International

The competition/IP law nexus in Europe

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The nexus between IP and competition law has become the focus of attention in Europe in recent months. In particular, in patent cases antitrust issues and competition law have become an important part of litigation and litigation strategy. As the guardian of free competition, the European Commission appears willing to take an increasing role in this context. Various industry sectors have been affected by investigations and actions taken by the commission, which aim to detect behaviour which allegedly might conflict with antitrust law. Critics have repeatedly raised concerns about the way that intellectual property is sometimes handled. Although in most cases these concerns lack any real grounds, they are being used to promote ideas about intellectual property in general, which seem to suggest that intellectual property has a negative influence on competition and the economic development of nations. The commission has taken some of those concerns seriously and has initiated several investigations in different fields of technology. So far, this concerns mainly pharmaceutical patents and patents in the field of telecommunications and electronics. This has inevitably had an impact on patent litigation before the national civil courts and is now being used widely as part of litigation strategy. This chapter discusses some of the current issues based on experience of recent court cases.

Background

The legal background for all commission investigations is the Treaty on the Functioning of the European Union, which prohibits the abuse of a dominant market position. Obviously, one must take into consideration the nature of IP rights. IP rights grant an exclusive right to a creator (in the technical domain, an inventor) for a limited time as a result of his or her achievements and as a reward for his or her public contribution. This confers on the holder the exclusive right to exploit the patent and to exclude third parties from such exploitation without the owner's consent. In this context, one should avoid the term 'monopoly', since it generally has a negative connotation with regards to antitrust issues. It is general policy to avoid monopolies, even if there is no doubt that IP rights are necessary and that they must be acknowledged and supported. However, it cannot be denied that there is some inherent tension between IP rights and free competition. Without going into the dogmatic and academic details here, it should be noted that both regimes are not in conflict, but rather supplement and complement each other. It would be fundamentally wrong to criticise – or even question – the existence of patents simply because they grant an exclusive right to one party for a limited time. Any other solution which has been proposed so far gives rise to more questions than answers and could never justify abolishing the well-established patent system as we all know it today.

On the other hand, it must be acknowledged that certain developments in patent law, and even more so in the practical application of some patent holders, have created an atmosphere in which it becomes increasingly difficult for the public to understand the patent system and its justification. The latest disputes between Apple and some of its competitors (eg, Motorola and Samsung) are certainly prominent examples of such discussions.

These are extraordinary cases in the public eye. At the same time, numerous other patents are being enforced and litigated around the world under 'normal' circumstances which cause no problems and where there are no discussions about issues similar to those which are being debated in the context of these extraordinary cases. Nevertheless, the commission's activities have had an impact on parties which are involved in patent strategy and patent litigation and therefore must be taken into consideration when advising clients.

This concerns not only the telecommunications sector, but other sectors as well. A few years ago the commission launched a sector inquiry in the pharmaceutical sector. The goal was to obtain information about the practice of patent holders and third parties in enforcing patents in and out of court proceedings, and about licensing practices and settlements which were reached in or around litigation. Although the report on the results published by the commission was rather vague in many aspects, it still contained statements which revealed a more critical attitude towards patents and the way in which patents were enforced in practice.

Standards-essential patents

Hotly debated issues arise when litigating standards-essential patents (SEPs). Patents which must be used to perform a technical standard cannot be avoided and are therefore crucial. Most standardisation organisations or bodies have established detailed IP policies regulating the inclusion of SEPs in the standard and the exercise of rights under these patents. A well-known example in the field of telecommunication is the European Telecommunications Standards Institute. The institute has a detailed policy which governs the entire standardisation process. One of the core elements of the IP policies of various standardisation organisations is the commitment of SEP holders to grant a licence to any third party which wants to manufacture or sell products implementing the standard and thereby using the patent.

This is based on the principle of FRAND – fair, reasonable and non-discriminatory conditions under which licences must be granted. It is well-established case law in all major jurisdictions that a party which wants to use a standard has the right to obtain a licence under FRAND conditions. This is the result of antitrust law and its application to such cases. The holder of an SEP is seen as a company with a dominant position in the market. It would therefore be seen as an abuse of this position if the patent holder denied a licence to a third party without a legitimate reason. On the other hand, the potential licensee obviously cannot expect to obtain a free licence simply because the patent is an SEP. It must be prepared to agree to conditions which the patent owner usually requires for a licence. There are numerous questions and issues surrounding the definition of FRAND which cannot be dealt with here in detail. However, some guidelines for licensors and licensees can be taken from the latest case law. These guidelines concern substantial and also procedural issues.

The substantial provisions of a licence agreement must be balanced so that they accommodate the interests of both parties and, at the same time, do not exceed what is comprised in the patent rights granted to the patentee.

A patentee (licensor) must ensure that the conditions correspond to licences that it has granted to previous licensees. This does not mean that the conditions must be the same in every case. It may well be possible to adjust conditions to the specific circumstances of each case.

A patentee may be interested in obtaining a cross-licence from a potential licensee. Such a cross-licence in itself does not violate antitrust rules. However, it does have an impact on the conditions for the licence agreement, which may differ significantly from those of a unilateral licence agreement. This concerns, in particular, the royalty rate.

Another issue is the way in which licences are granted. If the patents remain within the domain of the patent holder only, the overall financial charge that a licensee faces when it needs to take licences from several patent holders must be taken into consideration. It is highly debated if and how a cap on overall licence fees should be required in such cases. On the other hand, there is the option of either a package licence from a number of licensees (eg, as a joint licence) or a real pool licence where the patents of several licensees have been pooled so that the licensee can take a licence from the entire pool and not from selected patent holders. In many cases, pooling of patents and licences has been approved by the authorities and thus does not constitute a violation of antitrust provisions.

It is currently highly debated whether a patentee is obliged to offer a licence for one single country if so desired by the licensee or whether it can request that the licensee takes a worldwide licence. Typically, parties which are active in the field of SEPs conduct their business not just in one country, but internationally. It is advantageous for both parties to negotiate a worldwide licence in the sense that the licence covers all territories where patent protection exists. It is inappropriate and unreasonable for a patentee to negotiate single licence agreements for each country needed. Also, the licensee benefits from one package which leads to a clear solution with no doubts about the territorial scope of the licence.

A number of procedural issues must be observed when using SPEs in litigation.

One hot topic is whether courts should be able to grant injunctions based on SEPs. Until now the German Federal Supreme Court has left no doubt that injunctions are fundamental to patents. The well-known 2009 *Orange Book* decision confirmed this. In fact, any IP right is only as good and valuable as the system of enforcement. This is why the European Union has tried to strengthen the system with the help of the EU IP Rights Enforcement Directive (2004/48/EC), which has been transposed into national laws over the past few years. It would be contradictory to these efforts if one now tried to turn the wheel back and prevent injunctions in SEP cases. Although the commission seems to be looking at this issue critically, there is not yet a tendency – at least with the German courts – to change their general attitude and to reject motions for a (permanent) injunction in patent cases.

This does not mean that any behaviour of a patentee is acceptable. Without doubt, there may be cases where the use of patents must be considered abusive of a dominant market position so that in those specific cases it may be justified to reject a motion for an injunction. This is generally not the case. Therefore, injunctive relief remains one of the major reasons why SEPs can – and should – be enforced against infringers.

An injunction can be avoided by entering into a licence agreement with a patentee. An important procedural aspect in this regard is the question of who must make the offer for the licence agreement. In general, the patentee has already given a binding declaration to grant a licence as part of the IP policy of the standardisation organisation. According to the German Federal Supreme Court, it is up to the infringer to request a licence from the patentee and to make a detailed binding offer for a licence agreement which fulfils FRAND conditions and may not be rejected by the patentee. Furthermore, the defendant must remedy its past infringing acts and make a payment which would cover reasonable royalties as requested by the licensee. This has been questioned recently and there are suggestions that a patentee should take the initiative to make an offer to an infringer. Again, this is contrary to fundamental principles of patent law and IP law in general. Even if a patentee is prepared to grant a licence, it cannot be considered as its burden to follow infringers and to make an offer before it can enforce the patent rights in court. This would unduly benefit the infringer and would cut out a significant part of the rights conveyed to the patentee by the grant of the patent.

Similar problems occur when the offer made by the infringer during litigation is limited to a specific jurisdiction. As mentioned above, there is a legitimate interest for the patentee to negotiate a worldwide licence and not to have to split up its portfolio. According to the latest case law, it seems to be possible for an infringer to limit the offer to a specific jurisdiction and to force the patentee to accept this offer. In this regard, we are still lacking a clear word from the German Federal Supreme Court. However, such a limitation puts the infringer at a low risk in litigation and weakens the patentee's position considerably. This would even be lowered if one forced the patentee to make the offer to the infringer.

There is an increasing tendency for

infringers in SEP litigation cases to involve antitrust authorities and to file complaints in particular to the commission for the fact that an SEP has been invoked against them and that no offer of a FRAND licence has been made. The mere fact that the patentee tries to enforce an SEP against an infringer which has not taken any steps to come to a licence agreement with the patentee, or which has repeatedly rejected offers from the patentee without making substantial and reasonable counteroffers, should never be a reason for such investigations. The civil courts must not fall for this and should not even consider these complaints for their own decision, unless there are serious indications that a patentee is misusing the patents for illegitimate purposes.

Pharmaceutical sector

The inquiry in the pharmaceutical sector was briefly mentioned above. Although no definite conclusions have yet been drawn by the commission, some further investigations have been initiated. Unlike with SEPs, a third party has no need to use a patent in order to enter the market. On the other hand, there is a certain public interest to allow generics on the market as well. Therefore, settlement agreements between originators and generics manufacturers, and also settlement agreements between different originators as parties, have been the focus of the commission. Following investigations, the commission sent out statements of objections in several cases in July 2012.

Licence agreements and settlement agreements of patent infringement suits are still a considerable option in pharmaceutical cases. Again, neither the enforcement of patents nor settlements in this area are *per se* a violation of antitrust rules. Nevertheless, one must check and assess the content of such agreements carefully. This concerns in particular:

- the substantive scope of the licence;
- the territorial scope;
- the royalty rates and other payments; and
- further conditions of the agreement which might lead to problems with regard to free competition.

Conclusion

Although antitrust law plays a significant role and must always be considered when advising clients with regard to their patents and enforcement strategy, there are still sufficient options available which allow patentees to defend their positions against third-party infringers. Further developments in case law will certainly have an impact on the advice we give our clients on both sides. The commission has already stated that its duty is not to solve patent problems between civil parties. iam

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