

Cross-border: Europe

The interface between intellectual property and competition law

There appears to be an inherent conflict between intellectual property and competition law. While IP rights convey exclusive rights to their owners, competition law tries to avoid monopolies and any behaviour by market participants which might be seen as an abuse of power. In practice, this alleged conflict is accepted in virtually all jurisdictions and national laws. In fact, IP law and competition law complement each other and can regulate different aspects of a specific case or situation. The key is to put in place a balanced system which considers the interests not only of applicants and IP owners, but also of third parties and the public.

This chapter highlights some of the issues arising from the relationship between IP and competition law, and the interface between the two areas.

Intellectual property

‘Intellectual property’ is a broad term that covers virtually all types of intellectual property owned and used by a company for carrying out business. Although patents come to mind first, the term also encompasses other technical know-how, trademarks, trade names and designs and copyrights.

The interface between IP and competition law plays a role with regard to all types of intellectual property. Competition law issues not only arise in the context of patents, but may be equally important with regard to trademarks or copyright. The famous *Magill* and *IMS Health Cases* in Europe have illustrated the importance of observing competition law provisions in all fields of intellectual property.

Therefore, when looking at the interface between IP and competition law, companies need to take into consideration their entire IP portfolio. This includes trademarks acquired by use rather than registration and technical know-how which is not published in patent documents. Such know-how can be a valuable asset and may be subject to licensing to third parties. A review of

the status of the intellectual property existing in the company or the company group should be conducted regularly. The outcome of this review will also affect the IP strategy that a company follows.

Competition law

Competition law has various aims. Its main goal is to maintain competition and ensure that the markets are not closed off to newcomers. It is intended to allow the public, in particular consumers, to benefit from competition. On the one hand it regulates relationships between companies by imposing certain restrictions and limits on what parties can agree when entering into a contractual relationship. This applies both to parties at the same level (eg, manufacturers or wholesalers) and to companies at different levels (eg, agreements between manufacturers and wholesalers). On the other hand, it also has an important effect on the conduct of a party in daily business outside that contractual relationship, depending on whether the party has a dominant position in a specific market. Here competition law regulates the actions of a company which may, due to the specific circumstances, lead to undesirable limitations of competition.

Therefore, competition law must be considered at all stages of the IP process. It not only affects the exercise of IP rights against third parties, but also comes into play in licensing agreements and may even be an issue in the early stages of applying for an IP right, in particular for a patent in certain technical areas. In principle, there is no place in business for a company that wishes to be exempt from the influence of competition law. Nevertheless, the consideration of the IP-competition law interface naturally focuses on patents and technical know-how.

Patents

It may come as a surprise that the mere filing of a patent application can cause potential conflicts with competition law. Companies follow different strategies

regarding their patent portfolios. In principle, there are two schools: those that file only for inventions which comprise a major contribution to their existing technology and those that file as many applications as possible. Obviously the specific requirements of each branch of technology are different and require special treatment, so no general line can be proposed. In addition, it must be considered that a patent application which is published (at the latest) 18 months after filing gives away details of the know-how (eg, for certain processes or methods) which would otherwise remain secret. For this reason a company may be inclined to file fewer patent applications as part of its overall strategy, in particular when the invention cannot be reverse engineered from the products available on the market.

Irrespective of which strategy one follows, in exceptional cases filing for a patent application has been considered to be a violation of competition law. This is due not to the mere fact of a patent application as such, but rather to the specific circumstances of the case in which the application was considered to be abusive of a dominant market position.

Invalid patents can also have a serious impact on competition. The existence of a patent or even a patent application may constitute an obstacle for other companies in their operations on a specific market. In order to avoid the risk of litigation for alleged infringement, the patent must be assessed and evaluated by competitors. This requires them to obtain technical and legal opinions about infringement and validity from their IP advisers. In this context, the competitor must also consider the importance of the specific product for its business. Frequently, it will simply be more efficient to change the product or even to give it up completely rather than spend time and money on researching and evaluating one or more patent applications of another party. This puts applicants in an advantageous position over their competitors, since even before a patent is granted the application itself may have a deterrent effect. Patent trolls have been heavily criticised for their attempts to enforce patents of dubious validity, but in addition serious companies sometimes follow a strategy designed to prolong the prosecution proceedings for dubious patents so that the application stays pending for as long as possible. Part of such a strategy is the filing of divisional and continuation applications which may even comprise applications for subject matter which has already been identified as non-patentable by the granting authorities. In such extreme cases competition law may also be applicable and would prohibit certain applications as anti-competitive.

In principle, patent applications as such should be subject not to competition law, but rather only to the relevant patent laws. However, these examples illustrate how the conduct of a company must be considered under competition law principles and how competition law may also regulate the filing of patent applications, even though this is not its main purpose.

Technology transfer

Technology transfer is one of the main fields in which competition law plays a major role. Many companies do not exclusively exploit their intellectual property themselves, but instead choose to make the technology available to third parties. There are many reasons for this. Licensing may help to spread technology beyond the capabilities of the IP owner. Certain intellectual property may no longer be of interest, but the owner may nonetheless not want to dispose of it; therefore, the IP owner can make use of it by way of licensing so that it still generates income.

A joint venture is one way of transferring technology and bringing together the strengths of various market players. This inevitably requires coordinated collective actions. Competition law sets the limits for joint ventures in regard to agreements which might hinder competition as a result of the joint use of technology which excludes third parties and agreements between the parties to the joint venture.

Another common form of technology transfer is licensing. In principle, licensors and licensees are free to negotiate the terms and conditions of the licence, be it with regard to the scope of the licence, licence fees or other accompanying conditions which they might want to specify in the agreement. However, this freedom is again limited by strict competition law provisions. These provisions try to prevent licensing agreements which may restrict competition. Examples of prohibitive clauses in a licence agreement are clauses that prescribe to the licensee the terms for sales to customers or go beyond what could be claimed by the patentee if the patent were enforced. In particular, any clause which prohibits third parties from entering the market, or which reduces competition between the licensor and the licensee or with other third parties on the market, will usually be subject to competition law. Even if both parties agree on the clauses, competition law must be observed and cannot be set aside by the parties.

One example is the strict rules imposed by the European Union. Although any agreement which hinders competition and limits the free flow of goods between EU member states is unlawful, EU law allows certain exceptions for technology transfer agreements. The block

exemption regulation for categories of technology transfer agreement acknowledges the special character of intellectual property which, by its nature, seems to be contradictory to free competition by conveying exclusive rights to its owner, but nevertheless sets limits. Within these limits, and provided that the parties do not exceed a specific market share, technology transfer agreements may be exempt from the application of EU antitrust provisions. However, this regulation also contains a list of hardcore restrictions which are under no circumstances admissible and therefore are always illegal and void.

Technology transfer is one of the important tools for the development of national economies. This works both ways in that the export of certain technologies can have positive effects in the same way as the import of other technologies. Both contribute and must therefore be supported and enhanced. This proves wrong the assumption that limitations laid down in technology transfer agreements are 'bad' and should therefore not be allowed. For the companies that use this tool, it is critical to check the agreements carefully before they are concluded in order to ensure that they are enforceable under the respective regime. Competition law provisions are applicable irrespective of whether one of the parties has a dominant market position.

Similar regulations are in force in other jurisdictions. In the United States, the Federal Trade Commission has repeatedly dealt with the relationship and interface between technology transfer agreements and competition law. A major study in 2003 emphasised that both are complementary, but not in conflict with each other.

IP enforcement and litigation

Competition law also affects the enforcement and litigation of intellectual property. Defendants in patent infringement cases commonly argue that the enforcement of the patents in suit violated competition law and that the infringer would be entitled to a licence granted by the patent owner. In the vast majority of cases this defence has no reasonable basis. In those cases where there are grounds for this defence, the conditions under which a claim of the defendant to request a licence from the patent owner could exist are rarely met. This may be true where the IP owner dominates the market and the enforcement has the effect that the infringer must leave the market or is even prevented from entering a new market. However, this should not be seen as *carte blanche* for infringers, even though it does limit enforceability for an IP owner due to peculiar circumstances in exceptional cases.

Special situations occur when IP rights, particularly patents, cover technologies which are subject to technical standards and where the standard cannot be

implemented without making use of the specific teaching covered by the patent (so-called 'essential patents'). Products are then marketable only if they are manufactured according to the standard or if they allow a realisation of the standard. Famous examples, which have also been the subject matter of extensive litigation, are telecommunications standards and the MPEG and JPEG standards. The essential patents in these cases may be invoked individually by their owners or may form part of a patent pool. Competition law requires the IP owner to grant a licence to any interested party, since otherwise the enforcement of a patent which has been implemented in the standard would give its owner an undue advantage over its competitors. In most cases, such a forced licence (not a compulsory licence in the strict sense) is the result of a binding declaration of the IP owner to grant a licence which it gave prior to setting up the standard and which benefits third-party manufacturers that are interested in implementing the relevant standard in their products.

This peculiar situation does not prohibit a patent owner from enforcing its rights against an infringer. The Dusseldorf District Court has confirmed this in a series of judgments. Despite a binding declaration to grant licences to interested third parties, enforcement would be considered to be acting in bad faith only if the defendant had seriously offered to take a licence from the patent owner and had presented an offer which could not be denied by the patent owner without violating the principles of good faith.

The conditions for such an offer must safeguard the legitimate interests of the IP owner against infringers and lead to a well-balanced system, taking into account the interest of licensees in obtaining the possibility to enter the market. Therefore, licences for technically essential patents must be granted under fair, reasonable and non-discriminatory (FRAND) conditions. This ensures that no potential licensee is put in a more difficult position than previous licensees and that no existing licensee is discriminated against by granting more favourable conditions to a later licensee. The exact FRAND conditions will depend entirely on the specific circumstances of the case and leave room for negotiations between the parties to a licence agreement. The mere fact that a patent standard is essential is in no way sufficient to make the enforcement of that patent unlawful. In addition, in such cases enforcement procedures remain at the disposal of the patent owner.

Conclusion

Competition law has a significant effect on the use and enforcement of intellectual property. Whether IP law

prevails or competition law imposes limits with regard to certain actions depends on the specific circumstances. Companies must pay attention to competition law in all

their actions and consider the relevant issues alongside the IP law issues when designing business and IP strategies.

Jochen Bühling was admitted to the Bar in 1992. He specialises in all types of intellectual property, focusing on patent and trademark law. Mr Bühling's practice involves national and cross-border litigation and counselling, including strategic and licensing issues and mediation. His clients range from multinational companies to small and medium-sized enterprises, and he has been involved in a number of cross-border cases around the world. Mr Bühling is the reporter general of the International Association for the Protection of Intellectual Property and a member of the German-American Lawyers' Association.

Jochen Bühling

Partner

Tel +49 211 440 3370

Email jochen.buehling@krieger-mes.de

Krieger Mes & Graf v der Groeben
Germany

