

**GETTING THE DEAL THROUGH**

# Intellectual Property & Antitrust

# The interface of IP rights and antitrust policy in 18 jurisdictions worldwide

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## Intellectual property law

- 1** Under what legislation are intellectual property rights granted? Are there restrictions on how IP rights may be exercised, licensed, or transferred? Do the rights exceed the minimum required by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)?

Although various aspects of IP law have been harmonised at EC level, most IP rights are granted and administered at member state level (with the exception of the Community Design and Community Trade Mark, which are administered by the Office for Harmonisation of the Internal Market). Please refer to the chapters relating to individual member states.

- 2** Which authorities are responsible for administering IP legislation?

Please refer to the chapters relating to individual member states.

- 3** What types of legal or administrative proceedings are available for enforcing IP rights?

Please refer to the chapters relating to individual member states.

- 4** What remedies are available to a party whose IP rights have been infringed?

Please refer to the chapters relating to individual member states.

- 5** Does IP legislation make any specific mention of competition or contain provisions respecting the anti-competitive or similar abuse of IP rights?

Please refer to the chapters relating to individual member states.

- 6** With respect to trademarks, do competition or consumer protection laws provide remedies for deceptive practices in addition to traditional 'passing off' or trademark infringement cases?

Please refer to the chapters relating to individual member states.

- 7** With respect to copyright protection, is WIPO protection of technological protection measures and digital rights management enforced in your jurisdiction? Does legislation or case law limit the ability of manufacturers to incorporate TPM or DRM protection limiting the platforms on which content can be played? Could TPM or DRM protection be challenged under the competition laws?

Please refer to the chapters relating to individual member states.

## Competition legislation

- 8** What legislation sets out competition law?

The basic EU competition law provisions are set out in articles 81 and 82 of the EC Treaty.

Article 81(1) prohibits anti-competitive agreements, decisions and concerted practices between undertakings that have an effect on trade between member states. Article 81(3) sets out four cumulative conditions that, if fulfilled, make the agreement exempt from the application of article 81(1). Also relevant are regulations issued by the European Commission that explain how the conditions of article 81(3) are to be applied to certain categories of agreements. These regulations are called 'block exemptions'.

Article 82 prohibits the abuse of a dominant position by one or more undertakings. A dominant position can be held by one company or by several companies collectively. The assessment of a dominant position requires a thorough analysis of the market power of the company (or companies) in question, that of its competitors, and the overall market structure (including, among other things, barriers to entry or expansion, and potential competition). A dominant company can infringe article 82 by leveraging its market power on one market to distort competition on another market.

The EU rules on merger control are set out in the EU Merger Control Regulation (Council Regulation EC No. 139/2004).

- 9** Does the competition legislation make specific mention of IP rights?

Neither article 81 nor 82 of the EC Treaty makes specific mention of IP rights. However, two block exemptions apply, in whole or in part, to IP rights: the Technology Transfer Block Exemption Regulation (TTBER) (Commission Regulation EC No. 772/2004) exempts certain patent and know-how exploitation agreements between two parties from article 81(1); and the R&D Block Exemption (Commission Regulation EC No. 2659/2000) exempts certain research and development agreements from article 81(1), including the IP provisions contained in such agreements.

- 10** Which authorities may review or investigate the competitive effect of the conduct related to IP rights?

The European Commission (the Commission), the member states' national competition authorities (NCAs) and the national courts share responsibility to review or investigate the competitive effect of conduct related to IP rights.

Council Regulation EC No. 1/2003 sets out a system of

parallel competences of the Commission and NCAs. It provides that cases may be dealt with by a single NCA, possibly with the assistance of other NCAs; several NCAs acting in parallel; or the Commission, depending on which authority is 'well placed'.

An NCA is well placed to deal with a case if there is a 'material link' between the infringement and the territory of that NCA. A material link exists where the agreement or practice has substantial direct actual or foreseeable effects on competition within the NCA's territory, or is implemented or originates from its territory; the NCA concerned is able to effectively bring to an end the entire infringement; and it can gather, possibly with the assistance of other authorities, the evidence required to prove the infringement. The Commission is particularly well placed if an agreement or practice has effects on competition in more than three member states, or where the wider Community interest is at stake. (See also the Commission Notice on cooperation within the Network of Competition Authorities No. 2004/C101/03.)

In addition, national courts may be called upon to apply EU competition law in lawsuits between private parties, such as actions relating to contracts or actions for damages (see Commission Notice on the Cooperation between the Commission and the courts of the EU Member States No. 2004/C101/04). In certain member states, national courts may also be designated as public enforcers of (EU and national) competition rules. In such case, the above criteria for the allocation of cases apply.

- 11** Do private parties have competition-related remedies if they suffer harm from the exercise, licensing or transfer of IP rights?

Yes, private parties may submit a complaint to the Commission, or to one or more NCAs with a view to obtaining interim measures, bringing the infringement to an end, or both. Parties may take inspiration from the above guidelines on which competition authority is well placed to hear a case when considering where best to bring a complaint.

Alternatively, private parties may bring a lawsuit before one or more national courts to obtain interim measures, have the infringement terminated and seek damages. Bringing a case before a national court has the advantage that damages may be obtained because neither the Commission nor the NCAs have the competence to award damages. An action for damages can be brought together with an action for infringement or, alternatively, following a finding of infringement by the Commission or an NCA.

- 12** Has the competition authority issued guidelines or other statements regarding the overlap of competition law and IP?

Yes, various Commission documents provide guidance on the interaction between competition law and IP rights: the Guidelines on Technology Transfer Agreements (Commission Notice No. 2004/C 101/02); the Guidelines on Horizontal Cooperation Agreements (Commission Notice No. 2001/C 3/02); and the Guidelines on Vertical Restraints (Commission Notice No. 2000/C291/01).

- 13** Are there aspects or uses of IP rights that are specifically exempt from the application of competition law?

Certain uses of IP rights are exempted from the application of article 81(1) of the EC Treaty by those block exemptions that include IP-related provisions.

In particular, the TTBER exempts restrictive provisions in patent and know-how licence agreements provided the parties do not exceed certain market share thresholds (20 per cent combined for competitors; 30 per cent combined for non-competitors) and provided the agreement contains no hard-core restrictions. (Note that a limited number of restrictive provisions are not exempted – see TTBER, article 5.)

Hard-core restrictions include restricting a party's ability to determine resale prices; reciprocal output or production caps; and certain provisions allocating markets or customers between parties (subject to a set of exceptions designed to enable a licensor to license the rights in different territories). In agreements between competitors a restriction on the licensee to exploit its own technology or carry out further research and development is also hard-core.

In addition, the R&D Block Exemption exempts restrictive IP provisions relating to a given research and development project, again provided that the parties do not exceed certain market share thresholds (25 per cent, from the start of the agreement as between competitors and after seven years from first marketing as between non-competitors) and provided the agreement contains no hard-core restrictions.

There is no statutory exemption from the application of article 82 of the EC Treaty to unilateral conduct involving IP rights. Hence, the owner's unilateral exclusion of others from using the owner's IP is not exempt from EU competition law.

- 14** Does your jurisdiction have a doctrine of, or akin to, 'copyright exhaustion' or 'first sale'? If so, how does that doctrine interact with competition laws, for example with regard to efforts to contract out of the doctrine, to control pricing of products sold downstream and to prevent 'grey marketing'?

European law provides for the exhaustion of IP rights once a product has been put on the market in the EU by the right owner or with its consent. As a matter of EU law, there is no exhaustion of rights where a product is first put on the market outside the EU. To seek to circumvent the principle of EU exhaustion by contractual means, through pricing or by preventing grey imports between member states, would constitute an infringement of EU competition law and rules on the free movement of goods.

- 15** Are there circumstances in which the competition authority may have its jurisdiction ousted by, or will defer to, an IP-related authority, or vice versa?

No.

## Review of mergers

- 16** Does the competition authority have the same powers with respect to reviewing mergers involving IP rights as it does with respect to any other merger?

Yes, the EU Merger Regulation in principle applies to the acquisition of IP rights provided they constitute a business to which a market revenue can readily be attributed and provided that the parties' revenue exceeds the relevant thresholds. (See Commission Notice on the Concept of Concentration No. 98/C 66/02). We are not aware of the acquisition of IP rights having been filed with the Commission other than in combination with other assets, no doubt because no or insufficient revenue could be attributed to the IP rights concerned.

- 17** Does the competition authority's analysis of the competitive impact of a merger involving IP rights differ from a traditional analysis in which IP rights are not involved? If so, how?

The substantive test is the same for a merger involving IP rights as for a merger involving tangible property. However, the application of the test differs in that the traditional analysis focuses on existing products and market share whereas IP combinations will often also involve an assessment of future products and competing research pools.

- 18** In what circumstances might the competition authority challenge a merger involving the transfer or concentration of IP rights?

The Commission will challenge any merger where it has serious doubts that the proposed merger would "significantly impede effective competition in the EU or in a substantive part of it, in particular as a result of the creation or strengthening of a dominant position". In relation to IP rights, this may be the case where the potential sources of licences for a given technology or the number of research pools for a new or improved product are reduced to such an extent that there is a risk of higher prices, or reduced output or innovation.

- 19** What remedies are available to alleviate the anti-competitive effect of a merger involving IP rights?

Parties may offer any commitments to the Commission that they believe will remove the adverse effects of a proposed merger. Although the Commission has a stated preference for commitments that are structural in nature (ie, the divestment of the IP rights concerned), it will accept mandatory licences.

#### Specific conduct

- 20** Cartel or conspiracy

It is an infringement of article 81(1) of the EC Treaty for competitors to agree not to compete or to share markets, including where this is done through the transfer or licensing (or cross-licensing) of IP. Such agreements are regarded as cartels and will attract heavy fines. Agreements among competing licensors not to license their respective IP would also be an infringement of article 81(1).

Patent pools are unlikely to raise issues under article 81(1) if they only involve essential patents and if they grant access to third parties on fair, reasonable and non-discriminatory terms. Pooling of substitute technologies will normally infringe article 81(1). Such (and other restrictive) pools may be exempted if they have an overall pro-competitive effect (clear benefits, no foreclosure, transparent, licensors remain free to license independently, separate packages for different applications, reduced royalties if only part of a package is licensed, pool does not include invalid patents). The Commission will closely monitor any pools that support or establish a de facto or a de jure industry standard.

Copyright collectives (also referred to as collecting societies) are not in themselves restrictive of competition under EU competition law. However, certain conduct by copyright collectives may attract antitrust scrutiny – for example, if the scope (whether subject matter or duration) of an exclusive licence by an author to a copyright collecting society is too broad and the licensee has a dominant position. If the collecting society engages in systematic refusals to grant licences to certain types of users, this may also infringe EU competition rules unless such conduct is objectively justified.

Standard-setting may raise issues under article 81(1) if it creates a barrier to entry for third parties (eg, by restricting access to members of the standard-setting body) or if it prevents members from developing alternative standards or producing products that do not comply with the standard. Given sufficient pro-competitive benefits certain restrictions may be exempted under article 81(3). In addition, there may be issues under article 82 if one of the members of the standard-setting body fails to disclose that it has patents (or patent applications) that lead on the standard. The Commission has recently (summer 2007) initiated formal article 82 proceedings against Rambus, a US company and holder of patents that it claims cover the technology included in the FEDEC standards for DRAMs. The Commission alleges that Rambus was able to charge unreasonable royalties by not disclosing the existence of its patents when the standard was being set (patent ambush).

- 21** (Resale) price maintenance

Resale price maintenance, such as set minimum prices, in agreements between competitors amounts to price fixing, a hard-core restriction under EU competition law. However, in licence agreements between non-competitors recommended (as opposed to set) prices are allowed.

- 22** Exclusive dealing, tying and leveraging

Exclusive dealing is generally not problematic if the parties' market shares are within the TTBER safe harbours (ie, 20 per cent combined for competitors, 30 per cent combined for non-competitors). If the agreement falls outside these safe harbours it is necessary to balance the anti-competitive and pro-competitive effects of the exclusivity, having regard in particular to any foreclosure effect on third parties. Tying in a licensing agreement is permitted provided it is required for a proper exploitation of the IP rights licensed. A company in a dominant position risks infringing article 82 of the EC Treaty if it ties an IP-protected product to another product, unless there is an objective justification (eg, genuine quality requirements).

- 23** Abuse of dominance

It is generally accepted that the mere ownership of IP rights may not be challenged under article 82 of the EC Treaty. However, the exercise of IP rights could be caught by the prohibition of abuse of dominance. There are a number of ways in which the exercise of IP rights could amount to an abuse of dominance:

- setting unfair licensing terms (ie, terms that are onerous and go beyond what is necessary to protect the legitimate interests of licensor or licensee);
- imposing discriminatory licensing terms;
- tying or bundling of other technologies or products without objective justification; and
- charging unfair royalties (ie, at prices above their economic value) – for example, the Commission recently (summer 2007) initiated formal article 82 proceedings against Qualcomm, a US chipset manufacturer and holder of patents in the CDMA and WCDMA standards for mobile telephony for not charging fair, reasonable and non-discriminatory (FRAND) royalties.

In exceptional circumstances, the following conduct may also amount to an abuse of a dominant position:

- exclusive licensing (eg, where the dominant licensee obtains the licence but does not intend to use it – see *Tetra Pak I*); and
- refusing to license (see below).

#### 24 Refusal to deal and essential facilities

In exceptional circumstances a refusal to license by a dominant company may infringe article 82 of the EC Treaty.

The following cumulative circumstances normally need to be satisfied for a refusal to license to infringe article 82, based on the *Magill* and *IMS* precedents:

- the owner of the IP rights has a dominant position on the relevant market (which may be an actual market, or a deemed one for inputs that are not themselves independently commercialised);
- the product covered by the IP right is an essential or indispensable input for the third party to compete (eg, because there is no real or potential substitute or viable alternative for it, bearing in mind the cost, time, or both, needed to produce an alternative);
- the company that requested the licence intends to offer new products or services not offered by the IP right owner and for which there is potential consumer demand;
- the refusal is not justified by objective considerations; and
- as a result of the refusal, the IP right owner is able to reserve the market connected to itself.

The recent (September 2007) *Microsoft* judgment gave the Court of First Instance (CFI) the opportunity to revisit the criteria laid out in *Magill* and *IMS Health*. Microsoft had appealed a Commission decision which found, among others, that the software maker had abused its ‘quasi-monopoly’ position by refusing to provide manufacturers of work group server operating systems certain information to improve the interoperability between their software and that of Microsoft. A significant part of this information according to Microsoft was protected by IP rights. Although the CFI found that the *Magill* criteria were fulfilled in this case, it seems to have rather stretched the application of these criteria in coming to that conclusion. For example, rather than bring a new product to market, access to the interoperability information would have given Microsoft’s competitors a chance to make advanced features of their own products. Preventing this amounted to limiting technical development to the prejudice of consumers in breach of article 82, according to the CFI. It remains the case in our view that it is only in exceptional cir-

cumstances that a refusal to license will be challenged. However, the *Microsoft* judgment suggests that the criteria listed in *Magill* and *IMS Health* should not be interpreted exhaustively. But it provides little guidance as to the boundaries of a refusal to license infringement.

#### Remedies

- 25 What sanctions or remedies can the competition authority or courts impose for violations of competition law involving IP?

An agreement that infringes article 81(1) and is not exempted under article 81(3) is unenforceable and may expose the parties to fines of up to 10 per cent of total worldwide revenues. In addition, the parties may be exposed to third-party damage claims. An infringement of article 82 may give rise to fines of up to 10 per cent of total worldwide revenues, as well as the risk of third-party damage claims.

In addition, the Commission and the NCAs have the power to put an end to the infringement and to order interim measures. This may include compulsory licensing – eg, the Commission in *Magill* ordered copyright owners to license on reasonable terms. We are not aware of the Commission having ordered the divestiture of IP rights to remedy an article 81 or article 82 infringement. As already indicated, divestiture of IP rights and mandatory licensing may be imposed as a condition for merger clearance.

- 26 Do special remedies exist under your competition laws that are specific to IP matters?

No.

- 27 What competition remedies or sanctions have actually been imposed in the IP context?

The Commission has ordered parties to apply transparent and non-discriminatory terms in their licences; to reduce royalties to a reasonable (to be agreed between the parties) level; to terminate an exclusive licence; and to grant a licence.

- 28 How will a settlement agreement terminating an IP infringement litigation or dispute be scrutinised from a competition perspective?

IP licences entered into in the context of settlement agreements are encouraged, provided they are required as a means of settling a genuine dispute between the parties, and, although some territorial or field of use restrictions may be possible, provided the

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arrangements are the least restrictive way of settling the dispute. The Commission will prefer agreements that allocate an IP right entirely to one of the parties on a clean-break basis. Parties must not agree not to compete in any way that does not infringe the relevant IP right and there should be no restrictions on licences to third parties. Any no-challenge clauses should be for a reasonable period and should not concern rights that are known to be invalid by the parties.

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**Economics and the application of competition law**

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**29** What role has economics played in the application of competition law to cases involving IP rights?

Although economics has traditionally been used primarily in the merger area, it is increasingly applied also in other areas, including cases centred around IP issues.

**30** Have there been any recent high-profile cases dealing with the intersection of competition law and IP rights?

A number of recent high-profile cases address the intersection of IP rights and competition law:

- *Microsoft*, where the Commission ordered Microsoft to disclose IP-protected interfaces to competitors required for their products to be able to interoperate with Microsoft's Windows operating systems (see above); and
- *AstraZeneca*, where the Commission found that AstraZeneca had abused a dominant position by allegedly engaging in a pattern of deliberate misrepresentations to patent attorneys, national courts and patent offices to obtain supplementary protection certificates (extending the life of its patents) (on appeal).

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**Recent changes**

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**31** Have changes occurred recently or are changes expected in the near future that will have an impact on the application of competition law to IP rights?

The Commission is currently reviewing the application of article 82, including how it applies to conduct involving IP rights. The Commission is expected to issue guidelines some time next year.