November 2015, 4a O 93/14.

32 Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15; see also Kühnen, *Handbuch der Patentverletzung*, 8th Edition 2016, Chapter E., paragraph 295 et seq.

33 Regional Court of Düsseldorf, judgment of 3 November 2015, 4a O 144/14.

34 Regional Court of Mannheim, judgment of 4 March 2016, 7 O 96/14.

35 Higher Regional Court of Düsseldorf, decision of 9 May 2016, 15 U 35/16.

36 Higher Regional Court of Karlsruhe, decision of 31 May 2016, 6 U 55/16.

37 See meanwhile: Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 126/14.

### 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 basic and open to discussion.<sup>38</sup> One important aspect in considering the FRAND character of an offer is the established licensing practice of the licensor or of other market participants.<sup>39</sup> Accordingly the Higher Regional Court of Düsseldorf defined the term ‘non-discriminatory’ to the effect that the patent owner has to offer the willing licensee a licence on conditions similar to those offered to other licensees or that the patent owner comprehensibly shows reasonable grounds for an unequal treatment. The Court stated further, that a judicial finding regarding a ‘non-discriminatory’ offer requires – especially with regard to the amount of the licence fees – specific submission of facts by the patent owner with respect to licence agreements with third licensees. In the Court’s opinion this would include specific statements to conditions agreed with other licensees as well as their importance on the relevant markets. Thus the patent owner may not assert that a non-disclosure agreement with third licensees excludes a specific submission of facts.<sup>40</sup>

## 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.<sup>41</sup>

### ii Remedies involving divestitures of intellectual property

In a clearance decision, the FCO<sup>42</sup> decided on ancillary provisions, *inter alia*, with regard to intellectual property rights: the Funke Media Group intended to acquire assets of TV programme guides. The FCO found that the acquisition would have led to the strengthening of a collective dominant position of the acquirer. Therefore, the acquirer was obliged to sell intangible assets regarding TV programme guides.

## VI OTHER ABUSES

An example of an exploitative abuse within the meaning of Section 19 ARC is the recent investigation of the FCO regarding Google. The FCO had to decide on Google’s practice of displaying snippets of search results regarding news publishers.<sup>43</sup> 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

38 See, e.g., Hauck/Kamlah, ‘Was ist “FRAND”? Inhaltliche Fragen zu kartellrechtlichen Zwangslizenzen nach Huawei/ZTE’, *GRUR Int.* 2016, pp. 420–426.

39 See Regional Court of Düsseldorf, judgment of 31 March 2016, 4a O 73/14.

40 Higher Regional Court of Düsseldorf, decision of 17 November 2016, I-15 U 66/15.

41 See Federal Supreme Court, decision of 10 October 2006, KVR 32/05, *National Geographic I.*

42 FCO, decision of 25 April 2014, B6-98/13.

43 FCO, decision of 8 September 2015, B6-126/14; see also Kersting/Dworschak, ‘Leistungsschutzrecht für Presseverlage: Müsste Google wirklich zahlen? – eine kartellrechtliche Analyse’, *NZKart* 2013, pp. 46–53.

with regard to their respective ancillary copyrights. After examining the complaint, the FCO held that it was highly likely that Google's behaviour was objectively justified and therefore did not constitute abusive conduct within the meaning of Section 19 ARC, Article 102 TFEU.

### i Sham or vexatious IP litigation

In line with EU law, it is accepted under German law that the alleged infringer can raise the objection that the patent holder's claim is abusive within the meaning of Section 19 ARC, Article 102 TFEU because of a 'patent ambush'.<sup>44</sup> 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,<sup>45</sup> a holder of design rights regarding wheel rims claimed for injunctive relief regarding the use of design rights without a licence. The defendant argued that the assertion of design rights would be abusive in the sense of Article 102 TFEU because he had to produce parts that matched the car and would otherwise not be purchased ('must match' part). The court rejected this argument. With reference to the case law of the CJEU (*Magill*<sup>46</sup> and *Volvo/Veng*<sup>47</sup>), the court stated that the assertion of design rights can only be considered abusive in exceptional circumstances. The concrete design of the wheel rims is not technically necessary. It is possible, rather, for the defendant to produce wheel rims of similar quality, but with a different design. Beyond that, the court held that it is acceptable for a customer to purchase a wheel rim of the claimant or a complete set of wheel rims of other producers.

Furthermore in a case regarding the infringement of a standard-essential patent the Regional Court of Düsseldorf stated that a patent ambush with the intention of demanding excessive royalties does not necessarily lead to the patent owner's loss of a patent law claim to a cease-and-desist order. Rather, the legal consequence would be the patent owner's obligation to provide an offer for a licence on FRAND terms to the alleged infringer.<sup>48</sup> The Higher Regional Court supported the Regional Court's view in its decision of 9 May 2016.<sup>49</sup>

Another example for a possible abuse of intellectual property rights litigation is the *BMW-Emblem* case of the Federal Supreme Court.<sup>50</sup> 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.

44 See, e.g., Regional Court of Mannheim, judgment of 10 March 2015, 2 O 103/14.

45 Regional Court of Düsseldorf, judgment of 10 March 2016, 14c O 58/15.

46 CJEU, judgment of 6 April 1995, C-241/91 P and C 242/91 P, *Magill*.

47 CJEU, judgment of 5 October 1988, 238/87, *Volvo/Veng*.

48 Regional Court of Düsseldorf, decision of 31 March 2016, 4a O 126/14.

49 Regional Court of Düsseldorf, decision of 9 May 2016, I-15 U 35/16.

50 Federal Supreme Court, judgment of 12 March 2015, I ZR 153/14, *BMW-Emblem*.

## ii Misuse of the patent process

In accordance with EU law, under the German provisions the strategic misuse of the patent process can be deemed to be abusive (Sections 19, 20 ARC, Article 102 TFEU).<sup>51</sup>

## iii Anticompetitive settlements of IP disputes

Settlements of intellectual property disputes between competitors may, under certain conditions, constitute an infringement within the meaning of Section 1 ARC, Article 101(1) TFEU. In line with EU law, under German antitrust law, patent settlements are generally accepted as a compromise to a *bona fide* legal disagreement.<sup>52</sup> 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.<sup>53</sup>

Agreements between undertakings that aim to prevent the access of substitutes to the market, such as pay-for-delay or reverse-payment agreements, especially the delay of generic drugs' entry into the market, also fall under Section 1 ARC, Article 101(1) TFEU.<sup>54</sup>

With regard to trademarks, undertakings also settle disputes on conflicting similar trademarks by 'delimitation agreements'. The compatibility of such agreements can constitute an infringement of Section 1 ARC, Article 101(1) TFEU. As a general rule, delimitation agreements regarding trademarks constitute cartel infringements if market sharing or other restrictions of competition are intended.<sup>55</sup> In its decision *Winn & Coales v. DENSO*, the Higher Regional Court of Düsseldorf stated that a delimitation agreement does not restrict competition if it is neutral (i.e., if it only specifies the existing intellectual property rights).<sup>56</sup>

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.<sup>57</sup> 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.

51 See Huttenlauch/Lübbig, *Loewenheim/Meessen/Riesenkampff/Kersting/Meyer-Lindemann, Kartellrecht*, 3rd Edition 2016, Article 102, paragraph 289 et seq.; Schnelle, 'Missbrauch einer marktbeherrschenden Stellung durch Patentanmeldungs- und -verwaltungsstrategien', *GRUR-Prax* 2010, pp. 169–173.

52 See Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014/C 89/03, paragraph 235.

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

54 See Wolf, *Münchener Kommentar zum Kartellrecht*, 2nd Edition 2015, Volume 1, Einleitung, paragraph 1377 et seq.

55 Jestaedt, Langen/Bunte, Volume 2, *Europäisches Kartellrecht*, 12th Edition 2015, Nach Article 101 AEUV, paragraph 1257; Federal Supreme Court, judgment of 7 December 2010, KZR 71/08, *Jette Joop*.

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

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

## **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.

# INDIA

*Samir R Gandhi, Gaurav Bansal and Krithika Ramesh<sup>1</sup>*

## I INTRODUCTION

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

The general prohibition on anticompetitive agreements<sup>2</sup> and abuse of dominance<sup>3</sup> under the Indian Competition Act, 2002 (the Competition Act) applies equally to IP-related business practices as it would to non-IP-related conduct. The only reference to IP rights in the Competition Act is by way of an express carveout that recognises the right of any person to impose reasonable and necessary conditions for protecting IP rights, specifically conferred under certain identified Indian IP statutes.<sup>4</sup> This carveout does not, however, extend to unilateral conduct, thereby exposing IP holders to the risk of scrutiny under the abuse-of-dominance provision (Section 4) of the Competition Act.

In this chapter, we provide (1) a brief overview of the year in review; (2) issues surrounding antitrust and licensing in India; (3) the international debate surrounding the standard-selection process and the manner in which the CCI and Competition Appellate Tribunal (COMPAT) have interpreted competition claims arising out of standards while issuing *prima facie* orders;<sup>5</sup> (4) the circumstances under which transfer of IP could be viewed

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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.

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.

as a transfer of assets under the merger control provisions (Section 5) of the Competition Act;<sup>6</sup> and (5) finally we discuss, under ‘other abuses’, the emerging jurisprudence involving IP-related vexatious litigation leading to abuse-of-dominance claims before the CCI.

## II YEAR IN REVIEW

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

The debate on IP-related antitrust issues in India came to the fore in 2014 when the CCI examined<sup>7</sup> whether the practice of several domestic and multinational passenger vehicle manufacturers (PVMs) of selling spare parts and diagnostic kits only through authorised dealers resulted in ‘denial of market access’<sup>8</sup> to independent repairers and after-sales service providers, or constituted a ‘refusal to deal’.<sup>9</sup> Without examining the larger question of the primacy of IP holders’ right to use and commercialise an IP-protected technology the way they deem appropriate, the CCI summarily held that PVMs’ decision not to supply spare parts and diagnostic kits to third-party or non-authorised dealers and after-sales repair and service providers results in denial of market access, and IP rights do not offer any protection from a finding of infringement under Section 4 of the Competition Act.<sup>10</sup> Consequently, the CCI has opened the door for ‘compulsory licensing’ of IP protected technology to third parties, should it establish that the owner of the IP-protected technology is in a dominant position in a relevant market.

While examining the claim on refusal to deal, the CCI’s approach appears to give primacy to short-term foreclosure effects over the due deference that relatively more mature antitrust jurisdictions, such as the United States, extend to primacy of IP rights, which are essential for fuelling innovation and competition in the long run. Drawing simplistic analogies,<sup>11</sup> the CCI summarily held that selling diagnostic tools in the open market would not compromise the IP rights of the PVMs in the diagnostic tools.<sup>12</sup>

On appeal by certain PVMs, the COMPAT agreed with the CCI’s findings that PVMs’ decision not to supply spare parts and diagnostic kits to third-party or non-authorised dealers

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

7 See *In re: Shri Shamsheer Kataria v. Honda Sael Cars Indian Ltd. & Others* (Case No. 03/2011, 25 August 2014 (the *Auto Parts* case)).

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, page 157 of the *Auto Parts* case.

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.

12 See paragraph 20.6.22, page 190 of the *Auto Parts* case.

amounted to refusal to deal.<sup>13</sup> 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 aftermarkets. In this regard, the COMPAT observed that circulation of counterfeit parts would be curbed if the restrictions imposed by PVMs on sale of genuine spare parts in the aftermarkets were removed.

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

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

### III LICENSING AND ANTITRUST

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

#### i Anticompetitive restraints

Restrictive terms in licensing arrangements would be examined as vertical restraints under Section 3(4) of the Competition Act. In the absence of any specific provisions for assessing licensing arrangements, antitrust concerns arising out of licensing arrangements are treated within the same conceptual framework that applies to the sale of goods or services under the Competition Act. Simply put, restrictions accompanying IP licensing arrangements are prohibited if they can result in an AAEC, and the CCI is unlikely to reach a finding of AAEC unless the IP licensor enjoys significant market power.<sup>16</sup> For instance, any attempt by an IP licensor to determine the pricing decision (for the licensed IP) of the IP licensee would be scrutinised as potentially anticompetitive ‘resale price maintenance’.<sup>17</sup>

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

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

15 *M/s Picasso Animation Private Limited v. M/s. Picasso Digital Media Pvt. Limited* (Case No. 75 of 2016).

16 *Automobiles Dealers Association, Hathras, UP v. Global Automobiles & Ors. and Pooja Expo India Private Limited* (Case No. 33 of 2011).

17 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).

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’<sup>18</sup> or an anticompetitive refusal to deal.<sup>19</sup> 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.<sup>20</sup> 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.<sup>21</sup>

Notably, the Competition Act provides a limited carveout 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.

## ii Refusals to license

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

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,<sup>22</sup> restricts the production of goods or services,<sup>23</sup> or restricts the technical or scientific development relating to goods or services.<sup>24</sup> For instance, in the *Auto Parts* case, apart from holding the car companies liable for anticompetitive vertical restraints, the CCI also held that the car companies’ refusal to license the diagnostic tools to independent repairers and workshops was an abuse of their dominance.

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18 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’.

19 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’.

20 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’.

21 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’.

22 Section 4(2)(c) of the Competition Act.

23 Section 4(2)(b)(i) of the Competition Act.

24 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).

However, in a recent decision, the CCI observed that a delay in licensing on account of plausible business justifications, namely minimising the imminent threat of reverse engineering, could not be considered as denial of market access, as every entity has a right to protect its own commercial interests.<sup>25</sup>

### 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.<sup>26</sup> For instance, in a complaint against Monsanto Inc, United States (MIU),<sup>27</sup> 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 (16–18 per cent) of the maximum retail price of the final seed packet in advance of each crop season.<sup>28</sup>

The CCI has dealt with the issue of discriminatory or unfair licensing terms in a few cases. In *Atos/Verifone*,<sup>29</sup> 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,<sup>30</sup> to value-added service (VAS) providers<sup>31</sup> and third-party processors (TPPs)<sup>32</sup> such as Atos. In its licensing arrangements with VAS providers, Verifone restricted the licensee from using any third party to develop or assist in developing any software using the licensed software, without first obtaining prior permission from Verifone and disclosing certain confidential information, including the names of its customers. Verifone contended that these restrictions were further to its IP rights pursuant to which it could legitimately restrict the grant of its licence to third parties without its permission. The CCI disagreed with Verifone’s plea and viewed the restrictions as simply the means to further Verifone’s entry and growth in the VAS market. The CCI also held that Verifone’s rationale for not allowing VAS developers to develop payment software (i.e., that it may damage the basic software of the POS terminal that was necessary for its functioning) was inconsistent with Verifone’s practices in other countries. The CCI also found the SDK licence agreement

25 *Justickets Pvt. Ltd. v. Big Tree Entertainment* (Case No. 8 of 2016).

26 Section 4(2)(a)(ii) of the Competition Act.

27 Case Nos. 37, 38 and 39 of 2016.

28 In addition to the trait value, MIU’s licensor entity in India (Mahyo Monsanto Biotech Limited) also charged a significant upfront one-time non-refundable fee of approximately US\$75,000.

29 Case No. 56/2012.

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

31 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.

32 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.

imposed 'unfair' disclosure requirements on VAS providers that were driven by Verifone's desire to gain confidential commercial information from VAS providers and enable it to exploit the lucrative VAS market. Based on these findings, the CCI held that Verifone had imposed unfair and discriminatory terms in its SDK licence agreements with VAS providers and imposed a penalty of approximately US\$670,000.

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

## IV STANDARD-ESSENTIAL PATENTS

### i Standard-selection process and antitrust

Industry standards are widely acknowledged to be one of the fundamental drivers of the modern economy. Standard setting through stakeholder collaboration usually results in significant efficiencies; for instance, the interoperability of standards, consumer safety, technological innovation and the introduction of performance standards in the market. While antitrust authorities have recognised the pro-competition benefits of standardisation, the standard-selection process itself involves deliberation and communication between competitors that may raise potential antitrust concerns. For instance, coordination in a standard-selection process may lead not only to minimum price-fixing, but also to a buyers 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.<sup>33</sup>

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.<sup>34</sup> The SEP holder is under an obligation to license on a FRAND basis and a failure to do so could be an abuse of dominant position. The task of an antitrust regulator is therefore not limited to adjudicating only violation of FRAND commitments by the SEP holder,<sup>35</sup> but also extends to claims involving abuse of the standard-setting process. Globally, much of the antitrust litigation and controversy in relation to standard-selection processes has revolved around SEPs, and specifically patent hold-ups.<sup>36</sup>

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

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33 *Sony Electronics v. Soundview Technologies Inc.*, 157 F.Supp. 2d 180 (D.Conn. 2001).

34 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.

35 *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

36 Patent hold-up refers to a situation where participants chose not to make a complete disclosure of their patents during the standard-selection process, and once the standards were widely adopted, demanded unreasonable royalty. Also see *In re Rambus Inc.*, Dkt. No. 9302 (FTC 2002), *In re Union Oil Co. of Cal.*, Dkt. No. 9305 (FTC 2003), *In the matter of Dell Computer Corp.* 121 F.T.C. 616 (1996).

Mobile Communications, or GSM standard, in the *Erricson v. Micromax* case and others. In addition, the CCI has turned its attention more recently to the potentially anticompetitive effects arising out of voluntary non-SEP technical standards.<sup>37</sup> Recently, the CCI considered whether the digital projection and screening of Hollywood movies in India, through Digital Cinema Initiative (DCI)-compliant servers – agreed and enforced between six Hollywood movie production houses (HMPs) by way of a joint venture – would lead to an anticompetitive horizontal agreement or abuse of dominant position. The HMPs, to protect their proprietary content from piracy, required the cinema owners and digital cinema service providers to comply with DCI technology. Arguably, the DCI-compliant servers provide better image quality to the viewers and protect HMPs from piracy of their proprietary content. The CCI considered protection from piracy as a reasonable defence under the Competition Act to require the projection of movies through DCI-compliant technology (for protection of HMPs’ copyright), and decided that the allegations did not merit investigation.<sup>38</sup> On considering this issue on appeal, however, the COMPAT equated the requirement of DCI-compliant servers by HMPs with the process of private standardisation, and held that adoption of high standards could possibly have resulted in the creation of entry barriers for non-DCI-compliant service providers. Essentially, in its analysis, the COMPAT viewed the requirement of DCI-compliant technology introduced by HMPs as being a private standard-setting process (that may result in an abuse of dominance). Accordingly, it ordered the Director General to conduct an investigation into the matter. Interestingly, both the CCI and the COMPAT did not delve deeper into the protection available to efficiency-enhancing joint ventures under the Competition Act.

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

## V INTELLECTUAL PROPERTY AND MERGERS

The Indian merger control regime requires the mandatory notification of all mergers and acquisitions that meet certain jurisdictional thresholds; these thresholds are assessed on the basis of the sum of the acquirer and target company’s assets and turnover collectively. However, the question of whether the licensing of IPs constitutes the ‘acquisition’ or ‘transfer’ of assets (and consequently requires notification) has been the subject of some debate. Since IPs can be transferred through many methods, including through their assignment, exclusive licensing, non-exclusive licensing, sub-assignable licensing, for a limited duration or perpetually, the CCI has been called upon to identify situations where such licensing might require merger notification. The CCI has now clarified through its decisional practice that the licensing of an IP will not in itself constitute a transfer or acquisition if the licence is demonstrably non-exclusive – both as a matter of law (*de jure*) and as a matter of fact (*de facto*). The licensor

<sup>37</sup> *In re K Sera Sera Digital Cinema Pvt. Ltd. v. Digital Cinema Initiatives, LLC & Ors.* (Case No. 30 of 2015).

<sup>38</sup> Section 3(5) of the Competition Act provides for an IP protection carveout, by allowing the IP holder to impose reasonable conditions for protection of IP, but this carveout applies only to horizontal and vertical agreements under Section 3 and not to abuse of dominance under Section 4.

has to, among other things, establish that it itself continues to use the IP, or indeed license out the IP to others for wider use; and that the licence is not exclusive, irrespective of terminology used in the licence agreements. As a corollary, IP licences that do not meet this test, either *de jure* or *de facto*, will be treated as asset acquisitions that trigger merger notification to the CCI if no statutory exemption is available.<sup>39</sup>

## VI OTHER ABUSES (SHAM OR VEXATIOUS LITIGATION – IP AND ANTITRUST)

Sham or vexatious litigation as a tool to exclude competition is one of the important issues in IP and antitrust, since it involves the strategic use of IP infringement actions before courts with the ultimate objective of excluding a rival from the market. Globally, mature antitrust regulators have examined vexatious litigation as a strategy involving denial of market to a competitor. In the EU and the United States, the courts have laid down two broad principles that need to be satisfied when resolving an antitrust claim based on vexatious litigation: first, the lawsuit must be objectively baseless to the extent that no reasonable litigant could expect success on the merits; and second, the IP holder's utilisation of the court system must be conceived in the framework of a plan to eliminate competition.<sup>40</sup>

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.<sup>41</sup> However, in the subsequent complaints, the CCI has refrained from directing investigations based on sham litigation, requiring the presence of exceptional circumstances. In all these cases, the CCI has effectively followed the principles laid down by the courts in the EU and the United States to examine claims involving vexatious litigation. The CCI's approach in the first case of this nature involved a complaint against JCB India Ltd (JCB), where the complainant Bull Machines Private Limited alleged that JCB had, as patent holder, used an *ex parte* infringement injunction obtained from the High Court to strategically delay its own competing product launch. The withdrawal of the patent infringement suit by JCB soon after the product launch had been successfully delayed, formed the basis of the CCI's investigation into whether JCB had engaged in sham or vexatious litigation.<sup>42</sup>

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

39 Combination Registration No. C-2016/11/456, AT&T and Time Warner Inc.

40 See *ITT Promedia NV v. Commission of the European Communities* (Case T-111/96), and *Professional Real Estate Investors Inc. v. Columbia Pictures Industries*, 508 US, 49, 60–61 (1993).

41 *M/s Bull Machines Pvt. Ltd. v. M/s JCB India Ltd. & Ors.* (Case No. 105 of 2013).

42 *Ibid.*

circumstances.<sup>43</sup> 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.<sup>44</sup> 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.<sup>45</sup>

The CCI will need to balance carefully the legitimate right of patent holders to take steps to protect their IP through a constitutionally guaranteed court process with its review of instances where the court process has been misused by IP holders to exclude competitors.

## VII OUTLOOK AND CONCLUSIONS

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

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43 *Biocon Limited & Mylan Pharmaceuticals Private Limited v. F. Hoffmann-La Roche AG & Ors.* (Case No. 68 of 2016).

44 CCI's *prima facie* orders are somewhat equivalent to the statement of objects and reasons issued by the European Commission.

45 *InPhase Power Technologies Pvt. Ltd. v. ABB India Ltd.* (Case No. 12 of 2016).

# INDONESIA

*Daru Lukiantono, Mochamad Fachri and Wiku Anindito*<sup>1</sup>

## I INTRODUCTION

Intellectual property laws<sup>2</sup> in Indonesia grant exclusive rights to intellectual property owners to exploit their intellectual property or to grant licences to other parties to exploit them. The licensing provisions of the intellectual property laws do not specifically regulate circumstances when the implementation of intellectual property can conflict with antitrust laws and regulations. The intellectual property laws in Indonesia only provide general provisions that licence agreements should not contain provisions that are directly or indirectly detrimental to the Indonesian economy, hinder the ability of Indonesian people to master and develop technology in general, or contradict Indonesian laws and regulations, morality and public order.

The Anti-Monopoly Law<sup>3</sup> of Indonesia generally covers the same ground as the competition law of other jurisdictions. It contains prohibitions against the usual forms of cartel behaviour, horizontal collusion and conspiracy, and also vertical restraints of trade and unilateral conduct (such as abuses of dominant position). The Anti-Monopoly Law is applicable to all businesses established in Indonesia or operating in Indonesia, whether or not they are legal entities.

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

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

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2 Law No. 20 of 2016 on Trademarks (the Trademark Law), Law No. 13 of 2016 on Patent (the Patent Law), Law No. 31 of 2000 on Industrial Design (the Industrial Design Law), Law No. 28 of 2014 on Copyright (the Copyright Law), Law No. 30 of 2000 on Trade Secret (the Trade Secret Law), Law No. 29 of 2000 on Plant Variety Protection (the Plant Variety Protection Law) and Law No. 32 of 2000 on Integrated Design Circuit Layout (the Integrated Design Circuit Layout Law).

3 Law No. 5 of 1999 on Prohibition of Monopolistic Practices and Unfair Business Competition.

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

Intellectual property licences are likely to become subject to increased competition law scrutiny as there is a draft revision to the Anti-Monopoly Law (the Draft Anti-Monopoly Law) that proposes eliminating the intellectual property licensing and franchising exemptions provided by Article 50(b). This draft is still being discussed by the Indonesian House of Representatives. At the current pace of discussion, it is not likely to become law until late 2017. 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 2018, therefore, one may see a much greater interface between intellectual property and competition law in Indonesia, and potentially a greater interest being taken in intellectual property transactions by KPPU.

## **II YEAR IN REVIEW**

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

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

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

The Draft Anti-Monopoly Law also expands the definition of business actors to cover not only those who engage in business activities within Indonesia, but also those who engage in business activities outside Indonesia that affect the Indonesian economy. Taken together with the deletion of the exemption on licensing and franchising agreements, this means that if a licence agreement was concluded by overseas parties, those parties would become subject

to penalty under the Anti-Monopoly Law if the agreement were found to be in violation of the Anti-Monopoly Law and affected the relevant market in Indonesia, even though the parties had no presence in Indonesia.

### **III LICENSING AND ANTITRUST**

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

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

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

#### **i Anticompetitive restraints**

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

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

The KPPU Guideline on the Exemption of Intellectual Property Agreements provides some examples where licence agreements may lead to exclusive dealing, such as pooling licensing and cross-licensing, tying arrangements, material supply limitation, production and marketing limitation and grant-back licensing. According to this Guideline, it should

be identified whether the licensed intellectual property is deemed as an essential facility. An essential facility in general is a facility that is required to run a business and not economical to duplicate.

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

### ***Exclusive dealing***

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

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

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

### ***Grant-back licences***

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

#### **ii Refusals to license**

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

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<sup>4</sup> Article 25(2) of the Anti-Monopoly Law.

competitors in the relevant market in terms of the market share controlled, and has a higher position than all of its competitors in terms of financial capability, access to supply or sales, and capability to adjust the supply or demand for certain products or services.<sup>5</sup>

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 licence of a patent within 36 months after the patent is issued.<sup>6</sup> A compulsory licence could be given based on the Minister of Law and Human Rights' decision in any of the following circumstances:

- a The patent holder does not implement an obligation to create a product or use a process in Indonesia within 36 months after the patent is granted.
- b A patent has been implemented by the patent holder or its licensee in a form or way that harms the public interest.
- c A patent resulting from a development of a previous patent cannot be implemented without using a third-party patent that is still under protection.

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

### **iii Unfair and discriminatory licensing**

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

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

- a Criminal liability: criminal fine of at least 25 billion rupiah and at most 100 billion rupiah, or imprisonment for a maximum period of six months
- b Civil liability: subject to an order to cease the abuse of the dominant position and fines of between 1 billion rupiah and 25 billion rupiah, and damages.

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

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

7 Article 84(1)(c) of the Patent Law.

#### **iv Patent pooling**

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

#### **v Software licensing**

In practice, software may be protected by different forms of intellectual property, such as patents and trade secret rights, although the common form of intellectual property protection for software is copyright. The Copyright Law does not specifically regulate software licences (or software distribution and end-user licence agreements). However, as a general rule, the Copyright Law provides that copyright licensing should not extend beyond the validity and protection period of the licensed copyright work,<sup>8</sup> and that the licensor is entitled to receive royalties from the licensee (unless agreed otherwise).<sup>9</sup> 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.<sup>10</sup>

#### **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 co-existence 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 co-existence agreements. Therefore, while co-existence agreements may be considered binding between parties from a contractual perspective, co-existence 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 co-existence-agreement issue.

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8 Article 80(2) of the Copyright Law.

9 Article 80(3) of the Copyright Law.

10 Article 82(3) of the Copyright Law.

As a general rule, however, co-existence 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.<sup>11</sup> 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 after the court order request is 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 after 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

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11 Article 155 of the Patent Law.

incurred as a result of the implementation of the court order.<sup>12</sup> Unfortunately, at the time of writing, the implementation of this measure is yet to be tested, as there is no further guideline available for the commercial courts to calculate the deposits or warranties for temporary court orders; hence, there have been no court orders requested for patent infringement cases so far.

### **iii Licensing under fair, reasonable and non-discriminatory (FRAND) terms**

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

### **iv Anticompetitive and exclusionary royalties**

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

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

## **V INTELLECTUAL PROPERTY AND MERGERS**

### **i Transfer of intellectual property (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.<sup>13</sup> This requirement could be important and should be taken into consideration for transactions involving acquisitions of intellectual property after the Draft Anti-Monopoly Law is passed.

### **ii Remedies involving divestitures of intellectual property**

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

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12 Article 2 of Regulation 5/2012.

13 Article 62 of the Draft Anti-Monopoly Law.

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 settlement of IP disputes**

So far, there have been no notable cases where KPPU reviewed the settlements of intellectual property disputes from antitrust perspectives.

## **VII OUTLOOK AND CONCLUSIONS**

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

# KAZAKHSTAN

*Saule Akhmetova, Timur Berekmoinov and Igor Lukin<sup>1</sup>*

## I INTRODUCTION

The issues of competition and intellectual property are closely interrelated in Kazakhstani law. This interaction is traced through cross-provisions in the main regulatory acts – the Civil Code of the Republic of Kazakhstan, the Entrepreneurial Code of the Republic of Kazakhstan (EC), and special laws regulating issues in the area of intellectual property.

The Civil Code establishes general issues of regulation in the area of intellectual property (IP) and general principles for securing exclusive rights to IP objects. For issues that require more detailed regulation, the Civil Code refers to special legislative acts defining types of IP objects and terms for protection of the rights to those IP objects. In addition, the Civil Code prohibits the abuse of business freedom, and restriction of competition (Article 11); contains certain allowable and unacceptable conditions for franchising agreements; and provides for the nullity of, or challenge to, transactions that violate the requirements and prohibitions of legislation in the area of competition protection.

The EC provides support for fair competition, limits and regulation of monopolistic activities, and concepts and conditions for the admissibility of anticompetitive agreements and concerted actions. IP objects are the subject of special regulation under Kazakhstani antitrust legislation. First, the EC provides for the release of agreements on the use of IP objects from prohibitions or restrictions that apply to certain provisions of horizontal and vertical agreements. Second, the EC prohibits unfair competition, and for IP it provides special articles:

- a* Article 178, Illegal Use of Means of Individualisation of Goods, Works, Services and Objects of Copyright;
- b* Article 179, Illegal Use of Goods from another Manufacturer;
- c* Article 180 Copying the Appearance of the Product; and
- d* other articles of Chapter 16, Unfair Competition, may also apply indirectly.

Unfair competition means any actions in competition aimed at the achievement or provision of undue benefits.

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## II YEAR IN REVIEW

Until 26 December 2016, agreements on IP rights were completely excluded from the list of prohibited agreements and could provide for any conditions that potentially restrict competition. However, following amendment of the EC on 26 December 2016, agreements on IP rights can provide for any conditions that are *per se* prohibited for other agreements (exclusivity, market-sharing, price-fixing, etc.) as long as the conditions do not restrict competition.

No other significant decisions, cases, legislative developments or policy developments relating to the intersection of intellectual property and antitrust have taken place over the course of the year.

## III LICENSING AND ANTITRUST

### i Anticompetitive restraints

The EC provides for the release of IP agreements from the prohibitions or restrictions that apply to certain provisions of horizontal and vertical agreements:

- a* agreements on organisation of sales of goods under a seller's or producer's trademark or mean of individualisation are not subject to the prohibition against vertical agreements that include an obligation not to sell competitors' goods (Article 169.2(2) of EC);
- b* vertical agreements that establish or support discriminatory conditions for equivalent contracts with other market entities, including the establishment of agreed terms for the purchase or sale of goods (or both purchase and sale) are prohibited and void if the vertical agreements cause or may cause the restriction of competition (Article 169.3(1) of EC). Franchise agreements are not subject to this provision;
- c* prohibitions on anticompetitive agreements do not apply to agreements between market entities that are members of the same group of companies or persons (or a combination of these) if one of the market entities is controlled by another market entity, and if the market entities are under the control of one person (Article 196.6 of EC); and
- d* restrictions and prohibitions against anticompetitive agreements provided by Article 169 of EC do not apply to agreements on the implementation of exclusive rights to IP and the means of individualisation and means of individualising goods, provided that the agreements do not effect or cannot effect restriction or elimination of competition (Article 196.7 of EC).

The Civil Code (Article 900) contains allowable and unacceptable restrictions for franchise agreements. The allowable restrictions (exclusive conditions) include:

- a* the licensor's obligation not to grant other similar complex business licences for use in the territory assigned to the licensee, or to refrain from immediate self-employment in this area;
- b* the licensee's obligation not to compete with the licensor in the territory of application of a complex business licence in respect of a business carried on by the licensee with exclusive rights belonging to the licensor; and
- c* the licensee's obligation not to obtain other complex business licences from competitors (or potential competitors) of the licensor.

Restrictive conditions of the franchise agreement shall be invalid in cases where it is stated that:

- a* the licensor is entitled to determine the licensee's selling price of the goods or the price of works (services) performed (provided) by the licensee, or to set an upper or lower limit of the indicated prices; and
- b* the licensee is eligible to sell goods, works or services only to a certain category of buyers (customers) or exclusively buyers (customers), who live (residence) on the territory specified in the contract.

## **ii Refusals to license**

The law generally does not provide for the right holder's obligation to enter into licence agreements with third parties. The right holder's refusal to license the rights to means of individualisation is not an antitrust violation.

In respect of patents, the Patent Law of the Republic of Kazakhstan contains the concept of a 'compulsory licence'. If the patent holder does not use an industrial property object and refuses to enter into a licence agreement on acceptable commercial terms within 90 calendar days of a request to enter into such an agreement, any person may apply to the court for a compulsory non-exclusive licence if the industrial property object has not been continuously used after the first publication of information on the issue of the protection document for the industrial property objects for any period of three years preceding the application. If the patent holder fails to prove that the non-use is due to lawful reasons, the court will grant the said licence indicating the limits of use, terms, amount and order of payments. The amount of payments shall not be lower than the market price of the licence defined in accordance with established practice.

Any compulsory non-exclusive licence must be issued mainly to meet the needs of the domestic market of the Republic of Kazakhstan, unless the licence is requested for a medicine or the process of manufacturing a medicine for the purpose of exporting a patented medicine or a medicine manufactured through a patented process to the territory, where there are no or insufficient manufacturing facilities in accordance with the international treaties ratified by the Republic of Kazakhstan.

Thus, actions of the patent holder aimed at unjustified refusal to issue a licence to third parties in cases stipulated by Kazakhstani legislation may be recognised as a restriction of competition and constitute a violation of Kazakhstani antitrust legislation.

Some antitrust issues regarding compulsory licences are also discussed in Section IV.iii, below.

We have no information from public sources on court cases regarding any disputes about forcing the patent holder to grant a compulsory licence for a patent.

## **iii Unfair and discriminatory licensing**

Restrictions and prohibitions against anticompetitive agreements do not apply to agreements on the implementation of exclusive rights to IP and the means of individualisation. However, where such agreements cause or may cause restriction or elimination of competition, the anti-monopoly authority may apply to court to void the agreements. Franchise agreements that contain prohibited terms as mentioned in Section III.i are void.

**iv Patent pooling**

Kazakhstani law does not provide for the concept of ‘patent pooling’. Agreements of two or more companies on the mutual use of a patent may lead to antitrust issues if the agreements cause or may cause restriction or elimination of competition.

**v Software licensing**

There are no antitrust issues specific to software licensing. As mentioned in Section III.i, restrictions and prohibitions against anticompetitive agreements provided by legislation do not apply to software licences, provided that the agreements do not effect or cannot effect restriction or elimination of competition.

**vi Trademark licensing**

There are no antitrust issues specific to trademark licensing. As mentioned in Section III.i, restrictions and prohibitions against anticompetitive agreements provided by legislation do not apply to trademark licences, provided that the agreements do not cause or may not cause restriction or elimination of competition.

**IV STANDARD-ESSENTIAL PATENTS**

Kazakhstani law does not contain a definition of standard-essential patents.

**i Dominance**

Since Kazakhstani law does not contain the concept of a parent patent, these provisions or considerations are not available in the legislation.

**ii Injunctions**

The law of Kazakhstan does not provide for injunction right to patents.

**iii Licensing under fair, reasonable, and non-discriminatory (FRAND) terms**

Kazakhstani law does not contain the concept of FRAND terms. Similar provisions regarding fair and acceptable conditions for compulsory licensing of any patent are given in Article 11.4 and Article 11.5 of the Patent Law:

- a* a person may apply to the court for a compulsory licence if the patent holder has refused to conclude a licence agreement on reasonable commercial terms and conditions (i.e., such a refusal is grounds for recourse to a court; however, the law does not specify that the court establishes the reasonable commercial conditions in the decision on granting the compulsory licence); and
- b* the amount of royalties is established by the court on the basis of the market price of the licence, in accordance with established practice.

Antitrust provisions generally do not apply to IP agreements if the agreements do not or cannot cause restriction or elimination of competition. However, antitrust rules are relevant to licensing obligations in the following cases:

- a* in cases of abuse of patent rights by the patent holder, the court may decide to issue a compulsory non-exclusive licence; and

- b* if the position of the patent holder for an invention related to semiconductor technology is recognised by a court as violating the requirements of Kazakhstani legislation in the area of competition protection, the court may decide to grant a compulsory non-exclusive licence for the invention to change the position of the patent holder in the market.

**iv Anticompetitive or exclusionary royalties**

There is not any guidance on the impact of any royalty provisions (including royalty bases or calculation of royalty rates) on potential antitrust liability.

**V INTELLECTUAL PROPERTY AND MERGERS**

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

Strictly speaking, under Kazakhstani law, merger between two firms may only be constituted by acquisition of shares or participatory interest. Therefore, the acquisition of intellectual property rights from one party by another may not constitute a merger between two firms. However, a firm may merge with another firm to take control over IP rights owned by the latter firm. In this scenario, no anti-monopoly concerns associated with IP rights arise.

**ii Remedies involving divestiture of intellectual property**

Under Kazakhstani law, IP rights have no legal meaning for anti-monopoly regulation of mergers and acquisitions. For example, IP rights are not considered for the purposes of identification of a dominant position. Therefore, the assignment of IP rights cannot be the remedy for a merger that raises competition concerns.

**VI OTHER ABUSES**

**i Sham or vexatious IP litigation**

It may be difficult to determine whether IP litigation is sham or vexatious, and thus an antitrust infringement. The official database of court cases contains potentially relevant cases regarding recognition of unfair competition in an entity's action. These cases concern the cancellation of a trademark registration obtained for the purpose of unfair competition. According to practice, in Kazakhstan there are often cases when a person registers in his or her own name a trademark for goods that have conquered the Kazakhstani market, but the goods' true manufacturer has not properly registered the rights to the goods.<sup>2</sup> Such actions are recognised as an act of unfair competition. One such court case is discussed below.

VKD LLP, a Russian company, delivers vodka under the trademark *Khlebnaya Slez*a to the Kazakhstani market. DPA LLP, a Kazakhstani company, filed for and obtained the registration of a similar trademark. The Russian company appealed against this registration to the Appeals Board of the Committee on IP Rights as being illegal and having been

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<sup>2</sup> M T Alimbekov, Zh N Abdiev, G E Abdrasulova, E V Goryacheva, T E Kaudyrov, N I Mamontov, N T Sukhanova, A B Tagajayeva, *Disputes Concerning Intellectual Property Rights (Practical Guide)* (Astana, 2011), p. 56–58.

obtained for the purpose of unfair competition. Notably, DPA LLP does not and did not produce vodka. The Appeals Board granted the Russian company's and declared the disputed registration as null and void.

The Kazakhstani company subsequently filed a claim to the Specialised Inter-District Economic Court (SMES) of Astana appealing against the decision of the Appeals Board. SMES refused to satisfy the claim and recognised the actions of the claimant (the Kazakhstani company) as unfair competition, stating the following.

The claimant filed for the registration of the verbal designation *Khlebnaya Sleza* with a priority dated 4 April 2007 (i.e., when the product – labelled vodka – under the trademark *Khlebnaya Sleza* had already been sold in the territory of the Republic of Kazakhstan). The claimant only had to check the presence or absence of registration in the State Register of Registered Trademarks of the Republic of Kazakhstan (a paid service of the IP Committee) and, having learnt that there was no such registration, applied for the registration in its name. This fact gives rise to the following conclusions: the claimant, with knowledge of the requirement of Article 6.3.1 of the Trademark Law, nevertheless applied for registration in its name. Registration of designations as trademarks or their elements is not allowed where the designations are false or capable of misleading about the product or its manufacturer, including geographical indications that are capable of misleading concerning the place of manufacture. In this case, the product – vodka under the trademark *Khlebnaya Sleza* – was already known in the Kazakhstani market as a product manufactured or produced by a Russian company. By registering a trademark that is confusingly identical to a trademark registered in the name of another manufacturer, the claimant tried to mislead the Kazakhstani consumer as to the manufacturer of the product. By its illegal actions, the claimant appropriated the role of the product manufacturer. Kazakhstani consumers, when buying this product or upon reading the official industrial property bulletin, would have thought that the vodka manufacturer or producer was DPA LLP rather than VKD LLP, whereas the legal owner of the trademark *Khlebnaya Sleza* is VKD LLP under the certificate of the Russian Federation No. 166936 dated 28 June 1995. Furthermore, according to international registration No. 932777, it has an international priority registered by the International Bureau of the World Intellectual Property Organization on 22 June 2007. Thus, the trademark has effect in the following countries: Kazakhstan, Armenia, Azerbaijan and China.

## **ii Misuse of the patent process**

There is no information on any enforcement practice or regulations addressing abusive conduct in the form of 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).

## **iii Anticompetitive settlements of IP disputes**

There is not any information on any enforcement practice or regulations addressing anticompetitive settlements of intellectual property disputes, such as exclusion payments to potential generic entrants in the pharmaceutical sector.

Currently we have one dispute in our practice where we decided to apply antitrust legislation rather than IP law. In this case, Company A filed an application with the antitrust authority to recognise as unfair competition the violation by Company B of Article 177 of the EC, *Illegal Use of Means of Individualisation of Goods, Works, Services and Objects of Copyright*. Company B copied Company A's packaging in a very careful way,

with a general visual similarity to the competitor's packaging, but which did not contain Company A's trademarks in a recognisable form; there was, therefore, practically no chance of proving a violation of Company A's trademark rights within the framework of civil proceedings. Since in accordance with the EC the applicant only has to prove the similarity of packaging, rather than the fact of confusing similarity of designations (as IP legislation provides for in civil proceedings), the company decided to apply to the antitrust authority.

According to the case file, Company A submitted a sociological survey confirming that consumers considered the new packaging of Company B's product similar to the packaging of Company A's product and, therefore, a significant number of the interviewees confused the manufacturers and believed that Company B's product was manufactured by Company A.

The investigation by the antitrust authority is still under way; however, Company A's preliminary position is not entirely clear. The antitrust authority believes that the evidence on the similarity of the packaging is not sufficient and requires an additional expert opinion on the confusing similarity of the packaging.

The antitrust authority has offered to file a request with the Patent Office of the Republic of Kazakhstan to conduct a comparative analysis of the packaging and thereafter provide its opinion on the analysis results. Company A, however, believes that the issue of such an opinion by the Patent Office of the Republic of Kazakhstan cannot be a key proof and so determine the case outcome.

## **VII OUTLOOK AND CONCLUSIONS**

The government of Kazakhstan is considering introducing a lot of amendments into the country's IP legislation by the end of 2017. These amendments have been developed to bring the national legislation into line with international treaties and agreements to which Kazakhstan is a party. However, there are no alterations related to IP and antitrust issues.

The most recent package of anti-monopoly amendments was implemented at the end of 2016 and, to the best of our knowledge, there is no further relevant legislation pending at the present time, nor significant pending competition authority decisions or court judgments. Given that no amendments to anti-monopoly legislation are currently being contemplated, it is difficult to foresee any upcoming developments.

# MEXICO

*Antonio Cárdenas Arriola and Carlos Mainero Ruiz*<sup>1</sup>

## I INTRODUCTION

The subject of the interaction between the protection of intellectual property rights and the protection of a sound competition environment for commerce is of the utmost importance in Mexico, as it is worldwide. This subject has acquired particular significance as a result of the development of sophisticated inventions and processes, primarily associated with technology and telecommunication industries.

As a member of the World Trade Organization (WTO) since 1 January 1995, Mexico has enacted laws and regulations that protect intellectual property (IP) consistent with the principles, guidance and best practices applicable to the members of the WTO. Mexico is also a party to various international treaties that seek to protect intellectual property rights (the Paris Convention for the Protection of Industrial Property, the Convention establishing the World Intellectual Property Organization and the Patent Cooperation Treaty, among many others) and has adhered to the principles of the TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights).

The Mexican Federal Constitution (the Mexican Constitution) generally prohibits monopolies, antitrust practices and other activities that hinder competition among market participants. However, the Mexican Constitution includes a specific exclusion, providing that privileges granted to authors and artists in the production of their works and other privileges granted to the creators of inventions shall not constitute monopolies.

Consistent with the constitutional mandate, the Mexican Congress enacted the current Industrial Property Law on 27 June 1991 (as amended, the IP Law). The matters subject to the IP Law are further governed by additional enabling regulations issued by the Ministry of Economy.

From an antitrust perspective, Mexico enacted its first antitrust law on 24 December 1992, as part of the agreements and consequences of entering into the North American Free Trade Agreement. This first antitrust law created the Federal Competition Commission (as of 2013, the Federal Economic Competition Commission (COFECE)), which was originally an autonomous administrative entity of the Ministry of Economy (part of the executive branch) but has been constitutionally autonomous since 2013.

Most importantly, on 11 June 2013, a new constitutional reform was enacted on the subjects of antitrust and telecommunications (the Constitutional Reform). As a result of the Constitutional Reform, the Mexican Congress enacted a new Federal Economic Competition Law (FECL), which became effective on 7 July 2014.

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This Constitutional Reform is considered one of the structural reforms submitted by President Enrique Peña Nieto, in an effort to incentivise the Mexican economy, and set a new standard of competitiveness in a country where, despite the existence of competition and antitrust statutes and regulation, monopolies continue to exist in various areas of the economy.

While the Constitutional Reform is relevant on many levels, for the purposes of this chapter, there are three major reforms that have already started to show their impact on market dynamics, regulatory policy and judicial precedents:

- a* the creation of two constitutionally autonomous agencies with powers in competition and antitrust matters: (1) the Federal Institute of Telecommunications (IFETEL), with exclusive jurisdiction to resolve on telecommunications and broadcasting antitrust and competition matters; and (2) COFECE, with jurisdiction on antitrust and competition matters in all other areas of the economy;<sup>2</sup>
- b* the creation of specialised courts for the judicial review – through *amparo* trials – of antitrust and telecommunications matters. Under the Constitutional Reform and the new 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 new constitutional and legal framework, newly created autonomous agencies and specialised courts are in charge of resolving and establishing precedents on those particular matters.

## II YEAR IN REVIEW

While the Constitutional Reform and its legislative and administrative enabling rules are still recent (and are in the early stages of being fully tested) there have been a few recent decisions in which the new antitrust framework has been put into practice.

In a recent case involving a public-access television concessionaire as plaintiff against a restricted television concessionaire, a local commercial judge with jurisdiction in Mexico City issued an injunction, ordering IFETEL to refrain from issuing the ‘must carry and must

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<sup>2</sup> IFETEL is a newly created agency, while COFECE replaced the former Federal Competition Commission, which was an agency of the Ministry of Economy. The purpose of granting constitutional autonomy to these agencies is to ensure the independence and technical authority of their decisions. From a practical perspective, there are several markets where it is still unclear whether IFETEL or COFECE has jurisdiction. The ultimate decision on the applicable jurisdiction of these agencies lies with the newly created specialised courts. For example, in a recent merger control matter where the affiliates of Nokia and Alcatel-Lucent in Mexico submitted an antitrust application for merger authorisation, both IFETEL and COFECE claimed authority. Ultimately, a specialised court determined that jurisdiction in this matter lay with IFETEL.

offer' guidelines governing the obligations of public-access television concessionaires to grant, on a no-fee basis, their audiovisual content to restricted television concessionaires, as required under the Constitutional Reform.<sup>3</sup>

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 specialised court resolved in favour of the constitutionality of the obligation of public-access television concessionaires to rebroadcast (on a no-fee basis) audiovisual content under the new 'must-carry must-offer' guidelines, alleging that, pursuant to the Constitutional Reform, the competition process is more relevant in this particular case than the protection of any legitimate potential IP rights over the audiovisual contents.<sup>4</sup>

In summary, the main precedents where the Constitutional Reform has had an impact have shown the priority granted from a public policy standpoint to the competitive process in the telecommunications industry (an industry where typically competition has been very limited in Mexico) even if the defence and establishment of competition conditions result in the obstruction of dominant public-access television concessionaires' IP rights.

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

Consistent with the Mexican Constitution prohibition on monopolies, the FECL prohibits both absolute monopolistic practices (horizontal conduct) and relative monopolistic practices (vertical conduct).

Generally, absolute monopolistic practices constitute contracts, agreements, arrangements or combinations of the same among competing economic agents, whose purpose or effect is, generally: (1) to fix prices of goods or services offered in the market; (2) to restrict supply (obligation to produce, process, distribute, sell or render only a limited or restricted amount of goods or services); (3) to create market segmentation (division, distribution, allocation or imposition of portions or segments of a current or potential market of goods and services, whether by clients, suppliers, seasons or spaces); or (4) to create private agreements in public bids or auctions.

Absolute monopolistic practices are considered *per se* violations; in other words, the conduct is prohibited regardless of the market power of the economic agents involved or of other circumstances.

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3 These Guidelines constitute enabling regulation establishing the obligation of public-access television concessionaires to permit the rebroadcast of their proprietary contents – subject to copyright laws – to restricted television concessionaires that are not declared to have a dominant position, on a no-fee basis. The main argument raised by the public-access television concessionaire plaintiff in the litigation was precisely that this provision violated its IP right over its content required to be freely broadcast.

4 Judicial precedent reference: 'Lineamientos sobre Must Carry y Must Offer emitidos por el Pleno del Instituto Federal de Telecomunicaciones. Los concesionarios de televisión restringida terrena carecen de interés para reclamar en *amparo* la restricción que, aducen, aquéllos imponen a los titulares de los derechos de autor, consistente en entregar gratuitamente el contenido que les pertenece.'

On the other hand, relative monopolistic practices include a list of various acts or behaviours between economic agents that participate in the commercial chain (manufacturers, distributors, merchandisers, and ultimately, final costumers). 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’.<sup>5</sup>

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, *supra*). As discussed above, absolute monopolistic practices are considered unlawful *per se*.

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5 [www.wipo.int/export/sites/www/ip-competition/en/studies/patent\\_pools\\_report.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/patent_pools_report.pdf).

**v Software licensing**

Software is considered a copyright protected by the Federal Copyright Law (the Copyright Law). Under the Copyright Law, the economic rights over copyright (including software) may be licensed by its owner to third parties.

From an antitrust perspective, software licensing is not subject to any particular regulation under the IP Law, the Copyright Law or the FECL, different from the general regulation applicable to licensing of IP rights. Therefore, the restrictions described in Sections III.i to III.iii, above, are similarly applicable to software licensing for the purpose of determining the potential commission of a prohibited relative monopolistic practice.

**vi Trademark licensing**

Trademarks are protected under the IP Law and the various international treaties entered into by Mexico. Under the IP Law, the owner of a trademark may validly license its rights to the trademark to third parties, and the licensee shall be required to pay a licence fee to the licensor. Trademark licences must be registered with the IMPI.

From an antitrust perspective, the terms and conditions of trademark licensing are not subject to any particular regulation under the IP Law or the FECL. Therefore, the restrictions described in Sections III.i to III.iii, above, are similarly applicable to trademark licensing for the purpose of determining the potential commission of a prohibited relative monopolistic practice.

In any case, trademarks do not grant an exclusive right over a specific product or a specific market, but rather grant their holders the exclusive right to use those trademarks as a distinction of their products or services. Given that any market participant in any industry is able to create and develop its own trademark, and that the use of trademarks *per se* does not restrict access to other potential entrants to a particular market, the use and licensing of trademarks appears to pose a lesser concern from an antitrust perspective.

It is interesting to mention that the IP Law enables the IMPI to declare the mandatory use of a trademark on any product or service, or even to prohibit or regulate the use of trademarks (registered or not), among others, when the use of the trademark has been associated with monopolistic practices that cause serious distortions to the manufacturing, distribution or merchandising of specific products or services.

**IV STANDARD-ESSENTIAL PATENTS**

**i Dominance**

COFECE and IFETEL (if the matter is of a telecommunications or broadcasting nature) may determine that an economic agent is a dominant participant in the market. For these purposes, the relevant agency shall generally consider the following elements: (1) the ability of the agent to fix prices or restrict the offer in the relevant market, where competitors are unable to impede this activity; (2) the existence of entry barriers in the relevant market; (3) the existence and power of competitors; and (4) the conditions of access of the relevant agent and other competitors to input sources.

As discussed above, patents are protected under the Mexican Constitution, the IP Law and the international treaties to which Mexico is a party.

Pursuant to the applicable law in Mexico, the following are protected through patents: (1) inventions for industrial application; (2) technical improvements and the transfer of technological knowledge for manufacturing purposes; and (3) generally, all inventions that foster a higher quality of goods and services in the industry.

Standard-essential patents (SEPs) are inventions or improvements subject to protection where standards are essential for functionality of the relevant commercial items or merchandise. SEPs are particularly relevant in information and communication technologies (ICT), since mobile telecommunications companies are required to comply with standards to allow intercommunication with telecommunications networks and terminal devices, either through communication protocols, or through standards for operation of devices within specific frequencies of the radio spectrum.

Thus, the creation and protection of new communications standards (or their improvements) through patents could constitute a competitive advantage in the market, allowing an SEP holder potentially to control this essential input, inhibit the entry of new competitors, inhibit innovation and unduly displace existing competitors, given that harmonising standards for ICT development is essential to allow interaction between these companies; this is particularly relevant considering that, in many cases, there are no substitutes for these technologies.<sup>6</sup>

The potential outcome of the above is the SEP holder gaining a dominant position, which may itself act as an incentive, but with the result that it engages in a prohibited monopolistic practice.

In this context, around the world, various companies that develop mobile devices have through the protection of their SEPs used strategic litigation and injunctions as a means of strengthening their market position.

To our knowledge, there is no antitrust issue or litigation in Mexico in connection with the holding of SEPs. This may be because the antitrust disputes raised by SEP-holding manufacturers have primarily been filed in other jurisdictions, and have focused primarily on the United States, Germany, Japan, the United Kingdom and South Korea.<sup>7</sup>

Mexico is in a particular situation regarding the final-consumer smartphone market, because of the existence of an economic agent (América Móvil) with substantial market power

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6 All regulatory agencies in the world establish standards for devices (mostly privileging the neutrality of the technology). In Mexico, the regulation is issued through enabling administrative regulation issued by IFETEL (following the recommendations of the International Telecommunication Union) and other enabling administrative regulation issued by other administrative government agencies.

7 For example, Case AT39895 resolved by the European Commission related to the *Motorola Mobility Inc v. Apple Inc* case, where Motorola sued Apple in Germany for an alleged violation of an SEP registered by Motorola regarding the 'GPRS' or 2G standard. Motorola sought an injunction to prohibit Apple from selling iPhones and tablets during the term of the trial. Given Apple's urgent need to sell its inventories in the German market – and given the dynamics of the smartphone industry and that inventories become rapidly dated – Apple had to compromise in various negotiations and enter into settlement agreements with Motorola that were disadvantageous to Apple. The European Commission resolved that this was anticompetitive conduct on Motorola's part, since Motorola abused its dominant position as an SEP holder, which allowed it to maintain a privileged position in the negotiation with its competitors in Germany, affecting the competition process and, ultimately, smartphone and tablet consumers; as a result, the European Commission obliged Motorola to enter into agreements that included fair, reasonable, and non-discriminatory (FRAND) clauses.

in the relevant market. América Móvil currently has approximately 72 million clients, which in practice grants it high leverage in negotiations with other market participants, including developers of mobile devices intending to distribute their devices to final consumers.

Given its dominant market position, América Móvil was subject to various stringent antitrust measures by the antitrust authorities in 2014, since it had used contractual exclusivities with developers, for periods of up to six months, for the distribution of smartphones to final consumers.

Additionally, until 2015, final consumers had to mandatorily remain with their telephone and mobile phone companies for at least 12 months; mobile phones were blocked when delivered to final consumers, therefore the mobile phone could only be used with the operator to which it was linked, which effectively inhibited competitors from selling smartphones independently of the mobile phone concessionaires.

This may explain the lack of IP disputes in Mexico in connection with these matters in comparison with other countries, since developer companies may not have had sufficient incentive to file sham IP disputes.

## ii Injunctions

Mexican commercial and IP law allow plaintiffs to seek injunctions from a court. Therefore, it is possible that an SEP holder may eventually abuse the protection granted by the law to seek an action similar to those filed in the *Motorola Mobility, Inc v. Apple Inc* and *Samsung Electronics v. Apple, Inc* cases.

Nonetheless, we are not aware of any public information in connection with the determination of an abuse of a dominant position in Mexico as a result of an SEP holder seeking injunctions.

## iii Licensing under FRAND terms

FRAND stands for ‘fair, reasonable and non-discriminatory’ licensing terms in the context of an SEP. In the *Samsung* and *Motorola* cases, the European Commission clarified that, in the standardisation context, where the SEPs holders have committed to (1) license their SEPs, and (2) do so on FRAND terms, it is anticompetitive to seek to exclude competitors from the market by seeking injunctions on the basis of SEPs, if the licensee is willing to take a licence on FRAND terms.

Mexican law does not include any statute or regulation that requires an SEP holder to license its patent under FRAND terms. Additionally, we are not aware of any information regarding litigation or settlements in Mexico in connection with the application of FRAND licensing terms. In any case, there is no provision in Mexican law that would prevent a Mexican court from taking the position that the licensing of an SEP in Mexico should be made under FRAND terms, consistent with international best practices.

The FRAND concept is an excellent tool to reach a ‘middle ground’, on the one hand incentivising technological innovation by developers and fostering fair and reasonable arrangements in the payment of royalties to SEP holders and, on the other hand, preventing free raiding by competitors and the imposition of excessive royalties or limitations on sales volumes, and preventing time delays for new entrants to the ‘pay-for-delay’ market, all of which constitute anticompetitive conduct that ultimately affects consumers.

#### **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, the amount of assets and sales of the parties involved in the transaction.

Therefore, a transaction that involves the transfer of IP rights that exceeds the thresholds set forth in the FECL will necessarily have to be previously authorised by COFECE to be effective.

#### **ii Remedies involving divestitures of intellectual property**

Prior to the enactment of the new FECL, the most relevant case in Mexico involving the divestiture of IP rights was the *Nestlé/Pfizer* transaction in 2013. In 2013, Pfizer entered into a worldwide agreement with Nestlé, whereby Pfizer would sell its infant formula business to Nestlé. The transaction involved the sale of all of the business assets, including real estate industrial plants, inventories, regulatory registrations and IP rights. The transaction was subject to the authorisation of the antitrust authorities of the various jurisdictions where the transaction would be effective.

In Mexico, COFECE found that the transaction could have anticompetitive effects in Mexico given Nestlé's position in the relevant market. After negotiations with COFECE, the transaction was ultimately approved, subject to Nestlé complying with the following remedies: (1) Nestlé would enter into a 10-year exclusive licence with a third party over Pfizer's infant formula trademarks; and (2) Nestlé would be subject to a 20-year blackout period in which Nestlé would not be able to use those trademarks in Mexico, to allow the licensee to consolidate its market position by developing its own infant formula trademarks in Mexico. The terms and conditions of the exclusive licence were not determined by COFECE's decision, and therefore, the licence's commercial terms (including royalty fees) were left to the commercial negotiations of the parties.

Under the new FECL, two recent precedents concerned remedies that, to our knowledge, involve IP rights.

The first one was in connection with the proposed sale by Sanofi of its consumer healthcare business to Boehringer. In December 2016, COFECE resolved not to authorise

the sale, unless certain conditions were accepted by the parties. While the details of the resolution have not been made public, the conditions – among others – consisted in Sanofi refraining from acquiring certain trademarks then owned by Boehringer in Mexico (e.g., Bisolvon, Mucosolvan and Sekretovit), to maintain the existing pricing pressure in the chesty-cough over-the-counter market.

The second precedent concerned the proposed acquisition by ChemChina of assets by 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:

- a First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favourable outcome, the suit is immunised, and an antitrust claim premised on the sham exception must fail.
- b The second tier, to be reached 'only if challenged litigation is objectively meritless', is 'whether the baseless lawsuit conceals an attempt to interfere directly with the business relationships of a competitor through the use of the governmental process – as opposed to the outcome of that process – as an anticompetitive weapon'.<sup>8</sup>

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.

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8 [www.lectlaw.com/def2/s112.htm](http://www.lectlaw.com/def2/s112.htm).

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.<sup>9</sup>

## **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.<sup>10</sup>

## **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.

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9 Court precedent: ‘Marcas. Ley de Invencciones y Marcas. Competencia desleal. Que debe entenderse por.’

10 See [www.ericsson.com/news/1974964](http://www.ericsson.com/news/1974964).

The exercise of exclusive IP rights (such as exploiting an SEP or non-SEP) is not by its nature anticompetitive. The exploitation of a patent on an exclusive basis is the very nature of this right and is protected by law, as well as the right of its holder to license it to third parties. However, particular circumstances may render the exercise of the exclusive right anticompetitive, taking into consideration various circumstances such as the market power of the licensor, the relevant market, the type and scope of the patent, among other things.

The establishment of FRAND terms to ensure the pro-competitive effects of patent licences is a proven efficient tool to protect the interests of both the patent holder and licensees. While Mexican law and practice have not yet tested the imposition of FRAND terms in this context, the principles and public policy contained in the Constitutional Reform should be followed, which most probably will respect such a practice already tested in other markets.

As a final note, the telecommunications and antitrust regulations derived from the Constitutional Reform are expected to foster competition and growth in the Mexican economy. The creation of IFETEL and COFECE as separate constitutional agencies independent from the executive branch is 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.

# PORTUGAL

*Carlos Pinto Correia, João Pateira Ferreira, Raquel Galvão Silva and Gonçalo Hogan<sup>1</sup>*

## I INTRODUCTION

There are few regulations or guidelines specifically addressing intellectual property (IP) and antitrust issues in Portugal; however, the past years have been marked by relevant decisions of the Portuguese Competition Authority (PCA) and the Portuguese Competition, Regulation and Supervision Court (the Competition Court) in areas related to intellectual property: (1) a decision of the PCA to apply a more than €10 million fine to the Portuguese National Association of Pharmacies (ANF) for abuse of dominant position; (2) a decision regarding anticompetitive agreements involving pharmaceutical companies; and (3) a request for a preliminary ruling before the Court of Justice of the EU regarding the concept of discrimination in abuse of dominance.

This chapter will mainly address these decisions and give a brief overview of the relevant IP and competition issues and rules in the field of antitrust and IP enforcement actions.

## II YEAR IN REVIEW

With regard to antitrust, the past years were marked by three decisions of the PCA.

In Case 13/2009, ANF and two satellite companies, Farminvest and HMR, both controlled by ANF, were fined for abuse of dominance by refusing to provide other companies specialising in market studies with data related to the sales of medicines to final consumers at the pharmacy level. Although the data involved is not protected by IP, the information itself is used by the pharmaceutical industry and particularly by IP holders to monitor the market and possible infringements of their IP rights.

ANF is the largest association of pharmacies operating in Portugal and, through Farminvest, it controls a company named HMR that offers market studies in the healthcare sector and specialises in data related to sales of medicines by pharmacies to final consumers.

The case was based on a complaint lodged in 2009 by IMS, an international company specialising in collecting the same type of data from both wholesalers and pharmacies, and Apifarma, the pharmaceutical companies trade association. After more than five years of investigation, the PCA reached the conclusion that ANF had breached Article 102 of the Treaty on the Functioning of the European Union, and the equivalent rule in the Portuguese Competition Act, by increasing the price for the supply of the data by pharmacies to IMS. Roughly at the time that the issues with access to data began, ANF incorporated HMR,

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a subsidiary company that had privileged access to the data and started to compete with IMS. The plaintiff alleged that, with the new prices, which were about 2.5 times the previous price, it was effectively excluded from the market.

Apifarma alleged that the strategy of ANF effectively created a monopoly for HMR and, in view of the importance of this type of data for the industry, this would put Apifarma members at a disadvantage.

The PCA imposed a fine of more than €10 million on ANF and its controlled companies. The case judgment was confirmed by the Competition Court, the specialised court with jurisdiction over competition enforcement cases. The Court found that the PCA was right in finding the alleged infringement, and concluded that ANF had indeed tried, through margin squeeze, to prevent potential or actual competitors from entering the market. The Court found that this behaviour would have made it impossible for any competitor, even one as efficient as ANF, to obtain a profit margin that would enable it to enter and effectively compete in the market with ANF. Nevertheless, on the basis of the size of the relevant market, the Court decided to reduce the fine from €10.3 million to €6.8 million. A decision by the Lisbon Court of Appeals is expected on this case.

In Case 2014/4, the PCA assessed an agreement between three pharmaceutical companies, AstraZeneca, Teva and Ratiopharm, relating to the sale of rosuvastatin generic products. The PCA concluded that the settlement agreement executed between the parties in the context of proceedings that had been filed by AstraZeneca against Teva and Ratiopharm claiming an alleged patent infringement following the launch of rosuvastatin generic products by the two defendants was not in breach of the applicable antitrust laws. The PCA considered that there was no evidence that the terms of the settlement agreement were outside the scope of the arbitral proceedings nor that Teva or Ratiopharm had received any advantages from withdrawing their rosuvastatin generic products from the market.

This was the first PCA decision on the issue of agreements between originators and generic producers based on a possible ‘pay-for-delay’ infringement. One significant aspect to highlight is that the case started with a request made by the Ministry of Health after being informed of a letter sent by Teva to its clients letting them know of the settlement agreement with AstraZeneca. This is a relevant fact, since the public administration has traditionally been reluctant to bring matters to the PCA and to invoke competition law issues in respect of its relations with private parties in general.

Lastly, in a recent case, a request for a preliminary ruling to the Court of Justice of the EU was submitted by the Competition Court in connection with a complaint of abuse of dominance in collective management of intellectual property rights. In June and October 2014, PT Comunicações (PT), one of the major Portuguese telecom companies, filed a complaint with the PCA against GDA, the only Portuguese entity engaged in collective management of IP and related rights. In essence, PT submitted that GDA charged excessive fees for access to the television signal in pay-TV, since it applied higher prices to PT than to one of its major competitors.

The PCA decided to close the case on the basis that the price difference *per se* did not jeopardise PT’s competitive position in the market and, as such, did not have anticompetitive effects. The PCA argued that the results of the assessment of the price differences applied by GDA could not set aside the possibility of PT being capable of absorbing the cost difference at stake, considering that the costs are of low significance in relation to PT’s profits and the cost-effectiveness of these services. In analysing the requirements for abuse in discriminatory pricing, the PCA took into consideration the European Union Court of

Justice's reasoning in *British Airways*<sup>2</sup> and considered that the existence of a discriminatory practice does not necessarily involve a competitive disadvantage, and that concrete evidence of the discrimination being able to create such a disadvantage was required. Furthermore, it was stated that a different understanding would contravene the case law of the Court of Justice since it would result in every discriminatory practice by a dominant player entailing a violation of Article 102(2)(c) TFEU. In particular, the PCA concluded that it had not been demonstrated that competition between retailers could be influenced by the prices charged to wholesalers, such as PT.

On appeal, PT argued that the PCA had made an incorrect interpretation of EU law since it applied more stringent requirements. PT considered that the criterion established in EU case law for abuse in discriminatory practices was the simple demonstration that such practices are able to distort competition (i.e., to place a commercial partner of the dominant player at a competitive disadvantage).

The Competition Court then referred the case to the Court of Justice, as a preliminary ruling, since it noted that it was not clear from previous case law as to the concept of distorting competition for the purpose of assessing violations of Article 102(2)(c) TFEU.

Considering that the decision of the PCA to dismiss the case was based on the small difference between the costs borne by PT and the results in the additional wholesale costs – which was demonstrated by the increase in PT market shares during the relevant period, showing it was able to bear the extra amount charged internally – the Court stressed the importance of the concept of distorting competition, as adopted in *British Airways*, in the PCA's reasoning. The Court further noted that the Court of Justice precedents were not clear concerning the concept of distorting competition for the purpose of applying Article 102 TFEU, especially in regard to the existence of evidence of such a distortion, and that there was no distinction as to the seriousness, circumstances or effects of distortions to competition in this area.

In fact, and according to the Court of Justice in *British Airways*, 'there is nothing to prevent discrimination between business partners who are in a relationship of competition from being regarded as being abusive as soon as the behaviour of the undertaking in a dominant position tends, having regard to the whole of the circumstances of the case, to lead to a distortion of competition between those business partners. In such a situation, it cannot be required in addition that proof be adduced of an actual quantifiable deterioration in the competitive position of the business partners taken individually,'<sup>3</sup> which was restated by the General Court in *Clearstream* when concluding that 'the application to a trading partner of different prices for equivalent services continuously over a period of five years and by an undertaking having a *de facto* monopoly on the upstream market could not fail to cause that partner a competitive disadvantage'.<sup>4</sup>

In this sense, the Court considered that it was reasonable to ask whether the reasoning for the PCA's decision was innovative in the sense it is not directly supported by the aforementioned EU case law.

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2 *British Airways v. Commission*, Case C-95/04 P, Judgment of 15 March 2007.

3 Para. [145].

4 *Clearstream v. Commission*, Case T-301/04, Judgment of 9 September 2009, para. [194].

The request for a preliminary ruling was submitted in July 2016 and included the following questions:

- a Does the concept of distorting competition for the purposes of Article 102(2)(c) TFEU depend on an additional assessment regarding seriousness, relevance or importance of its effects in the competitive position or capacity of the relevant company, namely considering its capacity to bear the difference of costs internally?
- b If the difference is of low impact, is a decision of lack of evidence of a distortion of competition compatible with the case law set forth in *British Airways* and *Clearstream*?
- c Is Article 102(2)(c) TFEU to be interpreted as requiring the disadvantage suffered by the relevant company to correspond to a minimum percentage of its cost structure?
- d Alternatively, should it be construed as requiring the disadvantage to correspond at least to a minimum difference between average costs incurred by competitors?
- e Could this provision be interpreted in such a way that would require the amount corresponding to the competitive disadvantage to be higher than the price difference applied by the dominant player?
- f If the answer to these questions is affirmative, how should the minimum amounts be defined?
- g Should the extra costs borne by the relevant company in each year be lower than the minimum amounts, as defined according to question (f), can the assumption made in *Clearstream* pursuant to which ‘the application to a trading partner of different prices for equivalent services continuously over a period of five years and by an undertaking having a *de facto* monopoly on the upstream market could not fail to cause that partner a competitive disadvantage’ be set aside?

Apart from the substantial issues at stake, it should be noted that this case is one of the first recorded instances where a complainant has appealed a decision by the PCA not to pursue an investigation under the new Portuguese Competition Act, enacted in 2012 (Law 19/2012 of 8 May), which substantially enhanced the rights of complainants in competition cases and introduced the right of a complainant to appeal against a decision not to pursue an investigation. More importantly – and as far as the authors are aware – this is the first request for a preliminary review by the Competition Court concerning national competition investigations. The request for a preliminary review by the European Court of Justice is a clear sign that the Competition Court, though formally a first instance of appeal, will not refrain from exercising its specialised remit by addressing directly the Court of Justice on matters of interpretation of EU competition law.

### III LICENSING AND ANTITRUST

The recent *GDA* case is one of the most relevant decisions regarding discriminatory licensing of IP rights in Portugal. The outcome of this case is of extreme relevance for the Portuguese market in the collective management of copyrights and related rights since it will determine how relevant entities are to deal with the fact that they are dominant in their respective markets.

As mentioned above, the outcome of the preliminary ruling submitted to the Court of Justice will be decisive in determining pricing practices in the collective management of copyrights and related rights, and their respective licensing arrangements.

Although price differences may be allowed under Article 102(2)(c) TFEU, if the Court of Justice supports the PCA's reasoning in the *GDA* case, monopolistic entities engaged in the collective management of IP rights will enjoy more freedom in establishing discriminatory prices and licensing, and favouring close commercial partners.

In addition, although the *ANF* case is not based on a refusal to deal, the effect of the described increase in the prices of the sales data was, allegedly, equivalent to a refusal. The PCA identified a market for pharma-specific patient and prescription studies and a market for data with commercial value that is required to undertake those studies. Through its links with pharmacies, ANF enjoyed a dominant position in the provision of data, but it was also found to be dominant in the provision of studies through HMR. This reasoning was essentially upheld by the Competition Court.

The authority construed the case as margin squeeze and referred to the EU case law on that. It gave special emphasis to the fact that, on the basis of the pricing strategy ANF applied in the studies sold by HMR, the prices charged to IMS effectively prevented it from competing.

As is usual in margin squeeze cases, the analysis made by the PCA relies heavily on the economic assessment of the margin implicit in the prices charged.

Once it established that ANF was dominant in both groups of relevant markets (data and studies) the finding of abuse was essentially a matter of determining whether the price was too high, as claimed by the plaintiff. Thus, the *ratio decidendi* will probably not be followed in other cases.

#### IV STANDARD-ESSENTIAL PATENTS

One of the specificities of the Portuguese IP legal regime relates to patents in the pharmaceutical sector and, in particular, to disputes concerning industrial property rights, including preliminary injunctions, related to reference medical products or to generic medicines, which are subject in Portugal to *ad hoc* or institutionalised mandatory arbitration.<sup>5</sup> According to the law, the industrial property right holder that wants to enforce its right has 30 days to present a request for arbitration following publication by the Portuguese National Authority for Medicines and Health Products (INFARMED) of notice that a marketing authorisation (MA) has been requested for a generic medicine. Although the arbitration will not suspend INFARMED's analysis of the MA application, the idea behind this regime seems to be to allow IP disputes to be decided before generic medicines have obtained the necessary regulatory approvals to enter the Portuguese market, thus avoiding unnecessary delays in the marketing of generic medicines. As may be recalled, Portugal was singled out in the 2009 Pharmaceutical Sector Inquiry by the European Commission for having a high number of cases pending in the administrative courts filed by patent holders against regulatory authorities that were in the process of granting MAs and price approvals to generic medicines. These proceedings came to an end following the approval of the new arbitration regime.

In spite of the considerable attention that patents have been receiving over the past few years, so far no consideration has been given to statute, regulation or case law on the antitrust implications of the adoption of proprietary technologies in industry standards.

Furthermore, there is no relevant case law on the licence terms for such standard-essential patents.

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<sup>5</sup> See Law No. 62/2011 of 12 December 2011.

## V INTELLECTUAL PROPERTY AND MERGERS

Under Portuguese law, the concept of merger for the purposes of merger control includes the direct or indirect acquisition of control over the assets of a company, and as such, the acquisition of ownership, use or enjoyment of the assets of a company or parts of it.

In this sense, a transfer of IP rights may constitute a merger where the IP rights involve the ownership of assets of the previous holders.

In most cases, the relevant transaction will be an asset deal that includes IP rights, and notification obligations will arise in respect of the acquisition of the assets.

## VI OTHER ABUSES

While the European Commission has for several years been monitoring the limits of legitimate IP protection and related litigation and, in particular, patent settlements and more broadly pay-for-delay arrangements, until recently the PCA had not started to actively investigate these types of agreement.

The *AstraZeneca* case concerned an agreement whereby Teva and Ratiopharm stopped selling rosuvastatin generic products in Portugal. Teva issued a notice to wholesalers informing them of the terms of the agreement, which became known to the Ministry of Health, which ultimately informed the PCA. This led the PCA to conduct dawn raids of several companies.

AstraZeneca has a patent over rosuvastatin, an active substance that is sold under the commercial names of Crestor and Visacor. The patent is due to expire in 2017, but Teva and Ratiopharm launched a rosuvastatin generic before the patent expiry date.

AstraZeneca filed patent infringement proceedings but the parties eventually settled and one of the conditions was that Teva would cease to sell its generic drug.

The assessment of the PCA concerned the issue of the possible scope of the agreement. On the basis of ECJ case law the PCA stated that settlement agreements that are limited to settling the patent litigation and do not go beyond what is required in that context are acceptable. The PCA highlighted that the payment of compensation by AstraZeneca to Teva would be problematic and would raise antitrust concerns. However, there was no evidence that the agreement would extend beyond the scope of the dispute nor that the defendants would receive any advantages from removing the generic product from the market.

The documents collected in the dawn raid were also reviewed with the aim of trying to understand if there was another agreement, or any sort of undertaking, that followed the settlements. Again, the PCA concluded that there was no evidence that such an extension of the agreement existed.

The decision provides valuable guidance on the position of the PCA on settlement agreements. If the terms of the settlement do not impose on the generics company more obligations than those that would arise from the patent rights owned by the originator, the agreement does not go beyond what is acceptable. This is a clarification that is very useful for companies, but it is submitted that it may be difficult to have a clear view of what rights the patent gives to both parties, in particular if the settlement allows certain rights to the generics company. The position of the PCA seems to rely on an understanding that such an agreement should only make impositions on those companies.

It also follows that where there is a payment to the generics company related to a decision to leave or not enter the market there will probably be an issue in terms of

Portuguese competition law. This is a clear and coherent position, but the complexity of the situations that arise from patent litigation in the pharma sector will probably test this interpretation of the law.

## **VII OUTLOOK AND CONCLUSIONS**

The recent cases of the PCA mentioned above demonstrate a higher importance of IP-related matters in competition regulation in Portugal.

As shown, there is a high number of disputes arising from IP rights, especially in the pharma sector, and recent developments have demonstrated that the PCA is currently paying more attention to competitive concerns arising from not only the mentioned disputes but also from the activity of pharma associations.

The PCA recently issued its first decision concerning settlement agreements in patent disputes, which are very common in practice, and this may influence the outcome of future disputes.

On a different level, collective management of copyrights and related rights was also subject to the scrutiny of the PCA, by assessing possible abuse of dominance in this sector. The outcome of the preliminary ruling submitted in relation to GDA's alleged discriminatory prices will dictate future behaviour of entities engaged in this market.

Although the recent PCA decisions are a result of complaints, more supervision of competitive constraints resulting from IP rights, and particularly in the pharma sector, is expected.

# RUSSIA

*Maxim Boulba and Maria Ermolaeva*<sup>1</sup>

## I INTRODUCTION

The interaction between antitrust and intellectual property (IP) is widely discussed by the business community and the Russian competition authority, the Federal Anti-monopoly Service (FAS). In general, IP matters are mainly scrutinised by the FAS and its regional offices within the framework of unfair competition cases, as well as in situations where the anticompetitive effect arising from the exercise of IP rights is considered. Thus, antitrust issues are primarily governed by Federal Law No. 135-FZ dated 26 July 2006 on Protection of Competition (the Competition Law), while liability for violations of the anti-monopoly regulations is mainly established (in addition to the Competition Law) by the Code on Administrative Offences and the Criminal Code.

Currently, the Competition Law contains a limited number of provisions envisaged to address IP issues. Apart from the clauses on unfair competition and transactions with an IP element subject to merger control, IP rights are specifically mentioned in the following instances: (1) further to Article 10(4) of the Competition Law the prohibitions on abuse of dominance do not apply to conduct associated with the exercise of exclusive rights to IP or equivalent means of individualisation of a company, products, works or services; and (2) similarly, under Article 11(9) of the Competition Law the prohibitions against anticompetitive agreements are not applicable to agreements on granting or transferring IP rights or equivalent means of individualisation of a company, products, works or services.

The FAS tends to view the above immunities as obsolete; 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 legalisation of parallel imports, claiming that such reforms will ensure a level playing field. Although these radical initiatives are strongly criticised by many practitioners and right holders, the FAS is adamant about seeing these changes implemented.

The FAS is also 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.

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

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their protection. It also stipulates some general requirements concerning their use and enforcement. Overall, the Russian legislation provides for civil, administrative and criminal liability for the infringement of IP rights.

Further, in line with the Competition Law provisions under Part IV of the Civil Code the protection of a trademark can, *inter alia*, be disputed or invalidated in full or in part if the actions of a right holder associated with granting protection to a trademark or to a different confusingly similar trademark are viewed as unfair competition.

Russia is a party to a number of the most important international treaties and conventions covering different IP aspects, including the Convention Establishing the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks and the Madrid Protocol, the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The Paris Convention in particular is often applied and referred to by the FAS in its decisions.

In addition to Part IV of the Civil Code, certain (mostly technical) IP issues are regulated by the orders of the Federal Service for Intellectual Property (Rospatent). Rospatent is the main body in the field of IP and is also responsible for the major registration formalities. In accordance with the Competition Law, the FAS's decisions on violations of the Competition Law (unfair competition) are to be sent to Rospatent for the legal protection of trademarks.

The FAS and Rospatent cooperate on the basis of an agreement entered into in 2010 that defines the scope of interaction and information exchange between these bodies. For the most part Rospatent provides assistance and consultations to the FAS in the course of investigations involving IP. Recently, 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 the pharmaceutical companies as 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 amendments of the Fourth Anti-monopoly Package came into effect on 5 January 2016 and affected virtually all areas of antitrust regulation. When the draft law was at a blueprint stage the FAS 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 initiative was not

eventually reflected in the Fourth Anti-monopoly Package. 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.

For the time being, the developments concerning the correlation between IP and antitrust are 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 also be considered as unfair competition. The rules on unfair competition are now substantially more detailed and 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.

The Fourth Anti-monopoly Package prohibits copying or imitating the appearance of a product, its packaging, name, colour or other distinct characteristics, if that may reasonably lead to confusion between products. By virtue of these provisions the undertakings can now protect their interests in connection with the appearance of a product in respect of which no IP rights have been registered.

In general, the Fourth Anti-monopoly Package gives a range of legal mechanisms to companies adversely affected by their competitors' unfair practices, which is beneficial for those companies acting in good faith. In the meantime, all market players need to take into account the new requirements and check more carefully that their conduct and products comply with the Competition Law to avoid claims from their competitors.

The number of unfair competition cases increased in 2016: the FAS and its regional offices were actively looking into practices violating the new provisions of the Competition Law. In the past, the practice of the FAS was not always consistent; as a result, its role was somewhat conflicting. The Fourth Anti-monopoly Package 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, it is worth mentioning another important innovation that was brought by the Fourth Anti-monopoly Package and may have an impact on joint venture projects (irrespective of whether IP rights are included in the transaction scope or not). Competitors are required to obtain the prior approval of the FAS for conclusion of agreements on joint activities 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. Still, 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 Recent case law**

Recent cases support the FAS outlook on the interplay between IP and antitrust: as long as right holders can benefit from the existing exemptions provided for in the Competition Law, there is always room for abuse and anticompetitive conduct (i.e., according to the competition authority, IP rights should not create any benefits in terms of the circulation of the products in the market). Therefore, this practice suggests that antitrust restrictions can be applied to arrangements that are not directly related to agreements on granting IP rights.

In the highly publicised *Google* case, which was finally resolved in 2017, the FAS considered Google a dominant undertaking on the market of ‘pre-installed application stores on Android OS’ to be circulated in Russia. It is noteworthy that the non-Russian companies of the group (Google Inc and Google Ireland Limited), as the providers and right holders of Google mobile applications and services, were viewed as dominant undertakings.

Google provided the manufacturers of mobile devices with Google Play for pre-installation on Android OS mobile devices. In this respect the following actions of Google were viewed by the FAS as abusive: mandatory and exclusive pre-installation of other Google applications and services together with Google Play; mandatory and exclusive pre-installation of Google’s search engine together with Google Play; mandatory placement of pre-installed applications on the screen of mobile devices (specific screen placement); and imposing a prohibition (or economic incentives) on the manufacturers preventing them from dealing with Google’s competitors and pre-installing competing products on Android mobile devices. Together with the decision the FAS issued a binding order prescribing Google to complete actions aimed at terminating the violation and restoring competition in the market, including by way of modifying all existing contractual arrangements with Google’s partners and informing the customers (users of mobile devices) of the possibility of deactivating the pre-installed Google applications and search engine, and installing alternative competing applications as well as changing the placement of application icons on the screen.

The FAS’s decision was challenged by Google; however, after unsuccessful appeals the company decided to enter into a settlement agreement with the authority, pay a significant fine and comply with the FAS requirements. The intersection of IP and antitrust was specifically considered and addressed in the FAS’s decision. In the course of both the FAS administrative proceedings and the court proceedings, Google claimed that the IP exemption provided for in Article 10 of the Competition Law should apply to the conduct in question, as it essentially relates to IP licences. The FAS looked into the agreements entered into by Google and, *inter alia*, came to the conclusion that the restrictions imposed by Google went beyond the exercise of exclusive rights to separate applications by Google (considering that Google Mobile Services cannot be viewed as a single IP object). All contractual issues other than the use of IP are outwith the scope of a ‘pure’ licence agreement and are not covered by the exemption. The FAS also mentioned that some of the restrictions established by Google were not in any way related to IP (e.g., prohibition on installing competitors’ products on the same terms as those distributed by Google). The courts (confirming the FAS’s conclusions) referred to the *Teva* case and stated that in the case of ‘mixed’ agreements that contain both licensing and other terms the ‘additional’ conditions must comply with the antitrust regulations.

Other notable cases reviewed by the FAS in 2016 were mainly related to issues of unfair competition. For instance, the FAS confirmed that a major Russian communication services provider was guilty of prohibited practices: the design of its starter kits and SIM cards for a particular tariff had copied a competitor’s corporate style (including a colour scheme).

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

As mentioned above, the prohibitions of the Competition Law are not supposed to apply to the actions and agreements relating to providing, granting or disposing of IP rights (including trademarks and patents). An undertaking granting exclusive rights to use its IP is entitled to control and impose restrictions on the licensee.

The parties enjoy certain discretion when drafting licence agreements as the Civil Code provisions as to their contents are rather broad. Clearly, the licence agreements that cover IP issues only will benefit from this exemption; nonetheless, in many situations it is rather challenging to establish whether the immunity is available and can be relied on by the companies involved. By way of illustration, agreements on the exercise of IP rights may contain extensive requirements for the products to be distributed in a particular manner and in this way give rise to competition concerns. The prevailing position supported by the FAS is that the IP exemption does not apply to the conduct and arrangements concerning the circulation of goods manufactured with the use of IP rights: the antitrust regulations will apply in full.

It is noteworthy that duly formalised franchise agreements do not fall under the antitrust prohibitions (for vertical agreements) and are considered admissible (notwithstanding the market share held by the parties to such agreements). Although, pursuant to the Civil Code, they may contain a range of restrictive clauses, including non-compete obligations, it is still possible that the FAS will seek to invalidate such clauses if it comes to the conclusion that competition is affected (taking into consideration the market situation and the parties' position).

#### ii Refusals to license

Formally, there are no restrictions on the right holder's 'monopoly': as mentioned above, the concept of abuse of dominance is not supposed to apply to the exercise of IP rights because of the exemption provided by Article 10(4) of the Competition Law. Nonetheless, the competition authority pays particular attention to the matter and wishes to address the problems associated with unsubstantiated refusal to license.

Generally, under the Civil Code compulsory licensing based on a court decision is available in relation to inventions, utility models, industrial designs and selection inventions. Still, it is rarely used and for the time being is not envisaged being used to address antitrust concerns. The right holders (patent owners) can be forced by a court decision to grant a compulsory licence if the IP is not used for a specific period or a different right holder cannot use its IP without infringing the rights in question. The applicable licensing terms are determined by the court. However, the law does not elaborate on how such terms shall be defined, apart from the requirement that they are non-exclusive and that the licence fee shall not be lower than fees payable in comparable circumstances.

This is, however, a civil remedy that is not immediately connected with infringements of the Competition Law. FAS officials state that in the absence of legislative mechanisms such licences have never been granted with a view to improving or restoring competition in the market. The competition authority is willing to change this situation and has already drafted a set of controversial amendments in this respect. 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 import. The authority views the legalisation of parallel import as an efficient way of removing possible restrictions of competition and has prepared the amendments to the existing legislative provisions concerning exhaustion of trademark rights. According to the publicly available comments of FAS officials, it is possible that the parallel import of certain products (pharmaceuticals, spare car parts) will be permitted soon.

**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 fair, reasonable, and non-discriminatory (FRAND) terms**

Russian legislation does not provide for the concept of FRAND licences granted by the owners of standard-essential patents under competition laws and the rules of standard-setting organisations. Therefore, such licensing practices cannot be used as a defence in Russia. The antitrust regulations are equally silent on the matter. The Civil Code provides a general principle in accordance with which civil rights cannot be used to restrict competition or to abuse a dominant position. However, in the absence of rules on FRAND, this provision can hardly be applied in relation to standard-essential patents.

**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 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).

## **ii Remedies involving divestiture 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.

## **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 introduced by the Fourth Anti-monopoly Package.

### **iii Anticompetitive settlements of IP disputes**

By way of background, settlement agreements similar to those available in the United States or the EU are not applied in Russia: as a consequence, their validity and enforceability as such are not obvious. In any case the settlements of IP disputes have not yet been analysed by the FAS and the courts from an antitrust perspective.

Thus, should an arrangement of this kind (e.g., providing for exclusion payments to potential generic entrants in the pharmaceutical sector) be scrutinised by the competition authority, the general provisions of the Competition Law prohibiting abuse of dominance and anticompetitive agreements will be applied. Patent disputes involving generic manufacturers, in particular, are rather 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, 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 (establishing more balanced criteria), correlation between IP and antitrust regulations, implementation of anti-monopoly compliance programmes by undertakings, and class actions. In the past, some of these matters were widely discussed by practitioners but ultimately were not included in the Fourth Anti-monopoly Package.

# SWITZERLAND

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## I INTRODUCTION

The Federal Act on Cartels and other Restraints of Competition (CartA) aims at preventing the harmful economic or social effects of cartels and other restraints of competition. It applies to unlawful agreements (vertical and horizontal), to abuses of dominant position and to control of mergers.

With respect to intellectual property, the following acts are the most relevant in Switzerland: the Federal Act on Patents for Inventions (PatA), the Federal Act on the Protection of Trade Marks and Indications of Source, the Federal Act on Copyright and Related Rights (CopA), and the Federal Act on the Protection of Designs.

None of the above-mentioned intellectual property acts deals with the relation between intellectual property rights and competition law. Article 3(2) CartA provides: ‘This Act does not apply to effects on competition that result exclusively from the legislation governing intellectual property. However, import restrictions based on intellectual property rights shall be assessed under this Act.’ The first sentence of this Article should, however, not be construed as providing an exemption to the application of the substantive provisions of the CartA. It is generally viewed as meaning that authorities applying the CartA in cases where intellectual property rights are at issue should take into account the relevant intellectual property acts.<sup>2</sup>

Article 6(1) and (2) CartA provide that the Federal Council or the Competition Commission (Comco) may adopt, respectively, ordinances or general guidelines to set out the conditions under which certain agreements shall, in principle, be deemed justified on grounds of economic efficiency. Article 6(1)(d) 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.<sup>3</sup> However, in deciding cases involving intellectual property rights, Swiss authorities usually consult the relevant EU guidelines.<sup>4</sup>

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<sup>2</sup> This restrictive approach has been confirmed by the Comco; see DPC/RPW 2011/1, p. 113.

<sup>3</sup> 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., distribution and franchising). The Vertical Agreements Guidelines were recently updated following the *Gabal/Gebro* case and the Comco also published an updated version of the explanatory notes; see [https://www.weko.admin.ch/dam/weko/fr/dokumente/2017/Erl%C3%A4uterungen%20zur%20Vertikalbekanntmachung%20vom%2012.%20Juni%202017.pdf.download.pdf/Erl%C3%A4uterungen%20zur%20Vertikalbekanntmachung%20vom%2012.%20Juni%202017\\_fr.pdf](https://www.weko.admin.ch/dam/weko/fr/dokumente/2017/Erl%C3%A4uterungen%20zur%20Vertikalbekanntmachung%20vom%2012.%20Juni%202017.pdf.download.pdf/Erl%C3%A4uterungen%20zur%20Vertikalbekanntmachung%20vom%2012.%20Juni%202017_fr.pdf)

<sup>4</sup> See, e.g., the decisions B-463/2010 and B-506/2010 of the Federal Administrative Tribunal (FAT).

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 particularly to protect research and development activities.<sup>5</sup> By way of example, Article 9(1) PatA states that the effects of a patent do not extend to acts undertaken for research or experimental purposes to obtain knowledge about the subject matter of the invention, including its uses, acts necessary for obtaining marketing authorisation for a medicinal product<sup>6</sup> or the use of biological material for the purpose of the production or the discovery and development of a plant variety. With respect to software, Article 21 CopA provides a mandatory reverse-engineering exception for the purposes of obtaining interface operation 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 two important cases involving competition law and intellectual property rights.

First, on 21 April 2017, the Federal Supreme Court (FSC) published its reasoning for its landmark *Gaba/Gebro* decision of 28 June 2016 regarding the manufacturing and distribution of Elmex products.<sup>7</sup> It is considered a landmark decision with respect to unlawful agreements, with the effect of strengthening the application of the CartA in the area of parallel imports. The facts underlying this case are the following: a Swiss licensor, Gaba, granted a licence to an Austrian company, Gebro, to manufacture and distribute Elmex products exclusively for and within Austria. Gebro was contractually prevented from exporting these products, directly or indirectly, to any other country.

In light of the effects doctrine set forth in Article 2(2) CartA, the FSC considered the CartA applicable to all situations, provided that they may have effects in Switzerland. It is neither necessary nor permissible to examine the significance of the effects. This means that agreements or unilateral behaviour of market-dominant companies, even outside Switzerland, can be covered by the CartA, regardless of how plausible any effects in Switzerland are.

Furthermore, the FSC decided that agreements pursuant to Article 5(3) and (4) CartA – including in particular those that allocate markets geographically – have, in principle, by virtue of their object, the effect of significantly restricting competition according to Article 5(1) CartA. They therefore constitute unlawful restrictive agreements if they cannot be justified on grounds of economic efficiency. There is no need for an actual impact on competition; a potential impairment is already sufficient. ‘Bagatelle’ cases are exempted.

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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 API (prior to the expiry of the patent) with a view to obtaining a marketing authorisation. This would allow the generic to enter the market faster after the expiry of the relevant patent. However, stockpiling the generic prior to the expiry of the relevant patent is unlawful.

7 FSC, 2C\_180/2014 dated 28 June 2016.

However, the FSC does not provide further explanation 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) 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.

Second, the Comco imposed on Swisscom a fine of approximately 71 million Swiss francs for an abuse of dominant position in the context of live broadcasting.<sup>8</sup> 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 (1) Swisscom refused to offer some of its competitors the right to broadcast these sports live on their platforms, or (2) Swisscom 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.

### III LICENSING AND ANTITRUST

There are no specific rules or general guidelines governing licensing agreements under Swiss competition law. In this respect, the general rules of the CartA would be assessed in each particular case: under Article 5 CartA (unlawful agreements affecting competition) and Article 7 CartA (unlawful practices of dominant undertakings).<sup>9</sup>

This chapter will not discuss the different rules on intellectual property rights exhaustion, to the extent that, pursuant to Article 3(2) CartA, the CartA is fully applicable to parallel import restrictions; however, as a matter of principle, international exhaustion applies to

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8 DPC/RPW 2016/4, 920 ff.

9 Although not binding or directly applicable under Swiss law, Commission Regulation (EU) No. 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements (TTBER) may be consulted by Swiss authorities and it would be advisable to take it into account when drafting agreements that may have an impact in Switzerland.

copyrights and trademarks; regional (i.e., countries of the EEA and Switzerland) exhaustion applies to most patent rights; and national exhaustion applies with respect to patent-protected goods whose price is fixed by the state in Switzerland (e.g., most pharmaceuticals) or in the country in which they are placed on the market.

Article 5 CartA regulates binding and non-binding agreements and concerted practices that have the effect of restricting competition in Switzerland. Such agreements are prohibited if they (1) eliminate competition or (2) significantly restrict competition on a market without being justified on grounds of economic efficiency:

### ***Elimination of competition***

According to Article 5(4) CartA, agreements regarding fixed or minimum prices<sup>10</sup> 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).<sup>11</sup> Imposing constraints that would have the same effect as preventing internet sales (e.g., technical blocking measures, rerouting or currency restrictions) is also unlawful.

### ***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,<sup>12</sup> 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 in the agreement.<sup>13</sup> For other restrictions, vertical agreements are assumed not to have a significant effect on the market if none of the parties thereto has a market share of over 15 per cent.

The restriction of parallel imports (as a hardcore vertical restriction) was the topic of the *Gabal/Gebro* case discussed above.<sup>14</sup> Another recent decision related to parallel imports

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10 Where an agreement provides price recommendations (which are, in principle, allowed under Swiss competition law), if, in practice, it is shown that the recommendations are followed or enforced (or a combination of these) by the licensor, this behaviour would fall within the scope of the price-fixing hardcore restriction.

11 See Paragraph 3 of the Vertical Agreements Guidelines.

12 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.

13 See Paragraphs 12 and 13 of the Vertical Agreements Guidelines.

14 See Section II, *supra*.

was rendered by the FAT in a case involving Nikon.<sup>15</sup> Even more so than 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) the restriction of sales to the United States or to 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:<sup>16</sup> 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.<sup>17</sup> 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.<sup>18</sup>

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 to the licensed intellectual property, and (4) payment of royalties after expiration of the licensed intellectual property right (provided that royalties may still be justified with respect to know-how).

Article 7(1) CartA provides that dominant undertakings behave unlawfully if, by abusing their position in the market, they hinder other undertakings from starting or continuing to compete, or disadvantage trading partners. Article 7(2) CartA goes on to list certain practices that are deemed unlawful, in particular: (1) any refusal to deal, (2) any discrimination between trading partners in relation to prices or other conditions of trade, and (3) any imposition of unfair prices or other unfair conditions of trade.

In the aforementioned *Swisscom* case,<sup>19</sup> the Comco held that Swisscom and its affiliates had adopted the three above-mentioned practices either by refusing to grant the relevant broadcasting rights to some competitors or by imposing unfair terms on some competitors (i.e., the offer of the broadcasts was bundled with another offer).

In another case, the Comco imposed a fine of 7 million Swiss francs on SIX Multipay AG for an abuse of dominant position characterised by SIX's refusal to provide competitors with interface information related to a new functionality (dynamic currency conversion or DCC) for credit card terminals, which allows customers to choose the currency they wish to pay in when at the terminal.<sup>20</sup> The information was necessary for competitors to ensure the interoperability of their credit card terminals. Interestingly, SIX argued that Article 21(2) CopA does not oblige the copyright owner to provide interface information to competitors.

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15 See FAT, B-581/2012 of 16 September 2016.

16 See, footnote 9, *supra*, regarding the limited scope of application of the Vertical Agreements Guidelines.

17 Article 12(2)(f) and (g) of the Vertical Agreements Guidelines.

18 Article 12(2)(g) in fine of the Vertical Agreements Guidelines.

19 DPC/RPW 2016/4, 920 ff.

20 DPC/RPW 2011/1, 96 ff.

The Comco considered that, by virtue of Article 3(2) 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.<sup>21</sup>

With respect to the imposition of excessively high prices (e.g., milestone or royalty payments under a licence agreement) by a dominant undertaking, the Federal Price Supervisory Body has the authority to order a price reduction pursuant to Articles 4 and 10 of the Federal Price Supervision Act (FPSA). Before taking any decision, the Federal Price Supervisory Body shall first try to reach an amicable solution with the concerned undertaking (Article 9 FPSA).

Finally, patent pools have not been the subject of any decisions in Switzerland so far. However, antitrust concerns (price-fixing in particular) may arise in this context; for example, where the patents in the pool consist in substitute technologies.

#### IV STANDARD-ESSENTIAL PATENTS

No consideration has been given under Swiss competition law (whether in statutes, case law or guidelines) to standard-essential patents.

Nonetheless, the PatA sets forth restrictions on the rights of a patent owner that may apply to standard-essential patents, in particular Article 36 PatA (dependent inventions), and Articles 40 ff. PatA (licensing in the public interest).

Article 36 PatA provides that if a patented invention cannot be used without infringing a prior patent, the owner of the newer patent has the right to a non-exclusive licence to the extent required to use the new patented invention, provided that the invention represents 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.<sup>22</sup> 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 Article 36 PatA (i.e., the grant of a licence to the owner of the new patent) in cases where it would be justified under Article 36 PatA. In this case, it judged that the requirements of Article 36 PatA were not met.

Article 40 PatA provides that where public interest so dictates, the person to whom the owner of the patent has, without sufficient reason, refused to grant the licence requested, may apply to the court for the grant of a licence to use the invention. It is generally recognised by legal scholars that a public interest exists when the relevant patent is a technical standard (or used therein). Although not specified in Article 40 PatA, such a licence would be non-exclusive. Articles 40a to 40d PatA further provide for compulsory licences in specific cases and under specific conditions: in the field of semiconductor technology (40a), for research tools (40b), for diagnostic tools (40c), and for the export of pharmaceutical products (40d).

The scope and term of the licences that would be granted pursuant to the above-mentioned provisions are limited to the purpose for which they have been granted and may only be transferred with that part of the enterprise that uses the licence.

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21 See DPC/RPW 2011/1, 96 ff, p. 115.

22 Bern Commercial Court, HG 03 9024 (BE), published in *sic!* 2006 p. 348.

## V INTELLECTUAL PROPERTY AND MERGERS

### i Transfer of IP rights constituting a merger

There are no specific provisions or guidelines under Swiss law with respect to the transfer of intellectual property rights in the context of merger control. The transfer of intellectual property rights may, however, be deemed a concentration under Article 4(3) CartA where the intellectual property rights constitute part of a business whose control is acquired by an independent undertaking.<sup>23</sup> 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.<sup>24</sup> The sole transfer of intellectual property rights might also be construed as a concentration of undertakings within the meaning of Article 4(3) CartA. The Comco has already ruled that the mere transfer of immaterial assets (i.e., trademarks, know-how, clientele and goodwill in the case at hand) amounted to a concentration of undertakings.<sup>25</sup>

### ii Remedies involving divestitures of intellectual property

The Comco may authorise a concentration of undertakings subject to conditions and obligations if it considers that the concentration (1) creates or strengthens a dominant position liable to eliminate effective competition; and (2) does not improve the conditions of competition in another market such that the harmful effects of the dominant position can be outweighed (Article 10(2) CartA). The CartA does not specify the types of obligations or conditions that can be imposed. In practice, the concerned undertakings will generally discuss the same with the Comco. The remedies usually involve divestments or behavioural undertakings.

In the *Glaxo Wellcome/SmithKline Beecham* case, the merger was authorised by the Comco subject to the out-licensing by the parties of either Vectavir or Zovirax for use in the topical treatment of herpes simplex in the market of topical anti-virals (D6D) in Switzerland.<sup>26</sup> This remedy was inspired by the solution that was reached in the context of the same merger by the European Commission.<sup>27</sup> 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.'<sup>28</sup>

23 Article 4(3) CartA defines a 'concentration of undertakings' as (1) the merger of two or more previously independent undertakings; or (2) any transaction, in particular the acquisition of an equity interest or the conclusion of an agreement by which one or more undertakings acquire direct or indirect control of one or more previously independent undertakings or parts thereof.

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

25 See DPC/RWP 2011/3, p. 413.

26 DPC/RPW 2001/2, p. 338 (*Glaxo Wellcome/SmithKline Beecham*).

27 EC, Case COMP/M.1846.

28 EC, Case COMP/M.1846, paragraph 219.

## VI OTHER ABUSES

### i Sham or vexatious IP litigation

The concept of abuse under Article 7 CartA (unlawful practices by dominant undertakings) covers both exploitative and exclusionary practices. Sham or vexatious litigation is not included in the example list of practices considered unlawful under Article 7 CartA. Consequently, the general rules on the abuse of dominant position would apply to such practices, which may be considered as exclusionary practices.

### ii Misuse of the patent process

There are no specific rules in Swiss competition law regarding the misuse or manipulation of the patent process (e.g., for the purpose of artificially extending the term or geographical scope of patent protection, or enforcing patents obtained through fraud). Such practices would therefore be assessed under Article 7(1) CartA.

### iii Anticompetitive settlements of IP disputes

There is no relevant case law on this topic in Switzerland. To the extent that a settlement agreement does not amount to a market-sharing or market-foreclosure agreement, the settlement should, in principle, comply with Swiss competition law. Exclusion payments made by a pharmaceutical or biotech company to potential generic or biosimilar entrants on the relevant market may be construed as a market-foreclosure agreement and thus unlawful.

## VII OUTLOOK AND CONCLUSIONS

As mentioned by the president of the Comco in its 2016 annual report,<sup>29</sup> the Swiss competition authorities have been active in the past year mainly in pursuing (in various markets) hardcore horizontal restraints, market foreclosure and abuses of dominant position. In the context of this contribution, this was exemplified by the *Gabal/Gebro* and the *Swisscom* pay-TV cases. In the coming year, it is foreseeable that these activities will intensify, in particular with respect to the digital economy and the pharmaceutical industry.

Attention should also be focused on a popular initiative (i.e., the initiative against the ‘Swiss island of high prices’) that was launched on 20 September 2016 and aims at combating the practice of setting higher prices in Switzerland as compared with prices in neighbouring countries.<sup>30</sup> Practically, this initiative, if successful, would lead to the introduction of the relative market power concept into the CartA. The scope of Article 7 CartA (unlawful practices of dominant undertakings) would thus be extended because of this new concept, whereby an undertaking would be deemed to have a relative dominant position on the market (e.g., if companies depend on it for the supply of goods or services necessary for their activities and where no reasonable and sufficient alternatives are available).

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29 DPC/RPW 2017/1, p. 21.

30 <https://www.prix-equitables.ch/>.

# TURKEY

*Gönenç Gürkaynak*<sup>1</sup>

## I INTRODUCTION

As a result of the intensive work conducted throughout the years, a unified intellectual property law has finally been codified in Industrial Property Law No. 6769 (the IP Law), which entered into force on 10 January 2016 and collectively regulates in detail trademarks, geographical indications, designs and patents, in compliance with European Union regulations. Prior to the creation of the IP Law, the entirety of the intellectual property regime was implemented through separate statutory decrees. Competition in Turkey, on the other hand, is regulated by Law No. 4054 on the Protection of Competition (the Competition Law), published in the Official Gazette on 13 December 1994.

Following the introduction of the IP Law, the interaction between competition law and intellectual property law in Turkey still remains unregulated, and both regimes obey separate legislation. Turkish intellectual property law seeks to protect the owners' exclusive control over their intellectual assets, and Turkish competition law aims to ensure effective competition in the marketplace and prevent anticompetitive actions such as cartels and abuse of dominance, etc.

Moreover, the recent Turkish IP Law and other existing legal regulations related to intellectual property rights (IP rights) confer exclusive rights on the right holders. The owner of intellectual property is entitled under the relevant legal regulations to exploit the subject of the right exclusively, to prevent illegal use of it by third parties and confer the right to use it by licensing it to third parties. The fact that legal regulations related to intellectual property grant exclusive rights of exploitation to right holders does not imply that IP rights are immune from the area of application of the competition law. Article 4 (restrictive agreements), Article 5 (individual exemption conditions) and Article 6 (dominance) of the Competition Law are also applicable to agreements whereby the holder of IP rights licenses another undertaking to exploit its IP rights. Overall, it would be prudent to consider intellectual property law and competition law as complementary rather than contradictory concepts.

As elaborated above, the main legislation for the competition law regime in Turkey is the Competition Law. The Turkish competition law regime consists of three main branches: (1) restrictive agreements, concerted practices and cartels, (2) dominance, and (3) merger control. The national competition authority for enforcing competition law in Turkey is the Turkish Competition Authority (TCA). Under the current Turkish competition law regime, the general competition law enforcement structure is also applicable for IP rights.

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Within the framework of competition law, the secondary law that relates to the interaction between antitrust and intellectual property law is as follows:

- a Block Exemption Communiqué No. 2008/2 on Technology Transfer Agreements (Communiqué No. 2008/2), which provides a protective cloak for agreements involving the transfer of IP rights and in particular technology licensing agreements;
- b Block Exemption Communiqué No. 2016/5 on R&D Agreements (Communiqué No. 2016/5), which provides a block exemption for research and development (R&D) agreements, including an exemption for R&D agreements that contain provisions relating to the assignment or licensing of IP rights to carry out joint R&D, paid-for R&D or joint exploitation, so long as those provisions are not the primary object of such agreements, but are instead directly related to and necessary for their implementation;
- c Block Exemption Communiqué No. 2002/2 on Vertical Agreements (Communiqué No. 2002/2) applies to standardisation, franchise and contract manufacturing agreements to the extent they satisfy the conditions set out in the relevant communiqué; and
- d Block Exemption Communiqué No. 2013/3 on Specialisation Agreements (Communiqué No. 2013/3) establishes the conditions for granting block exemptions to specialisation agreements between undertakings and extends this exemption to licensing or intellectual property transfer agreements that are directly related to, or necessary for, the functioning of the exempted specialisation agreements.

In terms of intellectual property law, there are a range of criminal, civil and administrative laws to protect IP rights that cover a range of fields, including copyrights, trademarks, patents and trade secrets, among others. Turkey is a signatory or a party to various international and bilateral agreements, conventions and treaties, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights, the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Agreement Concerning the International Patent Classification, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of Marks, the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks, and the European Patent Convention.

## II YEAR IN REVIEW

With respect to relevant legislative changes, the Turkish law regime has not witnessed any specific amendments that relate to both competition law and intellectual property law. Undoubtedly, the major 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.

In *Tuborg/Ecocaps* (18 May 2016, No. 16-17/282-125), the Board evaluated the application brought by Anadolu Efes Biracılık ve Malt Sanayi AŞ (Anadolu Efes) alleging that the Board's previous decision, in which it granted the exemption to the supply agreement between Türk Tuborg Bira ve Malt Sanayi AŞ (Tuborg) and Ecocap's SRL Socio Unico (Ecocaps), was issued based on missing and false information and thus the exemption should be withdrawn. To that end, Anadolu Efes claimed that the exclusive agreement concluded

between Tuborg and Ecocaps regarding the supply of beverage can protection systems does not provide any technical improvement and innovation and thus the agreement does not benefit from individual exemption. In its evaluation, the Board concluded that the beverage can protection system supplied to Tuborg by Ecocaps brings a new method of providing hygienic solutions and impermeability for beverage packages and, in this sense, it promotes an innovation that is protected by intellectual property rights. Moreover, the Board stated that Tuborg, through making considerable investments and using this new technology in its products, is bringing an innovation for consumers. As a result of this evaluation, therefore, the Board rejected Anadolu Efes' request for withdrawal of the exemption granted in relation to the relevant agreement.

In *ArcelorMittal* (21 January 2016, No. 16-03/54-19), the Board evaluated the individual exemption request regarding the production agreement between ArcelorMittal Flat Carbon, ArcelorMittal Tailored Blanks, Bamesa Aceros, Bamesa Çelik and BAMI Çelik. The relevant agreement concerned the production of welding plates used in the automobile industry. In its evaluation, the Board took into consideration the fact that the agreement was a horizontal cooperation agreement concluded between undertakings all operating in the same market. Moreover, the Board noted that the agreement contained certain technology transfer (licence and know-how) between the parties, and thus the Board assessed whether the exemption provided under Communiqué No. 2008/2 applied to the agreement. In this regard, the Board stated that to benefit from the protective cloak of Communiqué No. 2008/2, the primary purpose of the agreement would have to be the licensing of intellectual property rights and know-how. This condition was not satisfied in the case at hand as the main purpose of the agreement at stake was the joint production of welding plates, with the transfer of certain know-how and technology being solely an ancillary element of the agreement. This led the Board to evaluate the agreement within the scope of Communiqué No. 2013/3, which applies to specialisation agreements, and the Board further decided that Communiqué No. 2013/3 did not apply in the case at hand either, because of the market share held by the undertakings concerned. Finally, the Board evaluated the applicability of the general individual exemption regime to the agreement and decided to grant an individual exemption on the basis of the efficiencies that derived from the agreement (e.g., increase in quality and cost reductions, benefit to consumers, etc.).

### 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:

- a that contribute to improving the production or distribution of products, or to promoting technical or economic progress;
- b that allow consumers a fair share of the resulting benefits;

- c* 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 on Vertical Agreements and on Technology Transfer Agreements). Such agreements are likely to be deemed anticompetitive where they contain resale price maintenance, regional restraints, quantitative restraints on production or sales, customer allocation and selective distribution systems.

## **ii Refusal to license**

There is currently no specific provision under the Turkish competition regime regulating unilateral conduct or refusal to license in relation to IP rights. Under Article 6 of the Competition Law, all dominant undertakings are bound by the obligation not to abuse their dominant position. Therefore, the general provisions of Article 6 would also apply to refusal-to-license situations.

Refusal to license can be a form of abuse of dominance, as established by the landmark decision of *Turkcell/Telsim* (9 June 2003, No. 03-40/432-186). This decision sets out the basis of the criteria required to establish an abuse of dominance for refusal to supply in IP-related markets. The Board identified the following conditions that are necessary to establish an abusive refusal to supply:

- a* the access to IP rights is essential to the competitors for entry into the market;
- b* there exists sufficient capacity to supply the demand;
- c* the undertaking controlling the essential facility is no longer able to supply the demand on the market or it impedes competition on existing or potential services and products;
- d* the undertaking requesting access to the IP rights is ready to pay a reasonable and non-discriminatory indemnity for access; and
- e* there exists no reasonable justification for denial.

Although over a decade has passed since the *Turkcell/Telsim* case, the Board's most recent decisions on this point reaffirm the position taken; see, for instance, the Board's decisions *Türk Telekom* (9 June 2016, No. 16-20/326-146); *Krea İçerik Hizmetleri* (9 September 2015, No. 15-36/544-176); *Surat Basım/Zambak* (19 March 2013, No. 13-15/230-114); and *Digital Platform* (3 May 2012, No. 12-24/710-198).

The Board also reviewed the abuse of dominance with respect to tying and bundling practices, where the licensing of IP rights was tied to the licensing of other IP rights (*Logo Yazılım*, 28 April 2011, No. 11-26/497-154) or rebate systems in the sales of computer software (*Microsoft*, 13 June 2013, No. 13-36/481-211). In these cases, the Board applied the general provisions of Article 6 and did not adapt a particular standpoint as regards IP rights.

## **iii Unfair and discriminatory licensing**

As with refusal to license, the general provisions of Article 6 of the Competition Law on the abuse of dominant position would also be applicable to unfair and discriminatory licensing as

there are currently no specific provisions under Turkish competition legislation regulating this area. An undertaking holding a dominant position would risk allegations of abuse of dominant position in the event of discrimination in connection with licensing fees, discrimination in providing the main IP rights required for a certain activity or through offering different terms to purchasers with equal status for the same and equal rights, obligations and acts. Similarly, refusal to license may be found to be abusive where it is discriminatory.

In any event, discriminatory conditions imposed by an undertaking holding a dominant position are governed under Article 6 of the Competition Law.

#### **iv Patent pooling**

Patent pooling has been referred to as ‘technology pooling’ in the Guidelines on Technology Transfer Agreements, which define technology pools as agreements where two or more parties agree to assemble their technologies and create a pool and license them as a package. The concept of a technology pool also covers arrangements whereby two or more parties agree to license the package of technologies in question to a third party and empower that party to license the package. However, the Guidelines on Technology Transfer Agreements do not cover such arrangements and thus patent pools are subject to the general provisions of Article 4 of the Competition Law. If all the conditions of individual exemption are satisfied, patent pools may also benefit from the individual exemption under Article 5 of the Competition Law.

While there has been no prior case law dealing specifically with patent pooling or technology pooling arrangements, it can be said that the patent pooling arrangements would generally be viewed as creating pro-competitive efficiencies. That said, the patent pooling arrangements should not be used in an anticompetitive manner to fix prices, allocate markets or restrict output, which would be in violation of the Competition Law.

#### **v Software licensing**

Provided certain conditions are met, Communiqué No. 2008/2 provides for a protective cloak for agreements involving the transfer of IP rights and in particular technology licensing agreements. A technology transfer agreement is an agreement where a licensor authorises another party (licensee) to use its technology (patent, know-how, software licence) for the production of goods and services subject to the licence agreement. The exemption applies to sub-licensing as well, provided that they are granted to third parties by the licensee solely in relation to the licensed technology.

Communiqué No. 2008/2 is applicable only if certain market share thresholds are not exceeded: for licensing agreements between competing undertakings, the aggregate market share of the parties should not exceed 30 per cent in the affected technology market. The threshold is 40 per cent in the case of licensing agreements between non-competing undertakings. Hardcore restrictions, such as the restriction of a party’s ability to determine the prices it charges third parties (i.e., resale price maintenance), territory or customer restrictions, or both, and non-compete obligations are also listed in Article 6 of Communiqué No. 2008/2 as clauses that exclude the application of the block exemption.

#### **vi Trademark licensing**

The Guidelines on Technology Transfer Agreements provide that a licensor may authorise a licensee to use its trademark on the products incorporating the licensed technology, as this trademark allows consumers to make an immediate link between the product and the characteristics imputed to it by the licensed technology. However, if the value of the licensed

technology is limited because the licensee already uses the same or similar technology and the main objective of the agreement is the trademark, then the licensing agreement will not benefit from the block exemption provided under Communiqué No. 2008/2. That said, under Article 6 of the Competition Law, all undertakings holding a dominant position are bound by the obligation not to abuse their dominant position. The abuse of dominant position can occur in cases of discrimination in connection with trademark licensing fees, discrimination in providing the trademark licence and offering different terms to purchasers with equal status for the same and equal rights, obligations and acts, and if found to be abusive, in cases of refusal to license the trademark. Therefore, the general provisions of Article 6 of the Competition Law would also apply to the licensing of trademarks.

Most recently, in *Toshiba/Vestel* (24 November 2016, No. 16-41/666-299), the Board evaluated an exemption request regarding the ‘brand licence agreement’, which concerns the trademark-use licence granted to Vestel by Toshiba for the production and distribution of Toshiba branded televisions. In its evaluation, the Board held that the relevant agreement was a production and distribution agreement concluded among competitors, which falls within the scope of Article 4 of the Competition Law. As the Block Exemption Communiqué No. 2002/2 on Vertical Agreements does not apply to such horizontal agreements, the Board proceeded to an individual exemption analysis under Article 5 of the Competition Law and decided to grant an individual exemption on the basis that the agreement contributed to the promotion of improvement of technical or economic progress with regard to consumers.

#### **IV STANDARD-ESSENTIAL PATENTS**

##### **i Dominance**

Standard-essential patents could provide substantial market power to their holders. Any abuse by an undertaking that is in a dominant position in a market for goods or services within the whole or part of Turkey is considered as abuse of dominant position under Article 6 of the Competition Law regardless of whether it is on the part of one or more undertakings, individually or through joint agreements.

The Board has not so far considered the issue of standardisation as far as its intersection with standard-essential patents and any potential abuse of dominant position claims. Nevertheless, general competition law provisions in Turkey would be applicable to any related issues, such as patent ambush, hold-up, refusal to license, etc. Hence, such arrangements and practices would be closely scrutinised under the relevant applicable provisions of Turkish laws.

##### **ii Injunctions**

Pursuant to Article 389 of the Turkish Civil Procedure Law, in the event of a suspicion that it would be very difficult or totally impossible to earn a right because of a change in the existing circumstances, or that a drawback or severe losses may arise because of a delay, an injunction may be established in connection with the issue under dispute. Requests for injunctions may be addressed to the competent courts.

In addition, pursuant to Article 9(4) of the Competition Law, where the occurrence of serious and irreparable damage is likely until the final decision is taken, the Board may take interim measures that maintain the situation as it was before the infringement and that shall not exceed the scope of the final decision.

As to seeking an injunction on the basis of standard-essential patents and any interplay with competition law, this issue has not been considered by the Board to date.

### iii Licensing under fair, reasonable, and non-discriminatory (FRAND) terms

As standardisation generally occurs as a result of coordinated actions made by several undertakings, the issues would therefore fall within the scope of Article 4 of the Competition Law. As there is no specific legislation applicable to industrial standards as far as competition law is concerned, the Guidelines on Horizontal Cooperation Agreements would be relevant for determining the propriety of the industrial standards.

According to the Guidelines on Horizontal Cooperation Agreements, FRAND commitments are designed to ensure that any essential technology under IP rights protection incorporated in a standard is accessible to the users of that standard on a fair, reasonable and non-discriminatory basis. Further, according to the relevant guidelines, these commitments can prevent IP right holders from making the implementation of a standard difficult by refusing to license or by requesting unfair or unreasonable (excessive) fees or discriminatory fees after the industry has been locked into a standard. The assessment of whether the agreement restricts competition must be based on the issue of access to the standard.

In *Digiturk* (10 February 2016, No. 16-04/82-36), where the Board assessed whether the agreement between the Turkish Football Federation and Digiturk satisfies the conditions for an individual exemption within the meaning of Article 5 of the Competition Law, the Board explicitly referred to FRAND terms for the first time. The Board provided that in licensing agreements the parties would need to comply with FRAND terms. Without proceeding to an assessment as to whether FRAND terms were satisfied in the case at hand, the Board decided to grant an individual exemption to the agreement on the grounds that it allows the licensees' platforms to access several technical developments and provides a customer benefit.

As the Board has not so far considered the intersection of standard-essential patents and competition law (or IP rights in the standardisation process in general), the Board's approach on standardisation agreements may be considered by analogy. In *Yonga Levha* (14 August 2003, No. 03-56/650-298), the Board evaluated the application of a negative clearance in regard to a standardisation decision made by the Turkish Particle Board Industrialists Association concerning setting a standard for particle boards that are subject to numerous patents registered with the Turkish Patent Institute. The Board considered the agreement as a standardisation agreement and evaluated the application pursuant to Article 4 of the Competition Law. The Board decided to grant a negative clearance for the Association's application. This decision can be considered as the first decision ever where the Board has evaluated the concept of standardisation under the Turkish competition law regime.

In *Turkish Pharmacists' Association* (15 November 2007, No. 07-86/1088-422), the Board evaluated, from a competition law perspective, the conformity certification, issued by the Turkish Pharmacists' Association and granted to pharmacies, that regulates the formal standards that pharmacies' signboards should satisfy. The Board examined the conformity certification in view of its purposes and decided that it is proportionate under the Turkish competition law regime. Accordingly, the Board rejected the complaint petition.

As indicated above, there are only a few instances where the Board has evaluated standardisation agreements. It is fair to say that the application of standardisation is not as common in Turkey as it is in other jurisdictions, such as the EU.

### iv Anticompetitive or exclusionary royalties

Under the Turkish competition regime, there is no regulation on the royalty rates or the calculation elements of the royalty calculation. Nevertheless, according to the Guidelines on Horizontal Cooperation Agreements, the assessment as to whether the fees charged for access

to IP rights in the standard-setting context are unfair or unreasonable would be based on whether there is a reasonable relationship between these fees and the economic value of the IP rights. Licensing fees charged for the same IP rights within the context of similar standards may also be used as an indicator for FRAND licensing fees. However, the guidelines do not include an exhaustive list of appropriate methods to assess whether licensing fees are excessive. Also, an independent expert analysis may be requested, stating that the relevant IP rights portfolio is objectively important and essential for the standard at issue. In certain cases, it may also be possible to refer to *ex ante* disclosures concerning licensing terms in relation to a specific standard-setting process.

In conclusion, where the royalty is so excessive so as to be contrary to FRAND commitments, then this could raise an issue under Article 6 of the Competition Law.

## V INTELLECTUAL PROPERTY AND MERGERS

### i Transfer of IP rights constituting a merger

Concentrations that result in a permanent change of control (either sole or joint control) are subject to the Board's approval, provided they exceed the applicable turnover thresholds.

A transaction that involves the acquisition of IP rights such as brands, patents, designs or copyrights would be deemed a merger or an acquisition within the meaning of the Turkish merger control regime so long as the relevant IP rights constitute a business with a market turnover. In *Mey/Anadolu Efes*, the transaction concerned the acquisition of a certain trademark in the sector for beer (25 August 2009, No. 09-38/925-218). In this decision, the Board deemed the transaction as an acquisition within the scope of the merger control regime and approved it. In *ACC Austria* (27 September 2013, No. 13-55/758-318), which concerned the acquisition of ACC Austria's tangible and intangible assets such as office consumables, several licences, trademark and patent rights and other IP rights by Secop GmbH, the Board deemed the transaction an acquisition.

More recently, in *FIH Mobile/Microsoft Mobile (Vietnam)* (18 August 2016, No. 16-28/472-211), the Board approved the transaction regarding the acquisition by FIH Mobile of the entire share capital of Microsoft Mobile (Vietnam) and other assets related to the operation of the feature phone business that imply the transfer of IP rights. The Board proceeded to an examination as to whether the transfer of IP rights could be considered as a separate transaction requiring a separate merger control filing. To that end, and based on the information provided by the parties that no turnover could be attributed to the relevant IP rights, the Board considered the acquisition of share capital and assets as one single transaction.

### ii Remedies involving divestitures of intellectual property

The Board is likely to challenge concentrations that create or strengthen a dominant position, which would result in a significant lessening of competition in a market for goods or services within the whole or a part of Turkey. The acquisition of IP rights would not be an exception to this rule, and thus would be evaluated under the same test to assess whether the competitive problems arise from a market position gained as a result of the relevant IP rights.

In (exceptional) cases where competition problems arise from a market position based on the superiority of owning a certain technology or IP right, the divestiture of the said technology or IP right may be considered a suitable remedy (Guidelines on Remedies Acceptable by the Turkish Competition Authority in Mergers/Acquisition Transactions).

A divestiture package that includes only trademarks and relevant production or distribution assets may only be accepted as a suitable remedy if sufficient proof is adduced showing that at the hands of a suitable purchaser the said package would turn immediately into a competitive and viable asset (Guidelines on Remedies Acceptable by the Turkish Competition Authority in Mergers/Acquisition Transactions). The Board is familiar with cases where the remedies partly involve divestiture of IP rights such as certain trademarks and brands (e.g., *Mey İçki* (17 August 2011, No. 11-45/1043-356)).

## **VI OTHER ABUSES**

### **i Sham or vexatious IP litigation**

While there has been no prior case law under the Turkish competition law practice dealing specifically with sham or vexatious IP litigation cases and competition law intersection, such arrangements and practices would be closely scrutinised under the applicable provisions of Turkish competition laws.

### **ii Misuse of the patent process**

While there has been no prior case law under the Turkish competition law practice dealing specifically with a misuse of the patent process (e.g., misleading patent offices or misusing the patent system to gain a competitive advantage) and competition law intersection, such arrangements and practices would be closely scrutinised under the relevant applicable provisions of Turkish laws, especially under Article 6 of the Competition Law dealing with abuse of a dominant position.

### **iii Anticompetitive settlements of IP disputes**

Turkish competition law is yet to witness the practice of manipulation of the patent process and its interaction with competition law, or other practices such as artificially extending the term or geographical scope of patent protection, or enforcing patents obtained through fraud or anticompetitive settlements of intellectual property disputes or pay-for-delay arrangements. Nevertheless, such arrangements and practices would be closely scrutinised under the relevant applicable provisions of Turkish laws.

## **VII OUTLOOK AND CONCLUSIONS**

The Draft Competition Law, which was issued by the Turkish Competition Authority in 2013 and officially submitted to the Presidency of the Turkish Parliament on 23 January 2014, is now null and void following the beginning of the new legislative year of the Turkish Parliament. At this stage, it remains unknown whether the new Turkish Parliament or the government will renew the draft law. However, it could be anticipated that the main topics to be held in the discussions on the potential new draft competition legislation will not significantly differ from the changes that were introduced by the previous draft. Therefore, in this hypothetical scenario, the discussions are expected to mainly focus on: (1) conformity with the EU competition law legislation; (2) introduction of the EU's SIEC (significant impediment of effective competition) test instead of the current dominance test; (3) adoption of the term of 'concentration' as an umbrella term for mergers and acquisitions; (4) elimination of the exemption of acquisition by inheritance; (5) abandonment of the Phase II procedure;

(6) extension of the appraisal period for concentrations from the current 30-calendar-day period to 30 working days; and (7) removal of the fixed turnover rates for certain procedural violations, including the failure to notify a concentration and hindering on-site inspections, and set upper limits for the monetary fines for these violations.

As for intellectual property law, the enactment of the IP Law is expected to bring a more solid framework for the application of the intellectual property rules. As the new IP Law does not regulate the intersection between the intellectual property rules and competition law, the Board's case law will be of importance for further clarifications with respect to the competition law standards that apply to intellectual property matters.

# UNITED KINGDOM

*James Flynn QC and Charlotte Thomas<sup>1</sup>*

## I INTRODUCTION

The United Kingdom's substantive rules governing the application of competition law to intellectual property are contained generally within two national statutes: the Competition Act 1998 (the CA 1998) and the Enterprise Act 2002 (the EA 2002). The CA 1998 contains two main prohibitions, modelled on (and, by virtue of Section 60 of the CA 1998, to be interpreted consistently with) the prohibitions contained in Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU).

The Chapter I prohibition (CA 1998, Section 2) prohibits any agreement or concerted practice that has the object or effect of restricting or distorting competition and that has or is capable of having an effect on trade within the United Kingdom, unless an exemption from the prohibition applies.

The Chapter II prohibition (CA 1998, Section 18) prohibits the abuse of a dominant market position that has or is capable of having an effect on trade within the United Kingdom.

Where there is additionally an effect on trade between EU Member States, the agreement or concerted practice or abusive conduct may also be prohibited by Articles 101 or 102 TFEU respectively and constitute a breach of statutory duty under Section 2 of the United Kingdom's European Communities Act 1972.

EU block exemption regulations apply 'in parallel' in UK competition law (CA 1998, Section 10), and the CA 1998 also provides for domestic block exemptions (there are none specifically applicable to intellectual property rights).

UK merger control rules are contained in Part 3 of the EA 2002, insofar as transactions are not covered by the exclusive jurisdiction of the European Commission pursuant to Regulation No. 139/2004, the EC Merger Regulation.

Further sources of law include judicial decisions (both of the European Court of Justice and the General Court and of national courts, including in particular the specialist Competition Appeal Tribunal (CAT)), and principles derived from decisions of competition authorities, including the European Commission and the United Kingdom's Competition and Markets Authority (CMA), and guidelines issued by those authorities.

## II YEAR IN REVIEW

UK case law from the past year has seen a very substantial judgment from Birss J concerning the requirement to offer licences of standard-essential patents on fair, reasonable and

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non-discriminatory (FRAND) terms (the *Unwired Planet* litigation: see Section IV, *infra*). This is the first UK judgment in which any significant guidance as to the determination of FRAND terms has been given. He has, however, granted permission to appeal in respect of various important points of principle, meaning that further input from the Court of Appeal can be expected in the coming year.

Meanwhile, the trial in the CAT of the appeal of the CMA's decision to fine GlaxoSmithKline plc and two generic pharmaceutical companies for entering into alleged 'reverse payment' or 'pay-for-delay' patent settlements took place in early 2017; judgment is still awaited at the time of writing (June 2017).

Policy debate in UK competition law has unsurprisingly been dominated by the result of the referendum of 23 June 2016, in which a majority of UK voters said that the country should leave the EU (Brexit). In consequence, and in accordance with Article 50(2) TFEU, on 29 March 2017 the prime minister gave notice to the European Council of the United Kingdom's intention to leave the EU, triggering the two-year negotiating period under Article 50(3) TFEU, which may be extended by agreement. Those negotiations commenced on 19 June 2017.

In the short term, however, there is no change: the prevailing national UK and EU competition and intellectual property regimes both remain in full force. 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.<sup>2</sup>

### III LICENSING AND ANTITRUST

#### i Anticompetitive restraints

There are no UK-specific competition rules regarding technology licensing agreements. By the 'parallel exemption' route, the current EU Technology Transfer Block Exemption Regulation (Regulation (EU) No. 316/2014 (the TTBER 2014)) applies in a purely UK context in the same way as it does to agreements that may affect inter-state trade. The TTBER 2014 creates a 'safe harbour' for licensing agreements for patents, know-how or software copyright (or a mixture of these) concluded between no more than two companies with limited market power that respect certain conditions. Such agreements are deemed not to have an anticompetitive effect (or any such effect is deemed to be outweighed by their positive effects). The Commission Guidelines on the application of Article 101 TFEU to technology transfer agreements (2014) were released at the same time and contain guidance in respect of scenarios not covered by the TTBER 2014, including multilateral agreements.

The TTBER 2014 provides no protection where an agreement contains as its object (directly or indirectly and in whole or in part) a hardcore restriction: such restrictions preclude exemption. In the case of competing undertakings, hardcore restrictions include<sup>3</sup> 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,<sup>4</sup> allocation of markets or consumers, restrictions on the licensee exploiting its own technology rights, and restrictions

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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.

3 TTBER 2014, Article 4(1).

4 Commission Guidelines on technology transfer agreements (2014), paragraphs 103–104.

on either party's engagement in R&D unless the restriction is indispensable. Slightly different hardcore restrictions are identified in the case of non-competing undertakings.<sup>5</sup> Certain individual obligations such as an obligation not to challenge the validity of EU intellectual property rights are also excluded from protection.<sup>6</sup> 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.<sup>7</sup> However, it can be abusive where certain criteria laid down in Court of Justice case law<sup>8</sup> are satisfied:

- a the refusal prevents others from using certain information or products subject to that right;
- b the information or product is indispensable to the exercise of a particular activity on a neighbouring market (defined according to normal principles of market definition);
- c the refusal excludes effective competition on the neighbouring market;
- d the refusal prevents the appearance of a new product for which there is a potential consumer demand (a requirement unique to the intellectual property rights cases), or (in a more recent formulation)<sup>9</sup> limits technical development to the detriment of consumers; and
- e there is no objective justification for the refusal, in particular with reference to the dominant undertaking's incentive to innovate.

In principle, there is a 'refusal' only where there has been a request. A response to a request that fails to address the specific matters requested may amount to a refusal, as may an agreement to license but only subject to unreasonable conditions (constructive refusal).<sup>10</sup>

## 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, *infra*).

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5 TTBER 2014, Article 4(2).

6 TTBER 2014, Article 5.

7 Cases C-241/91 P etc *RTE and ITP v. Commission* [1995] ECR I-743 (the *Magill* case), paragraph 49.

8 The *Magill* case, paragraphs 54-56; Case T-201/04 *Microsoft v. Commission* [2007] ECR II-3601 (*Microsoft v. Commission*), paragraphs 331-334.

9 *Microsoft v. Commission*, paragraph 647; and see Guidance on Commission's enforcement priorities in applying Article 82 to exclusionary conduct (2009), paragraph 81 ('consumer harm' is the enforcement priority).

10 *Microsoft v. Commission*, paragraphs 758 and 763; Guidance on Commission's enforcement priorities in applying Article 82 to exclusionary conduct (2009), paragraph 79.

#### iv Patent pooling

According to its recitals and according to the European Commission,<sup>11</sup> 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.<sup>12</sup> 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.<sup>13</sup> Licences granted by pools are likely to be incompatible with Article 101 TFEU where they contain any hardcore restrictions listed in Article 4 of the TTBER 2014.<sup>14</sup> Conversely, the creation and operation of the pool, including licensing out, will generally comply with Article 101(1) TFEU, irrespective of the parties' market position, where participation in the pool is open to all, only essential technologies are pooled, the exchange of sensitive information is limited, pooled technologies are licensed in on a non-exclusive basis and licensed out on a FRAND basis, the participants in the pool are free to challenge the validity and essentiality of the pooled technologies, and the participants in the pool remain free to develop competing products and technology.<sup>15</sup> 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.<sup>16</sup> Moreover, agreements for the reproduction and distribution of software copyright-protected products are expressly treated by recital 7 of the TTBER 2014 as falling into the category of distribution agreements. They must therefore be considered with reference to the Vertical Agreements Block Exemption Regulation (Regulation (EU) No. 330/2010) and the Commission Guidelines on vertical restraints (2010).

#### vi Trademark licensing

The TTBER 2014 only applies to trademarks where the trademark is ancillary to a technology transfer agreement. The Commission has applied Article 101(1) to exclusive trademark licences; for example, in *Davide CampariMilano SpA Agreement* OJ [1978] L 70/69, Article 101(1) TFEU was engaged by a standard form agreement granting firms exclusive

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11 See recital 7 of the TTBER 2014 and the Commission Guidelines on technology transfer agreements (2014), paragraph 56.

12 Commission Guidelines on technology transfer agreements (2014), paragraphs 244–73.

13 Commission Guidelines on technology transfer agreements (2014), paragraphs 244–47.

14 Commission Guidelines on technology transfer agreements (2014), paragraph 267(d).

15 Commission Guidelines on technology transfer agreements (2014), paragraph 261.

16 Commission Guidelines on technology transfer agreements (2014), paragraphs 62–63.

licences to use the Campari trademark within their own territory and requiring them not to pursue an active sales policy elsewhere, but the agreement was exempted following individual assessment under Article 101(3) TFEU.

#### IV STANDARD-ESSENTIAL PATENTS

The competition law treatment of licensing practices of holders of standard-essential patents (SEPs) has been controversial for some time, and has recently become the subject of case law. A trickle of cases has slowly begun to clarify these principles at EU and national level, including in the United Kingdom.

On 29 April 2014, the European Commission adopted an infringement decision under Article 102 in respect of Motorola, finding that it had abused its dominant position by seeking an injunction against Apple in relation to its SEP, but, unusually, in its discretion imposed no fine because of the divergent views of Member States and absence of EU decisional practice and case law regarding whether a SEP holder abuses a dominant position when it seeks an injunction against a potential licensee who is not unwilling to enter into a licence agreement on FRAND terms.<sup>17</sup>

##### i Dominance

In Case C-170/13 *Huawei Technologies co Ltd v. ZTE Corp & ZTE Deutschland GmbH*, AG Wathelet hinted in his Opinion of 20 November 2014 (ECLI:EU:C:2014:2391), at paragraph 58, that there could be a presumption that a SEP holder was dominant, rebuttable by ‘specific, detailed evidence’ to the contrary. The German court had, however, referred no question on dominance and the Court of Justice took no view on the point (Judgment of 16 July 2015, ECLI:EU:C:2015:477). The position therefore continues to be that the assessment of dominance in SEP cases will turn on the facts of each case and is a matter for the national court or authority.

Birss J addressed the question of whether Unwired Planet possessed a dominant position at paragraphs 630–670 of the main judgment in the *Unwired Planet* proceedings ([2017] EWHC 711 (Pat)), discussed further in Sections IV.ii and IV.iii, *infra*. 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.

##### ii Injunctions

###### *Huawei v. ZTE (ECJ)*

It was also in *Huawei v. ZTE* that the Court of Justice set out the circumstances under which the holder of a SEP who has agreed to license it on FRAND terms can obtain an injunction against

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17 Case AT.39985, Commission Decision, C(2014) 2892 final, recital 561, accessible at [http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=1\\_39985](http://ec.europa.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, accessible at [http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=1\\_39939](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=1_39939).

a party infringing the patent who is a willing licensee without breaching Article 102 TFEU. Like AG Wathelet (at paragraphs 47–52 of his Opinion), the Court sought to strike a balance between excessive protection for the patentee (arguably evinced by the German approach) and excessive protection for the putative licensee (the Commission approach). There is now a protocol to follow (at paragraphs 59–73 of the 16 July 2015 Judgment), under which the SEP holder must make a written offer on FRAND terms to the willing licensee, who may then make a counter-offer. Both parties must act promptly and in good faith. In the absence of a good faith counter-offer on FRAND terms, no injunction will be granted.

The relationship between FRAND proposals and injunctions has further been considered by Birss J in each of the two significant recent cases on SEPs to have come before the English courts.

### ***Vringo v. ZTE (Birss J)***

In *Vringo Infrastructure Inc v. ZTE (UK) Ltd*, Vringo, the owner of a global patent portfolio of SEPs acquired from Nokia relating to wireless communications infrastructure, initially contended that its global portfolio offer was FRAND and it would be entitled to an injunction unless ZTE accepted it. Birss J suggested that he was ‘sceptical’ about this argument ([2015] EWHC 214 (Pat), paragraphs 101–112): even if the global portfolio licence offer was FRAND and it was not an abuse of a dominant position to make the offer, this did not appear to preclude ZTE from making a FRAND counter-offer for a licence in respect only of the SEP in question. Had Vringo itself made an offer of this type and ZTE refused to accept it, then an injunction might follow. Following the 24 April 2015 *Unwired Planet* decision outlined below, Vringo modified its position, stating that it was willing to offer a licence solely within the United Kingdom of the single patent at issue. Vringo maintained that it was not obliged to do so and that this offer was made voluntarily.

This concession meant that the main disagreement subsisting between the parties concerned the proper royalty rate payable for that licence (see Section IV.iii, *infra*).

### ***Unwired Planet v. Huawei & Samsung (Birss J and Court of Appeal)***

The *Unwired Planet International Ltd & ors v. Huawei Technologies Co Ltd, Samsung Electronics Co Ltd & ors* litigation concerns patents transferred to Unwired Planet by Ericsson that have been declared essential to telecommunications standards developed by ETSI, which encourages members to give an irrevocable commitment to grant licences on FRAND terms to any of their patented technology that is adopted as part of the standard.

In 2014, Unwired Planet sued the defendants (who included Huawei and Samsung) for infringement of its patents, contending that they were both infringed and (so far as relevant) essential. It also made two open licensing proposals to the defendants: a worldwide licence under all its patents, or a worldwide licence under its SEPs only. The court has found that least two patents in the Unwired Planet portfolio are valid, infringed and essential to ETSI’s standards ([2015] EWHC 3366 (Pat), affirmed [2017] EWCA Civ 266; [2016] EWHC (Pat)). One of the allegations made by the defendants against Unwired Planet was that in seeking an injunction it was acting contrary to Article 102 TFEU.

Birss J observed in the context of an application for summary judgment in this case (considered further at Section IV.iii, *infra*) ([2015] EWHC 1029 (Pat)) that ‘the question of whether any given licence terms are FRAND is not simply a freestanding issue. It is closely

connected to the question of injunctions' (paragraph 20). In that decision, he explained (at paragraph 29) that this is a developing area of law and practice and that there are three legally relevant ways of considering whether licence terms are FRAND:

- a Are the terms compliant with competition law?
- b Are the terms compliant with the contractually enforceable obligation to ETSI?
- c Are the terms proposed by the claimant 'equitably refusible', such that an injunction would be granted if the defendant refused to accept them? Conversely, are the terms proposed by the defendant such that a claimant obliged to license on FRAND terms would be refused an injunction if it refused to accept them?

He explained that the third, injunction-related context is distinct 'since it will also relate to the exercise of the court's discretionary power to grant injunctive remedies. Even if a patentee is not contractually obliged to ETSI to accept FRAND terms offered by a defendant, perhaps a court might refuse to grant an injunction in such a case'.

As to the two proposals made by Unwired Planet, he thought the first 'very likely to be equitably refusible' because it bundled SEPs and non-SEPs together, and the second unlikely to determine the issue of whether Unwired Planet was entitled to an injunction because the defendants had made clear that they were willing to accept FRAND licences under any patents found valid and infringed and so the issue was likely to turn on patent-specific terms advanced by either party (paragraphs 75–76). He therefore gave directions that each party should be required to state whether it was willing to make an offer for a territorial licence of the five SEPs at issue on the assumption that they were valid and essential, and if so on what terms (paragraph 77).

In consequence, in June 2015, Unwired Planet made offers for a worldwide SEP portfolio licence, a UK SEP portfolio licence, and per-patent licences for any SEPs the licensee chose (with each of the latter two licences claiming a higher royalty rate than the worldwide licence); Huawei proposed a per-patent licence limited to the UK SEPs in suit ([2017] EWHC 711 (Pat), paragraphs 7–8). On 1 August 2016, Unwired Planet made further offers on the same terms, but at lower rates, following its settlement of certain competition law issues with Samsung (see Section IV.iii, *infra*). Shortly before trial commenced, Huawei made an offer in respect of the whole of Unwired Planet's UK SEP portfolio, as well as an increased offer in respect of per-patent rates ([2017] EWHC 711 (Pat), paragraphs 13–14).

At trial ([2017] EWHC 711 (Pat)), Birss J held that a patentee that refused to accept an offer made on FRAND terms would be in breach of its FRAND undertaking, and an English court would refuse to grant a patentee an injunction if it refused to accept FRAND terms; conversely, a defendant who has refused a FRAND offer will not be protected from injunctions (paragraphs 166–167).

In the remedies judgment ([2017] EWHC 1304 (Pat)), he granted what he called a 'FRAND injunction', explaining (at paragraph 20): 'A FRAND injunction should be in normal form to restrain infringement of the relevant patent(s) but ought to include a proviso that it will cease to have effect if the defendant enters into that FRAND licence.' Where, as had been agreed by the parties in this case, the FRAND licence is for a limited time (shorter than the lifespan of the relevant patent), and in any event where the FRAND licence ceases to have effect for any other reason, there will be an express liberty to apply to return to the court to address the position at the termination of the FRAND licence. If the defendant has entered into the FRAND licence, there is no need for any injunction at all (paragraph 21). The injunction was stayed pending Huawei's appeal.

Birss J addressed the question of whether Unwired Planet had abused its dominant position by reason of its conduct relating to this dispute at paragraphs 671–791 of the main judgment ([2017] EWHC 711 (Pat)). One of the allegations made by Huawei (discussed at paragraphs 674–755) was that the litigation was premature, because Unwired Planet had not followed the conditions set out in *Huawei v. ZTE*, and so Unwired Planet was not entitled to an injunction. Referring to Unwired Planet’s contact with Huawei prior to the issue of proceedings, to the fact that Huawei is a sophisticated organisation that could be expected to, and did, negotiate with Unwired Planet following the commencement of proceedings, and to the fact that Unwired Planet did provide the key terms of a licence offer to Huawei a few weeks after commencing proceedings, Birss J held that the litigation was not premature and Unwired Planet was not on this ground barred from seeking an injunction. He observed that this case differed from *Huawei v. ZTE* because the FRAND issue was separately justiciable (by reason of the undertakings given to ETSI) and Huawei did not need Article 102 TFEU to have a defence to the injunction claim. Even if he had concluded that Unwired Planet’s commencement of proceedings had been premature, it would not automatically have followed that an injunction should be refused, given the lapse of time since that date (paragraph 795). Birss J has granted permission to appeal on this point ([2017] EWHC 1304 (Pat), paragraph 65).

### iii Licensing under FRAND terms

The disagreement as to the proper royalty rate in the *Vringo v. ZTE* case considered in Section IV.ii, *supra*, was substantial. Birss J explained in a judgment following a case management conference in the proceedings on 8 June 2015 ([2015] EWHC 1704, paragraph 9) that ‘the difference between £3,000 and £2.40 per unit worth £120,000 characterises the difference between the parties in terms of the royalty rates’. Vringo’s position was that a FRAND royalty would be 2 per cent of the sale price of the unit. ZTE’s position was that a FRAND royalty should be calculated with reference to the smallest saleable compliant part of the product. The parties’ positions were therefore orders of magnitude apart and based on quite different principles of calculation. Guidance as to the appropriate starting point would have been welcome. However, the parties reached a global settlement at the end of 2015, under which ZTE received a perpetual non-exclusive licence of Vringo’s entire portfolio for a one-off payment of US\$21.5 million.

Guidance has now arrived from Birss J in the form of the *Unwired Planet* judgment. However, in the course of those proceedings, Birss J had cause to give a series of preliminary rulings on the FRAND issue, one of which went the Court of Appeal. In his judgment of 24 April 2015 ([2015] EWHC 1029 (Pat)), he considered an application for strike-out and summary judgment by Huawei. Huawei argued that Unwired Planet’s proposals were not compliant with its FRAND obligation because it was obliged to offer (1) single patent licences on request, (2) a licence under all SEPs relevant to a particular standard only, and (3) a licence under its SEPs relating to a particular territory. Birss J considered that these issues could not be resolved by summary judgment.

In his judgment of 21 July 2015 ([2015] EWHC 2097 (Pat)), Birss J struck out a competition law defence raised by Samsung as disclosing no real prospect of success. Samsung had argued that the agreements under which the patents were transferred to Unwired Planet were prohibited by Article 101 TFEU and therefore void because they failed to fully transfer the FRAND undertaking given by Ericsson to ETSI. (Unwired Planet was not itself an ETSI member.) Birss J thought it was enough for Unwired Planet to make a FRAND declaration

of its own. The Court of Appeal (Kitchin LJ, with whom Tomlinson LJ and Sir Timothy Lloyd agreed) overturned the judge's conclusion on this point ([2016] EWCA Civ 489) because of the failure to ensure that Unwired Planet would respect the non-discrimination part of Ericsson's FRAND obligation. Birss J and the Court of Appeal, recognising that this is a developing area of law that has received recent attention from the ECJ and the European Commission, both considered that Samsung had an arguable defence to the effect that it would be anticompetitive to enable Unwired Planet to charge royalties higher than those that Ericsson would have been able to charge, and that Ericsson had sought to circumvent its own FRAND obligation through strategic sale of part of its patent portfolio to a third party.

Samsung settled with Unwired Planet and Ericsson in the summer of 2016 and discontinued its competition law counterclaim. Pursuant to that settlement, certain provisions that Samsung had contended were anticompetitive, including a provision that arguably put a floor on the royalty rate that Unwired Planet could offer, were removed from the agreement between Ericsson and Unwired Planet ([2017] EWHC 711 (Pat), paragraph 10). Following that settlement, on 1 August 2016, Unwired Planet made new offers on the same terms as its June 2015 offers, but at lower rates ([2017] EWHC 711 (Pat), paragraphs 11–12).

Birss J addressed the 'what is FRAND' issue at paragraphs 83–626 of the main judgment in the *Unwired Planet* proceedings ([2017] EWHC 711 (Pat)). He held that the FRAND undertaking to ETSI was legally enforceable between the parties as a matter of French law and so, in this case, it was not necessary to rely on competition law to enforce the FRAND undertaking. He further held that a royalty rate may be higher than the FRAND rate but still not contrary to competition law (i.e., not excessive pricing for the purposes of Article 102 TFEU). That is, 'for competition law to be engaged, it will be necessary but not sufficient for a rate not to be the true FRAND rate' (paragraph 153). In an advance on the possibility he considered in the *Vringo* judgment, he has now reached the view that, in fact, there can only be one FRAND rate and set of terms in any given case – but a contract entered into on non-FRAND terms is not necessarily unenforceable, because it does not necessarily breach competition law. Moreover, the concept of FRAND applies not only to the licence terms, but to the process by which those terms are negotiated: taking an extreme or intransigent approach to negotiations would not be FRAND. However, making an offer that includes non-SEP patents, or otherwise not at the FRAND rate, is not in itself non-FRAND, as long as it does not prejudice or disrupt the negotiation. Birss J has granted permission to appeal on the issue of whether only one FRAND rate exists in any given case ([2017] EWHC 1304 (Pat), paragraph 62).

As to the exercise of working out what is and is not FRAND, he held that determining what a willing licensor and willing licensee would have agreed on without holding out or holding up was likely to assist in deciding the question; evidence from the parties of negotiations in the industry, of comparable licences and of decisions of other courts would all be relevant. Considering comparable licences, which at least in this industry inevitably involved a degree of 'patent counting', aimed at assessing the value of relevant (as opposed to merely declared) SEPs, enabled a benchmark figure to be identified. Birss J examined in detail the different patent counting methodologies proposed by the parties' experts. This benchmark figure could then be 'cross-checked' using a 'top-down' approach looking at the total royalty burden (see [2017] EWHC 711 (Pat), paragraphs 475–476). Birss J has granted permission to appeal to Unwired Planet in respect of his treatment of the benchmark rate ([2017] EWHC 1304 (Pat), paragraph 68).

Birss J further held that the goal is to determine the FRAND rate by reference to the value of the patents being licensed, and so the rate does not vary depending on the identity of the licensee. However, there is no ‘hard-edged’ non-discrimination undertaking such that Unwired Planet was obliged to offer to Huawei the same rate it had offered to Samsung: the Samsung rate was relevant only in that it was a comparable licence ([2017] EWHC 711 (Pat), paragraphs 481–521). Birss J has granted permission to appeal on this point ([2017] EWHC 1304 (Pat), paragraph 64). Of course, if it could be shown additionally that the patentee was offering different rates in a manner that distorted competition, then the defendant in any event might rely on Article 102 TFEU in the usual way.

As to the territorial scope of the licence, Birss J held that a worldwide licence was FRAND and Unwired Planet were entitled to insist upon it ([2017] EWHC 711 (Pat), paragraphs 524–572). Unwired Planet’s portfolio was sufficiently large and had sufficiently wide geographical scope that a licensor and licensee acting reasonably and on a willing basis ‘would regard country-by-country licensing as madness’ (paragraph 543). Nonetheless, if the result would amount to unlawful bundling under competition law, then it would not be FRAND. In this case, however, given the prevalence of worldwide licensing and of assessment based on patent families, Birss J was not prepared to assume in the absence of analysis of actual effects that the tying of a SEP licence in one country to a SEP licence in another had by its nature a foreclosure effect (paragraph 550). Birss J has granted permission to appeal on this point ([2017] EWHC 1304 (Pat), paragraph 62). Birss J was plainly frustrated with Huawei’s failure to engage with Unwired Planet’s worldwide licence proposals, which required him to deal with the terms of the injunction at a separate hearing ([2017] EWHC 711 (Pat), paragraphs 581 and 794, and ([2017] EWHC 1304 (Pat), paragraph 4).

Finally, the FRAND licence would include a term providing for back royalties, from an effective date of 1 January 2013 (when the Huawei–Ericsson licence ended), to cover proven infringements up to the date of the trial ([2017] EWHC 711 (Pat), paragraph 593). Given Huawei’s failure to agree to a FRAND licence, Unwired Planet was entitled to damages, calculated on the compensatory principle (i.e., on the basis of the FRAND rate (paragraphs 796–802)).

#### **iv Anticompetitive or exclusionary royalties**

In the main *Unwired Planet* judgment ([2017] EWHC 711 (Pat)), Birss J rejected (at paragraphs 756–784) a suggestion that Unwired Planet had abused its dominant position under Article 102 TFEU by making offers that significantly exceeded the FRAND rate and constituted an attempt to impose an unfair selling price. Birss J held that a FRAND rate would not be abusive, but a rate can be higher than the FRAND rate without being abusive too. Further, even the making of offers significantly higher than the FRAND rate that would, if imposed, constitute excessive pricing was not abusive, since those offers ‘were obviously made as a step in negotiation and did not prejudice or disrupt it’ (paragraph 784). Similarly, it was not contrary to the law on tying and bundling to make a first offer that put SEPs and non-SEPs together, in the absence of evidence on the facts of the case that the patentee was trying to use the market power given by the SEPs to secure a licence under the non-SEPs (paragraphs 785–791). It may be noted that there was no disagreement between the parties on the royalty base, and so Birss J was not asked to rule on whether the FRAND rate should be calculated by reference to the smallest saleable unit, a live controversy in other jurisdictions that may feature in future UK cases.

## V INTELLECTUAL PROPERTY AND MERGERS

### i Transfer of IP rights constituting a merger

Under EU law, there may be a ‘concentration’ where only part of an undertaking is acquired, as long as that part constitutes a business with identifiable market turnover; that part can consist of the acquisition or exclusive licence (for a duration sufficient to effect a structural change in the market on a lasting basis) of intellectual property rights.<sup>18</sup> UK regulatory guidance likewise acknowledges that intangible assets can in theory constitute an enterprise where it is possible to identify turnover directly related to the transferred intangible assets that will also transfer to the buyer.<sup>19</sup> 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.<sup>20</sup> 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.<sup>21</sup>

### 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.<sup>22</sup> Other intellectual property remedies include rebranding<sup>23</sup> 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.<sup>24</sup> 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.<sup>25</sup>

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18 See generally the Commission’s Consolidated Jurisdictional Notice (2007), paragraph 24.

19 OFT1254, ‘Merger Assessment Guidelines’ (2010), paragraph 3.2.4.

20 Merger Regulation, Articles 2(2) and 2(3).

21 OFT1254, ‘Merger Assessment Guidelines’ (2010), paragraph 5.8.5.

22 Commission’s notice on remedies (2008), paragraph 38; CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), paragraph 3.29.

23 Commission’s notice on remedies (2008), paragraph 39.

24 Commission’s notice on remedies (2008), paragraphs 61–66 and 130.

25 CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), paragraphs 2.7 and 3.28.

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.<sup>26</sup>

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.<sup>27</sup>

## VI OTHER ABUSES

### i Sham or vexatious IP litigation

There remains very little case law in the area of vexatious litigation, and what case law there is sets a very high bar for what counts as abuse of a dominant position. In Case T-111/96 *ITT Promedia NV v. Commission* [1998] ECR II-02937, both the Commission and the General Court considered that the mere act of entering into litigation could not constitute an abuse of a dominant position, unless a dominant firm brings an action that is (1) ‘manifestly unfounded’ and (2) brought with the aim of eliminating competition. Each of these criteria should be construed restrictively, since restraining a dominant firm from engaging in litigation constitutes a limit on its fundamental right of access to the courts.

The General Court further endorsed this approach in Case T-119/09 *Protégé International Ltd v. Commission* ECLI:EU:T:2012:421. Pernod Ricard had a trademark for a drink called Wild Turkey and brought proceedings against Protégé in respect of its application for registration of the Wild Geese trademark. The General Court held that this conduct was not abusive since there was a potential risk of confusion between the two brands and so Pernod’s case was not manifestly ill-founded.

It might be said that these rulings cast some doubt on the approach taken by the European Commission in its *Motorola* decision (see Section IV, *supra*).

### ii Misuse of the patent process

Case C-457/10 P *AstraZeneca AB v. Commission* ECLI:EU:C:2012:770 remains the leading case. The Commission had made an infringement decision against AstraZeneca, finding that it had breached Article 102 TFEU by (1) obtaining supplementary protection certificates in respect of its omeprazole-based medicine (Losec) by submitting deliberately misleading information to the patent authorities, and (2) withdrawing its marketing authorisation for Losec in the form of capsules so that generic pharmaceutical companies could not commercialise their generic omeprazole capsule products. The General Court and then the Court of Justice substantially upheld the Commission’s findings. As to (1), the Court of Justice made it clear that a misleading statement will not suffice on its own, but the consistent conduct in this case did (paragraphs 61–100). As to (2), the Court of Justice explained that

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26 CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), paragraph 3.30. However, for a recent example where the CMA ordered a lengthy (eight years, including a one-year ‘blackout’) exclusive licence of a brand including all associated intellectual property rights to allow the licensee to transition the existing brand to its own, see the CMA’s acceptance on 20 June 2016 of final undertakings from Reckitt Benckiser (the owner of the ‘Durex’ brand) in respect of its acquisition of the ‘K-Y’ brand of personal lubricants from Johnson & Johnson: accessible at [www.gov.uk/cma-cases/-reckitt-benckise-r-johnson-johnson](http://www.gov.uk/cma-cases/-reckitt-benckise-r-johnson-johnson).

27 CC8, ‘Merger Remedies: Competition Commission Guidelines (2008), paragraphs 2.7 and 3.33.

Article 102 functions as a constraint on dominant undertakings' conduct even where they are otherwise acting within their rights under the regulations (paragraphs 114–56). The regulations underlying both (1) and (2) have now changed. However, this judgment does provide some guidance, even though it leaves the Article 102 concept of 'competition on the merits' unelucidated.

The European Commission identified misuse of the patent process as an area of concern in its Pharmaceutical Sector Inquiry Report of 8 July 2009 (e.g., paragraphs 507–22) and recommended the strengthening of competition law action (paragraphs 1,564–1,577).

### iii Anticompetitive settlements of IP disputes

In common with other jurisdictions, there has in recent years been greater scrutiny in the United Kingdom of the potential for anticompetitive effects of the settlement of patent disputes, in particular where an originator company makes a 'value transfer' to a generic company to avoid or delay the entry of generics onto the market. The European Commission has issued two pay-for-delay decisions. In 2013, it imposed fines of nearly €150 million on the Danish pharmaceutical company Lundbeck Ltd and several generic pharmaceutical producers in relation to what it found were deals to delay the market entry of cheaper generic versions of Lundbeck's branded anti-depressant medicine citalopram, which imposed an unlawful restriction by object under Article 101 TFEU. In 2014, it fined the French pharmaceutical company Servier SAS and five generic pharmaceutical companies a combined total of €427.7 million, finding that towards the end of the life of Servier's patent protection for its bestselling blood pressure medicine, perindopril, Servier implemented a strategy to delay entry onto the market of generic versions of perindopril by purchasing technology that would have assisted generics producers and then by initiating and settling patent litigation with generics producers by making certain payments and other 'value transfers' to them.<sup>28</sup> The Commission found that the agreements breached Article 101 TFEU (both as to their object and as to their effect) and that Servier's conduct also breached Article 102 TFEU. Both decisions have been appealed and judgment from the General Court is awaited in both cases.

On 12 February 2016, the CMA made its own infringement decision (*Paroxetine*) against GlaxoSmithKline plc (GSK) and two generic pharmaceutical companies, Generics (UK) Ltd (GUK) and Alpha Pharma Ltd, in an alleged 'value transfer'/pay-for-delay/reverse payment case.<sup>29</sup> 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 relates 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 Alpha Pharma, 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 Alpha Pharma 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

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28 See Commission Guidelines on Technology Transfer Agreements (2014), paragraphs 238–39.

29 Press release accessible at [www.gov.uk/cma-cases/investigation-into-agreements-in-the-pharmaceutical-sector](http://www.gov.uk/cma-cases/investigation-into-agreements-in-the-pharmaceutical-sector).

UK market for paroxetine, and that: (1) GSK and GUK thereby breached Article 101 TFEU and the Chapter I prohibition, by both object and effect; (2) GSK and Alpharma thereby breached the Chapter I prohibition, by both object and effect; (3) there was no breach of the Chapter I prohibition in respect of the settlement with IVAX because it was excluded by virtue of the then-applicable CA 1998 (Land and Vertical Agreements Exclusion Order) 2000, SI 2000/310; and (4) GSK thereby breached the Chapter II prohibition through its conduct in relation to all three settlement agreements.

GSK, GUK and Alpharma appealed to the CAT against this decision. Each disputed both liability and the size of the fine. The five-week trial took place between 27 February and 31 March 2017.<sup>30</sup> The Tribunal's judgment is awaited. It may not be the last word: quite apart from the possibility of any appeal to the Court of Appeal, the Tribunal expressed some interest in referring at least the 'infringement by object' issue to the Court of Justice.

## 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').<sup>31</sup> The consequences of such a course of action for UK competition law would be profound, with the most immediate effects being on matters of procedure and enforcement. In the long term, it may be that UK competition policy, no longer bound by the need to promote the EEA's single market, would move in a different direction from EU competition policy, so that there would be divergence on substantive law.

Speculation as to the likely outcome of the Brexit negotiations and the consequences of a hard Brexit is, however, beyond the scope of this chapter. The reader is referred to the valuable work that has been undertaken by various organisations and working groups in this regard.<sup>32</sup>

More concretely, there is the prospect in the coming year of additional judicial guidance, in particular in two important and hitherto underdeveloped areas, namely licensing under FRAND terms (the forthcoming appeal to the Court of Appeal on various important points of principle in the *Unwired Planet* litigation) and pay-for-delay patent settlements (the judgment of the CAT in the *Paroxetine* appeal). It might also be noted that Apple has recently commenced proceedings in the High Court against Qualcomm Inc, which if they

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30 Appeal summaries and transcripts of the hearing are accessible at [www.catribunal.org.uk/237-9158/1252-1-12-16-GlaxoSmithKline-PLC.html](http://www.catribunal.org.uk/237-9158/1252-1-12-16-GlaxoSmithKline-PLC.html).

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

32 The work of the Brexit Competition Law Working Group, including its provisional conclusions and recommendations reached in April 2017, is accessible at [www.bclwg.org](http://www.bclwg.org). See in particular the views of Sir John Vickers, the Group's chair (Warden of All Souls College, Oxford, and former Director General/Chairman of the Office of Fair Trading (the CMA's predecessor)), on the possible future direction of UK competition policy: 'Consequences of Brexit for competition law and policy', 7 December 2016, accessible at [www.bclwg.org/wp-content/uploads/2016/12/Vickers-British-Academy-7-Dec-16.pdf](http://www.bclwg.org/wp-content/uploads/2016/12/Vickers-British-Academy-7-Dec-16.pdf). See also the helpful summary by Sir Peter Roth (the current president of the CAT) of the effects on the enforcement and substance of competition law, including transitional provisions, likely to arise from a 'hard Brexit': 'Competition law and Brexit: the challenges ahead' [2017] *Comp Law* 5, accessible at [www.jordanpublishing.co.uk/system/froala\\_assets/documents/1580/CLJ\\_2017\\_01\\_Sir\\_Peter\\_Roth.pdf](http://www.jordanpublishing.co.uk/system/froala_assets/documents/1580/CLJ_2017_01_Sir_Peter_Roth.pdf).

proceed may shed further light on the scope of the FRAND and competition law obligations incumbent on holders of declared SEPs. Proceedings involving Nokia were settled as part of a worldwide arrangement between Apple and Nokia.

# UNITED STATES

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## 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.<sup>2</sup> However, holders of intellectual property rights (IPR) are not exempt from the application of US antitrust laws, and may not protect or enforce their rights in a manner that unfairly eliminates competition.<sup>3</sup>

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).<sup>4</sup> The Sherman Act prohibits agreements in restraint of trade and bars unilateral conduct that monopolises or constitutes an attempt to monopolise a given market.<sup>5</sup> The Clayton Act, which governs mergers and acquisitions, prohibits mergers and acquisitions that substantially lessen competition or tend to create a monopoly.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup>

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

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1 Garrard Beene and Renata Hesse are partners at Sullivan & Cromwell LLP. The authors wish to acknowledge the valuable contribution to this chapter by Franklin Liu.

2 *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990); Antitrust Guidelines for the Licensing of Intellectual Property Section 1.0, Dept. of Justice and Fed. Trade Commission (2017), available at [www.justice.gov/atr/IPguidelines/download](http://www.justice.gov/atr/IPguidelines/download).

3 Antitrust Guidelines for the Licensing of Intellectual Property Section 2.1, Dept. of Justice and Fed. Trade Commission (2017), available at [www.justice.gov/atr/IPguidelines/download](http://www.justice.gov/atr/IPguidelines/download).

4 The Antitrust Laws, Fed. Trade Commission, [www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws](http://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws).

5 Sherman Act, 15 U.S.C. Sections 1–2.

6 Clayton Act, 15 U.S.C. Section 18.

7 Federal Trade Commission Act (the FTC Act), 15 U.S.C. Section 45.

8 The Enforcers, Fed. Trade Commission, [www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/enforcers](http://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/enforcers).

2010 Horizontal Merger Guidelines.<sup>9</sup> 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.<sup>10</sup> However, the updated Guidelines do not address several important and controversial topics, such as the Agencies' approach to patent assertion entities (PAEs), standard-essential patents (SEPs) and the evaluation of fair, reasonable and non-discriminatory (FRAND) terms under the antitrust laws.

The federal antitrust statutes, their associated case law and the Agencies' Guidelines are the primary resources with which practitioners who operate at the intersection of US antitrust and IP law should be familiar. This chapter provides a high-level overview of those authorities and highlights some of the key issues specific to the juncture of antitrust and intellectual property law in the United States.

## II YEAR IN REVIEW

The 2016 calendar year marked the final year of President Obama's administration and continued to be a busy one for both the courts and the Agencies with respect to antitrust and IP matters.

In August 2016, the DOJ and FTC announced their joint plan to update their 1995 IP Licensing Guidelines and officially released their proposed draft for public comment.<sup>11</sup> Also in August 2016, the DOJ finalised its review of the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music Inc (BMI) consent decrees by determining that the consent decrees were not in need of amendment, as had been proposed by ASCAP, BMI and certain other interested parties.<sup>12</sup> The ASCAP and BMI consent decrees have been in place for decades and were designed to guard against the possibility that the two entities would engage in unlawful conduct in connection with the collective licensing of the copyrighted works held by their members.<sup>13</sup> In their 2014 request, ASCAP and BMI asked the DOJ to support amendment of the consent decrees to permit fractional (as opposed to full-work) licensing and to allow their members to withdraw from ASCAP, BMI or both, to separately negotiate with certain performers on an individualised basis.<sup>14</sup>

In October 2016, the FTC published a highly anticipated study whose purpose was to examine the activities of PAEs, businesses also sometimes referred to as 'patent trolls',

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9 DOJ and FTC Issue Updated Antitrust Guidelines for the Licensing of Intellectual Property, Dept. of Justice, [www.justice.gov/opa/pr/doj-and-ftc-issue-updated-antitrust-guidelines-licensing-intellectual-property](http://www.justice.gov/opa/pr/doj-and-ftc-issue-updated-antitrust-guidelines-licensing-intellectual-property).

10 Antitrust Guidelines for the Licensing of Intellectual Property, Dept. of Justice and Fed. Trade Commission (2017) at 2, available at [www.justice.gov/atr/IPguidelines/download](http://www.justice.gov/atr/IPguidelines/download); see *Illinois Tool Works v. Independent Ink, Inc.*, 547 U.S. 28, 45-46 (2006).

11 FTC and DOJ Seek Views on Proposed Update of the Antitrust Guidelines for Licensing of Intellectual Property, Fed. Trade Commission, [www.ftc.gov/news-events/press-releases/2016/08/ftc-doj-seek-views-proposed-update-antitrust-guidelines-licensing](http://www.ftc.gov/news-events/press-releases/2016/08/ftc-doj-seek-views-proposed-update-antitrust-guidelines-licensing).

12 Statement of the Department of Justice on the Closing of the Antitrust Division's Review of the ASCAP and BMI Consent Decrees, Dept. of Justice, 4 August 2016, [www.justice.gov/atr/file/882101/download](http://www.justice.gov/atr/file/882101/download).

13 Id.

14 Id.

which do not manufacture products or provide services, but instead simply seek to monetise a patent.<sup>15</sup> The FTC study was based on confidential business information collected from 2009 to 2014 from 22 PAEs and roughly 2,500 of their affiliates.<sup>16</sup> The study found that PAEs generally fell into one of two categories: ‘portfolio PAEs’, which negotiate high-value licences for large patent portfolios; and the more common ‘litigation PAEs’, which rely on ‘nuisance’ litigation over smaller patent portfolios to obtain licences in settlements.<sup>17</sup> Underscoring the high value of the patents they hold, portfolio PAEs were found to have generated 80 per cent of the revenue in the study, despite being parties to only 9 per cent of the licences in the study.<sup>18</sup> Litigation PAEs, by contrast, accounted for only 20 per cent of the revenue in the study despite being parties to 91 per cent of the reported licences and filing 96 per cent of the patent infringement suits.<sup>19</sup>

The FTC concluded that since the vast majority of suits settled within 18 months for less than \$300,000, many of the infringement actions filed by litigation PAEs were instituted purely for their nuisance value.<sup>20</sup> In light of this, the FTC also included several policy recommendations designed to limit the prevalence of nuisance infringement suits. These recommendations included amending the rules of discovery to better equalise the costs and burdens between PAE plaintiffs and defendants, and requiring greater disclosure from PAEs as to the financial interest of their affiliate companies in any given litigation.<sup>21</sup> While these recommendations have not yet been adopted by Congress, in earlier legislation, the Leahy-Smith America Invents Act (AIA), Congress enacted several measures to address litigation instituted by non-practising entities such as PAEs. As part of the AIA, which was passed in September 2011, Congress included an anti-joinder provision that effectively raised the joinder standard by prohibiting patent owners (including PAEs) from joining multiple unrelated defendants in the same suit.<sup>22</sup> As a consequence of that provision, PAEs and other patent holders may not join accused infringers solely based on the allegation that they have each infringed the same patent or patents, but instead must file separate suits against each alleged infringer, which raises the costs of such litigation for PAEs.

### 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.<sup>23</sup> 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

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15 Patent Assertion Entity Activity: An FTC Study, Fed. Trade Commission, October 2016, available at [www.ftc.gov/system/files/documents/reports/patent-assertion-entity-activity-ftc-study/p131203\\_patent\\_assertion\\_entity\\_activity\\_an\\_ftc\\_study\\_0.pdf](http://www.ftc.gov/system/files/documents/reports/patent-assertion-entity-activity-ftc-study/p131203_patent_assertion_entity_activity_an_ftc_study_0.pdf).

16 *Id.* at 3.

17 *Id.* at 3-4.

18 *Id.* at 3.

19 Patent Assertion Entity Activity: An FTC Study at 4.

20 *Id.* at 9.

21 *Id.* at 9-13.

22 35 U.S.C. Section 299.

23 Antitrust Guidelines for the Licensing of Intellectual Property Section 2.3, Dept. of Justice and Fed. Trade Commission (2017), available at [www.justice.gov/atr/IPguidelines/download](http://www.justice.gov/atr/IPguidelines/download).

licensing arrangement.<sup>24</sup> 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.<sup>25</sup>

In January 2017, the DOJ and FTC issued a modest refresh to their original 1995 IP Licensing Guidelines to reflect intervening developments in statutory and case law.<sup>26</sup> 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.<sup>27</sup> 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)<sup>28</sup> 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.<sup>29</sup>

The 2017 Guidelines also clarified the parameters of the antitrust 'safety zone', a doctrine intended to aid business planning. The safety zone provides that, in the absence of 'extraordinary circumstances', the Agencies will not challenge a restraint contained in an IP licence provided (1) the restraint is not anticompetitive on its face (for instance, one that facilitates price-fixing or output restrictions), and (2) the licensor and the licensee's combined shares for the relevant affected market is below 20 per cent.<sup>30</sup> Practitioners should be aware that, while particular licence conditions or restraints may not necessarily run afoul of the antitrust laws, these licence provisions must also be evaluated under other doctrines such as the judicial doctrine (in the case of patents) or the statutory provisions (in the case of copyright) governing exhaustion.

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24 *United States v. Paramount Pictures*, 334 U.S. 131, 144 (1948).

25 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 407-08 (2004).

26 Antitrust Guidelines for the Licensing of Intellectual Property, Dept. of Justice and Fed. Trade Commission (2017), available at [www.justice.gov/atr/IPguidelines/download](http://www.justice.gov/atr/IPguidelines/download).

27 Id. at Section 3.1.

28 Id. at Section 3.4.

29 Id. at Section 5.2, see *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007).

30 Antitrust Guidelines for the Licensing of Intellectual Property at Section 4.3.

#### 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.<sup>31</sup> 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').<sup>32</sup> 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.<sup>33</sup>

In response to these issues, and to minimise exploitative licensing, many standards-setting organisations (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 fair, reasonable and non-discriminatory (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 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

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31 Reflections on the Role of Competition Agencies When Patents Become Essential, Assistant Attorney General Bill Baer, 11 September 2015, 19th Annual International Bar Association Competition Conference, available at [www.justice.gov/opa/speech/assistant-attorney-general-bill-baer-delivers-remarks-19th-annual-international-bar](http://www.justice.gov/opa/speech/assistant-attorney-general-bill-baer-delivers-remarks-19th-annual-international-bar).

32 *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014).

33 *Id.*

is deliberate and rises to the level of an antitrust violation under Section 2 of the Sherman Act.<sup>34</sup> 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.<sup>35</sup>

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, currently there is less guidance in the United States. While several district courts and one appellate court have addressed the issue, determinations of FRAND terms are highly case sensitive. 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 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 and, to a certain extent, 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 technologies incorporated into the IEEE 802.11 Wi-Fi standard.<sup>36</sup> 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.<sup>37</sup> The *CSIRO* decision also emphasised that, in determining whether a given royalty is excessive, the actual cumulative royalty paid by the implementer must be proven and the implementer may not rely on abstract recitations alleging royalty stacking or qualitative assertions of the value of inventions without some quantitative evidence.<sup>38</sup> The *CSIRO* decision’s focus on actual quantitative evidence is thus consistent with the Federal Circuit’s 2014 decision in *Ericsson v. D-Link*. *D-Link* involved the adjudication of whether Ericsson had complied with its obligation to license a patent essential to the IEEE 802.11 Wi-Fi standard on FRAND terms, and held that in determining FRAND damages, concerns about patent holdup must be proven using specific facts from the case, rather than on the basis of theory or general probability.<sup>39</sup>

## V INTELLECTUAL PROPERTY AND MERGERS

In the United States, all mergers and acquisitions, whether or not they involve transfers of IP rights, must comply with Section 7 of the Clayton Act, which prohibits mergers and

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34 *Broadcom Corp. v. Qualcomm, Inc.*, 501 F.3d 297 (3d Cir. 2007).

35 *Supra* note 31.

36 *Commonw. Sci. and Indus. Research Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295 (Fed Cir. 2015).

37 *Id.*

38 *Id.*

39 *Ericsson v. D-Link*, 773 F.3d 1201, 1234 (Fed. Cir. 2014).

acquisitions that substantially lessen competition or tend to create a monopoly.<sup>40</sup> 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).<sup>41</sup> The HSR Act establishes a waiting period before acquisitions that exceed the threshold may close to give the Agencies sufficient time to scrutinise more closely mergers of a certain size.

Furthermore, the Guidelines state the Agencies' position that complete sales of intellectual property rights and transfers of exclusive IP licences will be treated as analogous to mergers and thus are subject to the guidance contained in the 2010 Horizontal Merger Guidelines (another DOJ and FTC joint release).<sup>42</sup> Importantly, such 'mergers' will not be eligible for treatment under the safety zone for licensing restraints set out in Section 4.3 of the Guidelines.

As for substantive evaluations of acquisitions, the 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 IP rights. In March 2009, in connection with the 2007 acquisition of Wild Oats by Whole Foods, the FTC agreed to a settlement with Whole Foods that required Whole Foods to sell 32 Wild Oats stores and divest related Wild Oats IP, such as the rights to the Wild Oats brand.<sup>43</sup> 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.<sup>44</sup>

## 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 2016. Given the different marketing approval processes for brand-name and generic drugs in the United States, brand-name drug manufacturers have a government-granted monopoly in the market for their drug until a generic competitor is eligible to receive FDA approval and actually receives it. Both private parties and the Agencies have alleged that certain brand-name drug companies from time to time seek to limit the onset of generic competition; for example, by offering generic competitors payments to delay

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40 Clayton Act, 15 U.S.C. Section 18.

41 15 U.S.C. Section 18a.

42 Antitrust Guidelines for the Licensing of Intellectual Property at Section 5.7.

43 FTC Consent Order Settles Charges that Whole Foods Acquisition of Rival Wild Oats was Anticompetitive, Fed. Trade Commission, 6 March 2009, [www.ftc.gov/news-events/press-releases/2009/03/ftc-consent-order-settles-charges-whole-foods-acquisition-rival](http://www.ftc.gov/news-events/press-releases/2009/03/ftc-consent-order-settles-charges-whole-foods-acquisition-rival).

44 Justice Department Requires Anheuser-Busch InBev to Divest Stake in MillerCoors and Alter Beer Distributor Practices as Part of SABMiller Acquisition, 20 July 2016, [www.justice.gov/opa/pr/justice-department-requires-anheuser-busch-inbev-divest-stake-millercoors-and-alter-beer](http://www.justice.gov/opa/pr/justice-department-requires-anheuser-busch-inbev-divest-stake-millercoors-and-alter-beer).

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.<sup>45</sup>

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.<sup>46</sup> Specifically, the complaint alleges that Endo not only paid Impax Laboratories and Watson Laboratories – which market Opana ER and Lidoderm respectively – not to file for FDA approval of their generic equivalents, but also agreed as consideration not to market their own generic (known as an authorised generic, or AG) to compete with Opana and Lidoderm, once the generic versions finally did hit the market.<sup>47</sup> The case is 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.<sup>48</sup>

As a general matter, any payments to generic manufacturers by brand-name producers are evaluated under the rule of reason because this conduct can have pro-competitive effects. While petitioning the government to enforce one's patents is generally considered to be 'speech', protected by the US Constitution under the *Noerr-Pennington* doctrine, infringement litigation can lose this protection and become subject to antitrust scrutiny when the asserted patents are obtained by fraud, or the litigation claims are objectively baseless and asserted to protect a monopoly.<sup>49</sup>

## VII OUTLOOK AND CONCLUSIONS

With the recent election of Donald Trump and a high number of vacancies in the relevant Agencies, it is too early to predict with any reasonable certainty the extent to which the new administration will vigorously enforce antitrust law with respect to IP rights. Many pundits, however, predict that the Trump administration will be less active in enforcing the antitrust laws and will adopt a more favourable position than previous administrations did in relation to patent holders. It may very well be that these pundits overemphasise the impact any single administration can have on existing law and enforcement objectives.

Globally, there has been a trend in recent years towards harmonisation of competition laws as they are applied to IP. For example, in April 2017, the American Bar Association (ABA) sections of Antitrust Law, Intellectual Property Law, and International Law submitted their joint comments on China's draft Anti-Monopoly Guidelines on Abuse of Intellectual Property Rights. The comments noted that the proposed framework in China with respect to

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45 See *Apotex Inc. v. Acorda Therapeutics, Inc.*, 823 F.3d 51(2d Cir. 2016).

46 FTC Sues Endo Pharmaceutical Inc. and Others for Illegally Blocking Lower-Cost Generic Versions of the Branded Drugs Opana ER and Lidoderm, Federal Trade Commission Bureau of Competition, 31 March 2016, [www.ftc.gov/news-events/press-releases/2016/03/ftc-sues-endo-pharmaceuticals-inc-others-illegally-blocking-lower](http://www.ftc.gov/news-events/press-releases/2016/03/ftc-sues-endo-pharmaceuticals-inc-others-illegally-blocking-lower).

47 Id.

48 Id.

49 Enforcement Perspectives on the Noerr-Pennington Doctrine: An FTC Staff Report, Fed. Trade Commission (2006), available at [www.ftc.gov/sites/default/files/documents/reports/ftc-staff-report-concerning-enforcement-perspectives-noerr-pennington-doctrine/p013518enfperspectnoerr-penningtondoctrine.pdf](http://www.ftc.gov/sites/default/files/documents/reports/ftc-staff-report-concerning-enforcement-perspectives-noerr-pennington-doctrine/p013518enfperspectnoerr-penningtondoctrine.pdf).

intellectual property largely mirror the US approach, and encouraged even more coalescence. In particular, the ABA noted its approval that China is proposing to adopt the same analysis for intellectual property as it does for other forms of property, with a focus on the impact on actual and potential competition.<sup>50</sup>

In January 2017, the FTC filed a complaint against Qualcomm alleging that the company, the world's largest supplier of baseband processors for cellular devices, violated the Federal Trade Commission Act by, among other things, requiring its customers to pay royalties under a licence agreement with Qualcomm before Qualcomm would agree to sell processors to device manufacturers (known as the 'no licence, no chips' policy), refusing to license SEPs to its competitors, and requiring Apple to agree that it would exclusively source processors from Qualcomm in exchange for reduced royalties.<sup>51</sup> The complaint has since spurred numerous follow-on suits against Qualcomm from Samsung, Intel and others.

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.

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50 Comments of the American Bar Association Sections of Antitrust Law, Intellectual Property Law, and International Law on the Draft Anti-Monopoly Guidelines on Abuse of Intellectual Property Rights of the People's Republic of China (20 April 2017), available at [www.americanbar.org/content/dam/aba/administrative/antitrust\\_law/at\\_comments\\_salsipsil\\_20170420.authcheckdam.pdf](http://www.americanbar.org/content/dam/aba/administrative/antitrust_law/at_comments_salsipsil_20170420.authcheckdam.pdf).

51 *Complaint, FTC v. Qualcomm Inc.*, No. 5:17-cv-00220 (N.D. Cal. 17 January 2017).

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Daru Lukiantono is the head of intellectual property practice group at Hadiputranto, 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 designs, 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.

## **IGOR LUKIN**

*GRATA International*

Igor Lukin is a senior associate in GRATA's Almaty office. He specialises in anti-monopoly and corporate law. He has solid experience in advising on arranging and closing M&A transactions, creating business ventures, corporate governance issues and due diligence investigations. Igor is a final-year PhD candidate, and is conducting his research in the field of corporate law. Igor speaks Russian and English.

## **CARLOS MAINERO RUIZ**

*White & Case, SC*

Carlos Mainero is a local partner at White & Case, SC (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 Reg 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 (2013). Mr Mainero was promoted to local partner at White & Case, SC, effective as of January 2017.

## **BENOÎT MERKT**

*Lenz & Staehelin*

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**

*Allen & Overy LLP*

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 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, abuse-of-dominance, state aid and private enforcement matters).

Florence is recognised as a leading individual by *Chambers and Partners* and *The Legal 500*, as well as by *Who's Who Legal*.

## **JANE OWEN**

*Bird & Bird*

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

Ms Owen has over 20 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 recently awarded IP Specialist Firm of the Year at the 2017 Australasian Law Awards.

## **DAVID POR**

*Allen & Overy LLP*

David Por is a partner in Allen & Overy's intellectual property and litigation team. David is an experienced litigator specialised in all areas of intellectual property. His practice concentrates primarily on complex and cross-border intellectual property disputes, with a particular focus on patent cases, in which he also advises on validity and freedom-to-operate issues. David has notably represented leading actors in the patent wars in the telecommunications sector, as well as numerous pharmaceutical companies in proceedings against generics.

David has become a specialist in the interplay between intellectual property and competition law, notably in the field of standardised technologies.

His expertise extends to complex litigation, including unfair-competition and private-enforcement matters

David recently authored the sections of the training manual for UPC judges on the patentability of pharmaceutical and biotechnological inventions and on Articles 123(2) and 123(3) EPC. He has also become a specialist in the interplay between intellectual property and competition law.

## **KRITHIKA RAMESH**

*AZB & Partners*

Krithika Ramesh is an associate in AZB's competition law practice and is based out of New Delhi. She has advised and assisted in several ongoing antitrust cases before the CCI and other appellate courts for cartel and abuse-of-dominance cases in various sectors including pharmaceuticals, airlines, automobiles and information technology. She has also been involved in several leniency proceedings before the CCI. She has advised and assisted in the

notification of several joint ventures, mergers and acquisitions in various sectors including insurance, banking, finance and medical appliances. Krithika completed her BA, LLB (Hons.) at Dr Ram Manohar Lohiya National Law University, Lucknow in 2015.

### **DIEGO RAMÍREZ MESEC**

*Fabara & Compañía Abogados*

Diego Ramirez Mesec is admitted to practise in Ecuador. He is a partner at Fabara & Compañía Abogados, co-head of the competition/antitrust practice group and active in the finance and commercial practices. He has been practising law for over 10 years and previously he was a trade negotiator and a member of the Foreign Service. Diego is married and has two children.

### **RAQUEL GALVÃO SILVA**

*Linklaters LLP*

Raquel Galvão Silva is a managing associate in the Linklaters dispute resolution department in the Lisbon office, which she combines with her practice with the IP group. Her focus recently has been on litigation and arbitration, particularly in relation to contractual, construction, public law and intellectual property disputes.

Raquel has an LLM in international arbitration from the School of Law at Queen Mary University of London, a master's degree in company law from the Faculty of Law at the NOVA University of Lisbon and she completed a postgraduate course in intellectual property at the University of Lisbon School of Law. She is also a member of the Portuguese Arbitration Association and of the Commission on Intellectual Property of the ICC.

Raquel is the author of several publications and regularly takes part in conferences related to international commercial arbitration and intellectual property.

### **JÜRIG SIMON**

*Lenz & Staehelin*

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.

### **CHARLOTTE THOMAS**

*Brick Court Chambers*

Charlotte Thomas is a junior barrister at the London Bar whose practice, encompassing EU and competition law, builds on her experience as a judicial assistant at the United Kingdom Supreme Court and studies at Cambridge, Harvard and Oxford. She is acting for GSK in its appeal against the fine levied by the Competition and Markets Authority in the United Kingdom's first reverse payment patent settlement litigation. Her experience in pharmaceutical work also includes the successful representation of two pharmaceutical companies in interim injunction proceedings in the General Court against the European Medicines Agency. She acts in cartel damages cases, including in respect of the forex manipulation cartel, 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). She was the recipient of the 2013 Eldon Scholarship (awarded annually to the most promising Oxford graduate going to the Bar) and speaks French and German.

## **THOMAS VINJE**

*Clifford Chance LLP*

Thomas Vinje is partner and chairman 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 is specialised in European Union antitrust and intellectual property law, especially in technology matters. Thomas graduated with high honours from Columbia University Law School in 1982. He is the author of numerous articles on intellectual property and competition issues, and lectures at the Universities of Amsterdam and Zurich. He sits on the board of editors for *Computer und Recht International* and *European Intellectual Property Review*. He is also a frequent conference speaker and commentator in the press on competition and intellectual property matters. Thomas has been widely recognised as a leading competition expert by publications, including *Chambers and Partners*, *The Legal 500* and *Legal Media Group's Expert Guide: Competition and Antitrust*.

## **JÖRG WITTING**

*Bird & Bird LLP*

Dr Jörg Witting specialises in German and European competition law and heads Bird & Bird's German EU and competition law practice.

His practice covers all aspects of EU and competition law including EU state aid law and private enforcement.

Jörg has particular expertise at the interface between IP law and competition law, where he represents well-known international and German corporate clients in court and before antitrust authorities and advises on licensing and cooperation agreements.

He has represented a multitude of clients before the German Federal Cartel Office and the European Commission, as well as before German courts and the European Court of Justice.

Clients represented by Jörg include major international players in the mobile phone industry, the personal computer and digital entertainment products industry, the semiconductor industry, large pharmaceutical companies and public entities in the healthcare sector, as well as the German federal government.

Jörg was assistant lecturer with the Institute for German and European Business, Competition and Regulatory Law at the Free University of Berlin and publishes regularly. He is co-author of the renowned *Munich Commentary on European and German Competition Law*, the *Cologne Commentary on Cartel Law* and he has published a handbook on cartel investigations and risk management for undertakings. Jörg is member of *Studienvereinigung Kartellrecht e.V.*, the German association of leading competition law experts, and of *GRUR, Deutsche Vereinigung für Gewerblichen Rechtsschutz und Urheberrecht e.V.* (German Association for the Protection of Intellectual Property), where Jörg is active in the subcommittee on cartel law.

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

## Appendix 2

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