THE INTELLECTUAL PROPERTY AND ANTITRUST REVIEW

SEVENTH EDITION

Editor
Dieter Paemen

THE LAWREVIEWS

THE INTELLECTUAL PROPERTY AND ANTITRUST REVIEW

SEVENTH EDITION

Reproduced with permission from Law Business Research Ltd
This article was first published in June 2022
For further information please contact Nick.Barette@thelawreviews.co.uk

Editor
Dieter Paemen

THE LAWREVIEWS

B

PUBLISHER
Clare Bolton

HEAD OF BUSINESS DEVELOPMENT
Nick Barette

TEAM LEADER
Katie Hodgetts

SENIOR BUSINESS DEVELOPMENT MANAGER
Rebecca Mogridge

BUSINESS DEVELOPMENT MANAGERS
Joey Kwok and Juan Hincapie

BUSINESS DEVELOPMENT ASSOCIATE
Archie McEwan

RESEARCH LEAD
Kieran Hansen

EDITORIAL COORDINATOR
Leke Williams

PRODUCTION AND OPERATIONS DIRECTOR
Adam Myers

PRODUCTION EDITOR
Richard Cosgrove

SUBEDITOR
Hilary Scott

CHIEF EXECUTIVE OFFICER
Nick Brailey

Published in the United Kingdom
by Law Business Research Ltd, London
Meridian House, 34–35 Farringdon Street, London, EC4A 4HL, UK

www.TheLawReviews.co.uk

ISBN 978-1-80449-089-1

Printed in Great Britain by
Encompass Print Solutions, Derbyshire
Tel: 0844 2480 112

ACKNOWLEDGEMENTS

The publisher acknowledges and thanks the following for their assistance throughout the preparation of this book:

ACTECON

ALLEN & OVERY LLP

AZB & PARTNERS

BIRD & BIRD

BOMCHIL

BRICK COURT CHAMBERS

CLIFFORD CHANCE

HADIPUTRANTO, HADINOTO & PARTNERS

OH-EBASHI LPC & PARTNERS

URÍA MENÉNDEZ – PROENÇA DE CARVALHO

WINSTON AND STRAWN LLP

ZHONG LUN LAW FIRM

CONTENTS

PREFACE

The task of this book is, with respect to key jurisdictions globally, to provide an up-to-date, concrete and practical overview of developments on the relationship between antitrust and intellectual property laws and regulations. This seventh 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 intense disputes regarding the application of antitrust law on patent settlements in the pharmaceutical industry, and the growing importance of intellectual property issues in merger cases.

As intellectual property continues to gain importance in the world economy and 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 the team at Clifford Chance LLP for their important contributions to this seventh edition of *The Intellectual Property and Antitrust Review*.

Dieter Paemen
Clifford Chance LLP
Brussels
June 2022

Chapter 4

EUROPEAN UNION

Dieter Paemen[1]

I INTRODUCTION

The EU competition rules on anticompetitive agreements, abuse of dominant position and merger control can 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 European Commission (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'. 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) TFEU to categories of technology transfer agreements (TTBER) and the accompanying Technology Transfer Guidelines;

b Commission Regulation (EU) No. 1217/2010 on the application of Article 101(3) TFEU to certain categories of research and development agreements (the R&D Block Exemption Regulation);

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

d Commission Regulation (EU) No. 2022/720 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices (VBER) and the accompanying Guidelines on Vertical Restraints; and

e the EC's Subcontracting Notice.

Article 102 TFEU prohibits any 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 (EUMR). Under the EUMR, the acquisition of IPRs may constitute a concentration triggering EU merger control. Full-function joint ventures to which IP (and potentially other) assets are contributed

1 Dieter Paemen is a partner at Clifford Chance LLP. Special thanks go to Bram Van der Beken and Chloe Lettington for their assistance in preparing the latest update of this chapter, and to Thomas Vinje for overseeing the preparation of earlier versions of this chapter.

may similarly require notification pursuant to the EUMR. 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

The EC more than ever is focusing on major technology (Big Tech) companies (including Google, Amazon, Facebook, Apple and Microsoft (GAFAM)). Currently, it is conducting multiple investigations into the practices of these companies, while also defending past decisions before EU Courts, and developing new regulations such as the Digital Markets Act and Digital Services Act in order to curb the powers of these technology companies. Those hoping for further guidance from the CJEU regarding the licensing of SEPs following a reference for a preliminary ruling in a dispute between Nokia and Daimler will have been disappointed to hear that the parties settled their dispute before the CJEU could take a stance on the issues surrounding the case. Nevertheless, on 14 February 2022 the EC announced it had opened a public consultation for the creation of a new framework for SEPs, the aim of which is to increase legal certainty and transparency around the licensing of SEPs. In addition, on 18 February 2022 the EU opened proceedings before the World Trade Organization (WTO) against China alleging that the willingness of Chinese courts to issue anti-suit injunctions blocking SEP holders from bringing cases before courts outside of China is a breach of international trade rules.

III LICENSING AND ANTITRUST

i Anticompetitive restraints

Many restraints qualified as anticompetitive by various EU legal instruments – such as restrictions on a reseller's freedom to determine its own resale price or restrictions on to whom or into which EEA territory the reseller may sell – are not specific (but apply equally) to agreements containing licences to IPRs. EU competition law also provides for specific rules on restraints specific to agreements dealing with IPRs, such as technology transfer, R&D or specialisation agreements.[2] These instruments generally provide IPR holders with leeway to impose certain restraints on licensees to preserve IPR holders' incentives to innovate. Restrictions on a licensee's ability to engage in research and development are generally considered anticompetitive. Below, we focus on the application of EU competition law to a selected set of practices relevant to IPR.

Territorial restrictions and exhaustion

Some IPRs, such as copyright, are inherently national in scope – notwithstanding a substantial degree of uniformity resulting from international treaties and EU Directives. 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. The

2 The latter are subject to the Commission Regulation (EU) No. 1218/2010 of 14 December 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of specialisation agreements. The R&D Block Exemption Regulation and the Specialisation Block Exception Regulation are undergoing the Commission's review.

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). The exhaustion doctrine was extended to software distributed in digital form by the CJEU.[3]

In *Premier League*, the CJEU considered contractual restrictions in licences granted by the UK'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, used to access the licensee's broadcasts from anywhere in the EEA, outside the licensed territory. The CJEU held that the latter restriction amounted to an unlawful restriction by object pursuant to Article 101 TFEU.

More recently, the EC took issue with the agreements between Sky UK and major film studios containing restrictions on cross-border provision of pay-TV services. The EC accepted the commitments of Paramount,[4] which were followed by commitments from other studios.[5] The Paramount commitments, confirmed by the GC,[6] focused on lifting various contractual clauses limiting passive sales outside the licensed territory. On appeal, the CJEU set aside the GC's judgment and annulled the EC's decision for failing to properly take into account the effect of the commitments on third parties.[7] Consequently, the EC withdrew its decision concerning all other parties[8] and closed its pay-TV investigation.

On 20 January 2021, the EC imposed a fine of €7.8 million on video game platform Valve and five publishers for agreeing on geoblocking consumers' access to video games. Valve's appeal before the GC, details of which were published in the Official Journal in June 2021[9], presents an opportunity for the EU Courts further to clarify the interplay between (the territoriality of) copyright and antitrust.

Grant-back obligations

Since 2014, 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 – are excluded entirely from the scope of the TTBER. They are therefore not exempted from Article 101 TFEU and their compatibility with competition law will thus need to be assessed on an individual basis. Licensors may alternatively negotiate a grant-back provision on a non-exclusive basis, which remains exempted by the TTBER.

No-challenge clauses

The new TTBER furthermore provides for a stricter regime on clauses limiting the licensee's ability to challenge the validity of the licensor's IPRs. The old TTBER did not exempt clauses prohibiting validity challenges but did exempt clauses providing for termination of the

3 Case *UsedSoft v. Oracle*, ECLI:EU:C:2012:407.

4 Case AT.40023, *Cross-border access to pay-TV* (2016).

5 Case AT.40023, *Cross-border access to pay-TV* (2019).

6 Case T 873/16, *Groupe Canal + SA v. Commission*, ECLI:EU:T:2018:904.

7 Case C132/19 P, *Groupe Canal + SA v. Commission*, ECLI:EU:C:2020:1007.

8 Case AT. 40023, *Cross-border access to pay-TV* (2021).

9 Case T-172/21, *Valve v. Commission*.

licence agreement upon the licensee challenging validity. The new TTBER no longer exempts such 'termination on challenge' clauses unless the licence agreement is exclusive; thus, clauses limiting a non-exclusive licensee's ability to challenge the validity of the licensor's IPRs will need to be assessed on an individual 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.[10] In short, refusals to license will be deemed lawful in most circumstances. However, a refusal to license may infringe Article 102 TFEU in certain 'exceptional' circumstances – in particular where, without an objective justification, a dominant firm refuses a licence 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. While the GC's judgment in *Microsoft* 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, the type of evidence required to show this is not entirely clear. The GC dismissed Microsoft's 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 infringe Article 102(a) TFEU. A number of cases have dealt with alleged excessive pricing by dominant right holders. Nonetheless, excessive pricing cases remain relatively rare due to the difficulty of establishing an appropriate counterfactual royalty in a but-for competitive market. The EC pursued S&P for alleged excessive royalties for securities identification numbers that S&P claimed were protected by copyrights. The EC preliminarily rejected S&P's claims of copyright protection of these numbers, as it considered that individual numbers are too trivial or not original enough to constitute material that can be subject to copyright. The EC's investigation into Qualcomm's royalty fees for a portfolio of patents, including standard-essential patents (SEPs) pertaining to telecommunications technology, was closed without a finding of infringement. In the pharmaceutical industry, the EC accepted Aspen's commitments to reduce prices of six off-patent medicines concluding, inter alia, that the costs of innovative R&D are deemed to have been recouped after patent expiry.[11] The CJEU has recently clarified the methods for evaluation of excessive prices of IP licences, confirming that a method based on a comparison of prices applied in other Member States (i.e., not taking into account costs incurred) can also be appropriate in determining whether a price is excessive.[12] The CJEU also clarified its stance in relation to certain price-setting methods by collecting societies.[13]

Discriminatory licensing practices may be found where a dominant licensor unjustifiably applies different terms to similarly situated parties or equal terms to different circumstances. Thus, for example, charging royalties on all of a licensee's products regardless of whether or

10 See, Case C-7/97, *Bronner*, ECLI:EU:C:1998:569; C-418/01, *IMS Health*, ECLI:EU:C:2004:257; Case T-201/04, *Microsoft v. Commission*, ECLI:EU:T:2007:289.

11 Case AT.40394, *Aspen*.

12 Case C177/16, *Autortiesību un komunicēšanās konsultāciju aģentūra*, ECLI:EU:C:2017:689.

13 Case C372/19, *SABAM*, ECLI:EU:C:2020:959.

not the products actually implement the dominant licensor's IPRs can constitute an abuse.[14] 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 instead of the dominant company itself.[15] Conversely, no abuse will be established where different terms are applied in sufficiently different circumstances.[16]

iv Patent pooling

A patent pool is a combination of complementary patents from multiple right holders licensed to third parties. The TTBER Guidelines provide for an explicit safe harbour exempting certain patent pool arrangements from antitrust scrutiny. The safe harbour applies to patent pools that, inter alia, pool only essential technologies and ensure that non-essential technologies 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

The most common form of IP protection for software is copyright law, and many software licences, therefore, take the form of a copyright licence. The EU Software Directive has harmonised many aspects of copyright law across Member States. Among other things, the Directive prescribes mandatory copyright exceptions pursuant to which licensees can reverse-engineer a computer program in the interest of establishing interoperability. These exceptions were adopted 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.

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 small subset of software licences, namely those agreements pursuant to which software is licensed to enable the licensee to produce goods or services.[17] The TTBER exempts covered licence agreements from antitrust scrutiny provided that the parties' market shares do not exceed the TTBER market share thresholds and the agreement does not contain any hardcore restrictions.

The vast majority of software licences, however (e.g., 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

14 See, for example, *Microsoft undertaking*, XXIVth Report on Competition Policy (1994), p.364 (Microsoft's standard 'per processor' and 'per system' licences, which required a minimum royalty to be paid to Microsoft by licensees, regardless of actual use of Microsoft products.)

15 Case C385/07, *Duales System Deutschland*, OJ [2001].L 166/1.

16 Case AT.39913, LED, Commission Decision rejecting the complaint, Paragraph 73.

17 Technology Transfer Guidelines, Paragraph 63.

and distribution of software copyright-protected products'.[18] Such agreements are governed by the VBER and the Guidelines on Vertical Restraints. On 10 May 2022, the EC adopted updated versions of the VBER and Guidelines on Vertical Restraints.[19]

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.

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

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;[20]

b absolute restrictions on the licensee's ability to challenge the validity of the licensed rights; and

c where a licensor and a licensee are competitors in the relevant market, information-sharing provisions that may be included in trademark licences in the context of the licensor's exercise of quality control. This will require detailed analysis.

Coexistence agreements 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. Restrictions on challenging rights require careful consideration, especially with respect to challenges to rights based on non-use.

IV STANDARD-ESSENTIAL PATENTS

A 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 to disclose patents that are or may be essential to the standard under development and to commit to license these SEPs on FRAND terms. 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 after the industry has been locked-in to the standard or by charging discriminatory royalty fees'.[21]

It is commonly accepted that standards are beneficial for the economy, allowing for a common technological specification to be established, facilitating interoperability and fostering innovation.[22] However, uncertainty as to how to apply EU competition law to the exercise of SEPs has led to a fierce debate in Europe.

18 See recital 7 to the TTBER.

19 Commission Regulation (EU) 2022/720 of 10 May 2022 and the related Guidelines on vertical restraints.

20 See, for example, Case AT. 40433, *Film merchandise*; Case AT. 40432, *Character merchandise*.

21 Horizontal Guidelines, Paragraph 287. See also the draft revised Horizontal Guidelines that were published for consultation in March 2022, available at ec.europa.eu/competition-policy/public-consultations/2022-hbers_en.

22 See, for example, Horizontal Guidelines Paragraph 308; Case AT.39985, *Motorola*, Paragraph 46; and Regulation (EU) No. 1025/2012 of the European Parliament and of the Council of 25 October 2012 on European standardisation, recital 3.

Enforcement in the EU has centred on whether and in which circumstances seeking an injunction for a SEP against an alleged patent infringer constitutes an abuse of dominant position under Article 102 TFEU. The EC's infringement decision in *Motorola*, commitments decision in Samsung and the CJEU ruling in *Huawei Technologies Co Ltd v. ZTE Corp*[23] have shed light on the theory of 'patent hold-up' through the threat or enforcement of injunctions. Other EU enforcement considered how rules on excessive pricing and patent ambush apply to the SEP context.

i Market definition and dominance

The conduct of a SEP holder will only be found to infringe Article 102 TFEU if the SEP holder enjoys a dominant position on the relevant market. In practice, SEP holders will generally be found dominant where the SEP relates to widely used standards, where the EC's approach is that each SEP is a relevant market.

In *Google/MMI*, the EC held that each SEP constituted a separate relevant technology market on its own because it could not be circumvented or substituted.[24] In the EC's view, such a narrow market definition was warranted in particular where the standard on which the SEP reads cannot be substituted by other standards.[25] This approach leads to each SEP holder having a 100 per cent market share of a narrowly defined market.

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 and will be challenged to demonstrate that they face competitive constraints that prevent them from exercising market power notwithstanding their 100 per cent market share.

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. It is in principle possible for a SEP holder to infringe Article 102 TFEU by seeking an injunction for FRAND-encumbered SEPs. The CJEU noted that the exercise of exclusive IP rights has been found to involve abusive conduct only in exceptional circumstances. 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 well-established case law. 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.

23 Case C-170/13, *Huawei Technologies*, ECLI:EU:C:2015:477.

24 Case COMP/M.6381, *Google/MMI*, Paragraph 54. This 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.

25 In *Motorola*, the EC found that the GPRS standard, 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 was essential even where 3G and 4G networks were also available. This reasoning is consistent with the EC's preliminary findings in *Samsung*, though in relation to a different standard (the UMTS (3G) standard).

The CJEU defined the circumstances in which an injunction for SEPs would be permissible balancing two opposing interests: that of a potential licensee with the legitimate expectation created by the FRAND commitment that the SEP holder would provide a licence, against that of the SEP holder to obtain FRAND remuneration for the use of its patents. The CJEU determined specific steps to be followed to ensure that seeking an injunction does not amount to an abuse of a dominant position.

On 29 November 2017, the EC published a Communication entitled 'Setting out the EU approach to Standard Essential Patents'.[26] It provides additional guidance in the form of behavioural criteria used to assess whether a SEP licensee can be considered willing to enter into a licence on FRAND terms.

While the guidance provided helpful clarifications, there remains substantial uncertainty around the definition of FRAND. Some of the questions left unanswered include whether a SEP holder can refuse to license to certain levels in the value chain (e.g., refuse to license to component makers while licensing only makers of finished products) and whether a SEP holder can charge a royalty based on the full value of a finished end product, even if the SEP holder's patent pertains only to a single component incorporated in that end product.

In January 2021, the EC published its long-awaited SEP Expert Group report on Licensing and Valuation of SEPs. The report recommends that the EC should endorse the principles of licensing at a single level in a value chain, with a uniform FRAND royalty irrespective of the licensing level, and recognising that where licensing takes place at an upstream level within a given value chain, suppliers should have the ability to pass the FRAND royalty down the value chain. It remains to be seen whether the EC will endorse these principles. Following on from the SEP Expert Group report, on 14 February 2022 the EC launched an impact assessment and opened a public consultation on a new framework for SEPs, the aim of which is to increase legal certainty and transparency aroung the licensing of SEPs.[27] The EC's initiative is focussed on three particular topics. The EC will consider options in order to enhance transparancy on SEPs – for example, by introducting a system of independent third-party assessments of essentiality – and improve efficiency and effectiveness of enforcement. Moreover, the EC also has the ambitious goal to provide clarity on what constitute FRAND licensing terms and practices. In particular, by providing guidance and processes for FRAND negotiations and determining appropriate licensing levels. In any case, while a formal communication on this topic by the EC will help reduce legal uncertainity and is likely to become influential in SEP disputes, it is also likely to serve as a source of controversy between licensees and SEP holders.[28]

It was hoped that further guidance on the licensing of SEPs across the supply chain and seeking injunctions might be provided by the CJEU, in a reference for a preliminary

26 'Setting out the EU approach to Standard Essential Patents', available at: ec.europa.eu/docsroom/documents/26583.

27 ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en

28 For more information, see this Clifford Chance client briefing: www.cliffordchance.com/insights/resources/hubs-and-toolkits/talking-tech/en/articles/2021/04/eu-commission-on-frand.html.

ruling originating from a German court.[29] However, after an agreement was reached to settle the litigation in June 2021, the ECJ ordered the removal of the reference[30] and so the issues surrounding the licensing of SEPs were not dealt with.

iii Licensing on FRAND terms

While the CJEU judgment in *Huawei* clearly defined the point at which SEP patent litigation risks violating Article 102 TFEU, it is for national patent courts to rule on FRAND where a number of issues are yet to be determined.

The UK Supreme Court's judgment in *Unwired Planet*[31] was the 'first' highest-level ruling on the questions surrounding national courts' jurisdiction to entertain global FRAND claims under the ETSI policy.[32] The UK Supreme Court concluded that England was a proper forum for determining a global FRAND licence in that case, but that China was not because the Chinese courts had not yet determined that they had jurisdiction to make such a determination without the parties' consent. Subsequently, a High Court judgment in the case of *Optis v. Apple*[33] has affirmed the perception created by *Unwired Planet* – the UK is a welcoming jurisdiction for enforcement of the rights of SEP holders. Apple will be subject to another hearing later this year before the UK High Court, to determine specifics of the global level royalty rate that must be paid.

The issue of jurisdiction has also been visited in the Chinese courts for the first time, in the *Oppo v. Sharp* SEP dispute.[34] The decision confirmed that Chinese courts have the jurisdiction to determine the terms of global FRAND licences and, unlike other national courts, will do so on the basis of a freestanding action not linked to a patent infringement suit. China is therefore another forum that will determine FRAND terms on a global basis. It remains to be seen whether other courts will confirm or decline jurisdiction to determine a worldwide FRAND licence.

In relation to the willingness of national courts to engage in worldwide SEP disputes, a controversial issue has emerged in SEP litigation in recent years regarding the use and issuance of anti-suit injunctions. Through such injunctions national courts prohibit a party from initiating or continuing with SEP litigation in other jurisdictions. Such anti-suit injunctions have even led to retaliations in other national courts that grant 'anti-anti-suit injunctions' preventing the application of the original anti-suit injunction. Chinese courts in particular have shown themselves willing to use anti-suit injunctions in order to prevent SEP holders from seeking redress in courts outside China for illegal use of their patents by Chinese companies. This willingness of Chinese courts to issue such anti-suit injunctions has led the EU to open proceedings against China at the WTO. On 18 February 2022, the EU filed a case against China before the WTO alleging that China's actions are inconsistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).[35]

29 Case C-182/21, *Nokia Technologies*.

30 Order of the President in Case C0182/21 eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62021CB0182&from=EN

31 *Unwired Planet International Ltd & Anor v. Huawei Technologies (UK) Co Ltd & Anor* [2020] UKSC 37.

32 Although as of January 2020 the United Kingdom is no longer a member state of the European Union, the lower court decisions in this case were decided prior to Brexit.

33 *Optis v. Apple* [2021] EWHC 1739 (Pat) www.bailii.org/ew/cases/EWHC/Patents/2021/1739.pdf

34 *Oppo v. Sharp SEP dispute (2020) (Zui Gao Fa Zhi Min Xia Zhong No. 57)*.

35 *China – Enforcement of intellectual property rights – Request for consultations by the European Union*, WT/DS611/1.

iv Choice of licensing level in the supply chain

To date, the EC appears reluctant to decide on pure pricing disputes in relation to SEPs under Article 102 TFEU. Indeed, this is appropriate where the focus of Article 102(a) TFEU enforcement has been to condemn unfair or excessive pricing, which should mean that, for a royalty rate to be condemned as abusive, it must be substantially more than FRAND,[36] and must meet the hallmark test that the price charged 'has no reasonable relation to the economic value of the product supplied'.[37]

Pricing disputes in relation to licensing of SEPs stem from disputes as to the ability of a SEP holder that has given a FRAND undertaking to adopt a single-point-of-licensing model, and to request royalties determined by reference to the end user product.

Some implementers argue that a FRAND commitment requires a license-to-all approach (i.e., licensing SEPs claim-by-claim to any suppliers across the supply chain requesting a licence), pointing to language in the EC's Horizontal Guidelines, which states that:

> *In order to ensure effective access to the standard, the IPR policy would need to require participants wishing to have their IPR included in the standard to provide an irrevocable commitment in writing to offer to license their essential IPR to all third parties on fair, reasonable and non-discriminatory terms ('FRAND commitment').*[38]

However, the Horizontal Guidelines also emphasise that SEP holders must ensure that implementers have access to essential technology incorporated in a standard.[39] This interpretation – that SEP holders are not necessarily required to grant licences to all, but only that they give access to essential technology – is closer to the reality of patent licensing, where consent to use a technology may manifest itself in various forms, not limited to concluding a direct licence with a given party.

The current Horizontal Guidelines are set to expire in December 2022. In June 2021, the EC launched an impact assessment[40] and, following this, published two revised draft Block Exemption Regulations on R&D and specialisation, as well as revised Horizontal Guidelines, which are currently in a period of consultation.[41] It is expected that the new Regulations and Guidelines will be implemented on 1 Janaury 2023. The EC unfortunately appears to have provided limited further clarity on SEP holders' licensing obligations in these proposed Horizontal Guidelines. In any event, the question of the appropriate royalty for FRAND licences is separate from the question of who is entitled to obtain a licence. In other words, no conclusions about the appropriateness of the level of a SEP holder's proposed royalty rates can be drawn from the mere fact that the SEP holder chooses to license end-product makers. This was confirmed, for example, in *Unwired Planet International v. Huawei*, where

36 *Unwired Planet International Ltd & Anor v. Huawei Technologies Co Ltd & Anor* [2017] EWHC 711 (Pat), Paragraph 153.

37 Case C-27/76, *United Brands v. Commission*, EU:C:1978:22, Paragraph 250.

38 Horizontal Guidelines, Paragraph 285. This language remains in the draft Revised Horizontal Guidelines, at Paragraph 482.

39 Horizontal Guidelines, Paragraph 287. This requirement remains in the draft Revised Horizontal Guidelines, at Paragraph 484.

40 ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13058-Horizontal-agreements-between-companies-revision-of-EU-competition-rules/public-consultation_en

41 ec.europa.eu/competition-policy/public-consultations/2022-hbers_en

the economic experts on both sides agreed that FRAND principles do not preclude SEP holders from appropriating some of the value associated with the inclusion of its technology into the standard and the value of the products that are using those standards.[42]

v Patent ambush

A patent ambush occurs when a SEP holder deliberately hides the fact that it holds essential IPRs and asserts 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, allowing it to gain market power *ex post*. The EC's Horizontal Guidelines require 'good faith disclosure' of IPRs that might be essential for the implementation of a standard under development.[43]

The commitment decision in *Rambus* suggests that patent ambush could constitute an abuse. The EC posited that Rambus' deliberate and strategic failure to disclose its SEPs undermined confidence in the standard-setting process and resulted in supra-competitive royalties. 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.[44]

To minimise the risk of patent ambush, the European SSOs – in collaboration with the EC[45] – have all adopted IPR policies that impose, inter alia, an obligation on SEP holders to disclose their SEPs.

vi Excessive pricing of SEPs

A 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.

However, by closing its investigation in *Qualcomm*,[46] the EC passed up the only opportunity thus far to decide whether 'mere' supra-FRAND pricing of SEPs can constitute an abuse of dominance. Instead, it noted that the case had raised 'complex' issues and that regulators should be 'careful about overturning commercial agreements'.[47] *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,[48] it remains difficult to establish what constitutes a FRAND rate.

42 *Unwired Planet International Ltd & Anor v. Huawei Technologies Co Ltd & Anor* [2017] EWHC 711 (Pat), Paragraph 97.

43 Horizontal Guidelines, Paragraph 286.

44 Case COMP/38.636, Rambus, Paragraph 71.

45 For example, the European Telecommunications Standardisation Institute changed its standard-setting rules to strengthen the requirement for early disclosure of essential IPRs, after the EC had expressed concerns that these rules did not sufficiently protect against the risk of patent ambush (Press Release 12 December 2005, IP/05/1565, 'europa.eu/rapid/press-release_IP-05-1565_en.htm).

46 Case COMP/39.247, *Texas Instruments/Qualcomm*.

47 EC, MEMO/09/516, Antitrust: Commission closes formal proceedings against Qualcomm, available at europa.eu/rapid/press-release_MEMO-09-516_en.htm.

48 Various methods, such as, for example, comparing the licensing fees charged for the relevant patents in a competitive environment before the industry has been locked into the standard (*ex ante*) with those charged

The EC has previously considered that the threat or act of seeking injunctions has the potential to anticompetitively exclude, as well as exploit (through eliciting supra-FRAND royalty rates) potential licensees.[49] At this point, it is not clear how the EC would deal with a pure excessive pricing complaint relating to SEPs.

V OTHER ABUSES

While abusive conduct can emerge in any industry relying on IP rights, we focus on the pharmaceutical sector, which has generated the vast majority of precedents. The EC 2009 report on its PSI identified the following types of conduct as part of the 'toolbox' that originator pharmaceutical companies (i.e., companies marketing patented branded products) may use to delay or restrict the entry of generic medicines (i.e., non-branded medicines, which are equivalent to a branded drug in dosage, safety, strength, etc.).[50]

i Sham or vexatious IP litigation

Under Article 102 TFEU, in specific circumstances, dominant companies may be deprived of the right to adopt conduct that would be unobjectionable if adopted by non-dominant companies.[51] Under exceptional circumstances, instigating litigation can amount to an abuse of dominance.

In its 1998 *ITT Promedia* ruling, which it upheld in *Protégé International*,[52] 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 cannot reasonably be considered as an attempt to assert rights and can, therefore, only serve to harass the other party; and

b the action in question is conceived in the framework of a plan aimed at eliminating competition.

The GC confirmed that the actual validity or existence of the rights asserted is irrelevant in determining whether the court action is abusive. Instead, the critical factor is whether the legal action was intended to assert what the undertaking could, at that point in time, reasonably consider to be its rights.

The GC further 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.'[53]

after the industry has been locked in (*ex post*) can be used to assess whether the fees bear a reasonable relationship to the economic value of the IPR. See, Horizontal Guidelines, paragraphs 289 and 290. See also the draft Revised Horizontal Guidelines, paragraphs 48 and 487.

49 See Case AT.39985, *Motorola*; and Case COMP/C-3/39.939, *Samsung Electronics*.

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

51 Case T-111/96, *ITT Promedia v. European Commission*, ECLI:EU:T:1998:183, Paragraph 139.

52 Case T-119/09, *Protégé International v. Commission*, ECLI:EU:T:2012:421.

53 Case T-111/96, *ITT Promedia v. European Commission*, ECLI:EU:T:1998:183, Paragraph 140.

The CJEU's ruling in *Genentech Inc v. Hoechst GmbH*[54] provided insight into the circumstances under which EU competition law precludes parties from enforcing patent licensing agreements and requiring royalties, even after the invalidation of the patent. An agreement to pay a licence fee, nevertheless, remains payable in the case of invalidity, revocation or non-infringement provided that the licensee remains free to terminate the agreement by giving reasonable notice.

ii Misuse of the patent process

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 *AstraZeneca* judgment,[55] confirming a GC judgment and an EC decision finding that AstraZeneca had abused its dominance in two ways:[56]

a making false representations to patent authorities in various EEA Member States 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 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 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 granting of longer SPC protection.

The CJEU held that where behaviour is objectively of such a nature as to restrict competition, the question of whether it is abusive in nature cannot depend on the contingencies of the reactions of third parties. Thus, the fact that certain public authorities were not misled by false representations did not negate the abusive nature of AstraZeneca's conduct.[57]

AstraZeneca's second abuse marked the first time the EC dealt with 'evergreening' or 'product-hopping' practices.[58] These practices involve incremental reformulations of first-generation drugs, presented as innovations to preserve patent protection, typically through the launch of a second-generation product.

AstraZeneca's attempt to deregister Losec capsules affected 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, which allows manufacturers of generics to refer to the results of the originator's pharmacological and toxicological tests

54 Case C-567/14, *Genentech Inc v. Hoechst GmbH*, ECLI:EU:C:2016:526.

55 Case C-457/10 P, *AstraZeneca AB and AstraZeneca plc v. European Commission*, ECLI:EU:C:2012:770.

56 Case COMP/A. 37.507/F3, *AstraZeneca*.

57 Case T-321/05, *AstraZeneca v. Commission*, ECLI:EU:T:2010:266, Paragraph 360.

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

and clinical trials. 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 deregistering Losec's market authorisation did not qualify as competition on the merits. AstraZeneca had failed to show that its deregistration of Losec marketing authorisations were commercially necessary (or even useful).[59]

On 4 March 2021, the EC opened a formal investigation against Teva to determine whether it may have abused a dominant position by artificially extending the market exclusivity of its multiple sclerosis drug Copaxone. The EC is examining whether Teva strategically filed and withdrew divisional patents covering Copaxone's active pharmaceutical ingredient,[60] thereby repeatedly delaying entry of generic competition. The EC is also investigating whether Teva pursued a communication campaign creating a false perception of health risks associated with the use of competing products.[61]

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.[62]

Patent settlements between originator pharmaceutical companies and would-be generic entrants have come under antitrust scrutiny. In a typical patent settlement scenario, a generic pharmaceutical company seeks to enter a market still protected by an originator company's patent. The generic company challenges the validity and infringement of the originator's patent, with both challenges having an uncertain outcome. The originator and the generic supplier settle their dispute with the generic supplier agreeing not to enter before a specific date – typically later than the date of patent expiry – in exchange for some form of payment by the originator. Such settlements are known as 'reverse payment patent settlements' or 'pay-for-delay settlements'. They benefit the originator, who reaps additional profits from prolonged market exclusivity, while it compensates the generic company.

The 2009 PSI Report identified patent settlements that limit generic entry, and cumulatively involve value transfers from originators to generic companies as warranting particular antitrust scrutiny.[63] European case law on pay-for-delay cases has developed significantly in the past few years, including CJEU rulings in 2020 and 2021.[64]

59 Case T-321/05, *AstraZeneca v. Commission*, ECLI:EU:T:2010:266, Paragraph 812.

60 Divisional patents originate from a broader 'parent' patent and may cover significantly overlapping inventions.

61 The EC's press release on the opening of a formal investigation is available at: ec.europa.eu/commission/presscorner/detail/en/ip_21_1022.

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

63 EC Staff Working Document, Technical Annex to the Commission Communication Part 1 (8 July 2009) available at: '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.

64 Case C-307/18, *Generics (UK) Ltd and Others v. Competition and Markets Authority*, ECLI:EU:C:2020:52 and Case C-591/16 P, *Lundbeck v. Commission*, ECLI:EU:C:2021:243, respectively.

In *Lundbeck*, the EC provided its first analysis of pay-for-delay agreements.[65] The EC found that patent settlements between originator Lundbeck and various companies intending to market generics of citalopram had as their object the restriction of competition in violation of Article 101 TFEU.

Lundbeck had agreed to make cash payments to the generic companies, or guarantee certain profits for them under distribution agreements or purchase their citalopram stock, or a combination of these. The EC alleged that, in return, the generic companies agreed to delay their entry in the EEA.[66]

The EC based its finding on three key elements:

a at the time of the settlements, Lundbeck and the generic companies were at least potential competitors in the EEA as the validity and infringement of Lundbeck's challenged patents were highly uncertain;

b considerable value was transferred from Lundbeck to the generic companies, substantially reducing their incentive to continue independent efforts to enter the market and to challenge the validity of the patents; and

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

The GC confirmed the EC's view that such agreements can constitute by-object infringements[67] if combined with factors such as reverse payments to the potential generic entrants. This is because these agreements replace the uncertainty of litigation over the validity and infringement patent with the certainty that the generic companies will not enter the market. The GC analogised Lundbeck's agreements to market exclusion agreements.

The GC also ruled that the restrictions contained in Lundbeck's agreements were not objectively necessary to protect Lundbeck's IP rights (which would justify these restrictions under the ancillary restrictions test).[68]

Finally, the GC ruled that a generic company can be considered a 'potential competitor' of the originator if it has real, concrete possibilities of entering the market. The presumed validity of the branded drug's existing patent 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 potential competitors.[69]

In addition, the GC accepted that potential competition could already exist several years before the expiry of the patent (at the time when the generic company begins development

65 Case COMP/AT.39226, *Lundbeck*.

66 Following up on the PSI, the EC has been closely monitoring patent settlement activity in the pharmaceutical sector. The latest Report on the Monitoring of Patent Settlements covers the year 2016, was published in March 2018 and is available at: ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/patent_settlements_report8_en.pdf.

67 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.

68 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 or less profitable without the restriction is not sufficient.

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

efforts for a generic version). The GC's judgment was criticised on this point, as it could result in generics more than five years away from entry being considered potential competitors of the branded drug.

Lundbeck appealed the GC's judgment to the CJEU. On 25 March 2021, the CJEU dismissed Lundbeck's appeal and upheld the GC's judgment in its entirety,[70] closely following the reasoning it developed in its 2020 *Generics* judgment.[71]

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.[72] However, unlike *Lundbeck*, the EC based its infringement decision against Servier also on Article 102 TFEU as Servier had not only induced the settlements, but had also acquired (scarce) technology essential to generic entry.

On appeal, the GC confirmed the EC's ruling that most of Servier's practices violated Article 101 TFEU, as they stifled entry of (more affordable) generics.[73] With respect to the settlement agreement between Servier and one of the generic companies, Krka, the GC rejected the EC's finding of an Article 101 TFEU violation, disagreeing with the argument that Servier's arrangement with Krka induced the latter to withdraw from the market.

The GC, however, reversed the EC's finding of an abuse of dominance as it ruled that the EC had manifestly erred in its overly narrow assessment of market definition.[74]

On 30 January 2020, the CJEU clarified, through a preliminary ruling, the conditions under which a patent settlement agreement can be found to infringe Articles 101 and 102 TFEU.[75] The case was referred to the CJEU by the UK Competition Appeal Tribunal (CAT), which had been called to rule on whether the UK Competition and Markets Authority had lawfully fined manufacturers of generic medicines and GlaxoSmithKline for delaying the entry of generic versions of paroxetine through patent settlement agreements.[76]

The CAT referred to the CJEU questions on the circumstances under which a generic company and an originator can be considered potential competitors, as well as the criteria that need to be met for a settlement agreement to qualify as a 'restriction by object' and a 'restriction by effect' under Article 101 TFEU; and an abuse of dominance under Article 102 TFEU.[77]

70 Case C-591/16 P, *Lundbeck v. Commission*, ECLI:EU:C:2021:243.

71 Case C-307/18, *Generics (UK) Ltd and Others v. Competition and Markets Authority*, ECLI:EU:C:2020:52. See further below for a description of the CJEU's *Paroxetine* and *Lundbeck* judgments.

72 Case COMP/AT.39612, *Perindopril (Servier)*.

73 Case T-691/14, *Servier SAS and Others v. Commission, ECLI:EU:T:2018:922*.

74 This reversal amounts to a rare intervention of the traditionally deferential GC in the EC's review of market definition.

75 Case C-307/18, *Generics (UK) Ltd and Others v. Competition and Markets Authority*, ECLI:EU:C:2020:52.

76 Case CE-9531/11, *Paroxetine*, CMA. In particular, these agreements led to (1) a commitment by the generic companies not to enter the market and not to manufacture or import, or both, the generic medicines under the patent at issue, as well as not to persist in their challenge of that patent for the duration of the agreements; (2) the conclusion of a distribution agreement enabling the generic companies to enter the market with a limited quantity of generic paroxetine manufactured by GSK; and (3) the payment by GSK to the generic companies of sums of money in various forms.

77 Case C-307/18, *Generics (UK) Ltd and Others v. Competition and Markets Authority*, ECLI:EU:C:2020:52, Paragraph 21.

Adopting a similar reasoning as the GC in *Lundbeck*, the CJEU ruled that a generic company and an originator are potential competitors where 'it is established that the manufacturer of generic medicines has in fact a firm intention and an inherent ability to enter the market, and that market entry does not meet barriers to entry that are insurmountable.' It needs to be determined whether, at the time when the agreement was entered into, the generic company had taken sufficient preparatory steps to enter the market within such a period of time as would impose competitive pressure on the originator.[78] The CJEU added that the existence of a patent cannot, as such, be regarded as an insurmountable barrier to entry, because it does not prevent a generic company from challenging the validity of that patent and launching its generic medicine 'at risk'; and in the pharmaceutical sector, potential competition may be exerted before the expiry of the originator's patent because generic companies want to be ready to enter the market as soon as that patent expires.

In the same judgment, the CJEU found that a patent settlement can be considered a restriction by object[79] where the transfers of value contained in the settlement agreement – whether pecuniary or non-pecuniary – have no explanation other than the commercial interest of the parties not to engage in competition. To that end, it must be determined whether the net gain from the value transfers is sufficiently large to encourage the generic companies not to enter. More importantly, the CJEU ruled that any pro-competitive effects arising from the agreement must be taken into account, provided that those effects are demonstrated, relevant and specifically related to the agreement at issue. However, the CJEU immediately stressed that the consideration of pro-competitive effects is merely intended to determine whether such effects are capable of giving rise to reasonable doubt that the settlement agreement causes a sufficient degree of harm to competition.

The CJEU furthermore observed that if the referring court were to find that the patent settlement agreements at issue do not constitute a restriction by object, it would need to determine how the market would operate in the absence of the agreements, to establish a 'restriction by effect'. However, such characterisation does not require demonstrating that in the absence of the agreements at issue, either the generic company would have been successful in patent proceedings, or the parties to the agreement would have concluded a less restrictive agreement.

Finally, the CJEU confirmed that settlement agreements may amount to an abuse dominance under Article 102 TFEU where, taking into account possible cumulative effects, the conclusion of such agreements is part of an overall contract-oriented strategy capable of having exclusionary effects (i.e., by reserving the market directly or indirectly to the originator and thus depriving consumers of the benefits of generic entry), going beyond the specific anticompetitive effects of each of the agreements that form part of that strategy.

On 26 November 2020, the EC fined Teva and Cephalon for entering into a patent settlement agreement regarding the sleeping disorder drug modafinil, whereby Cephalon

78 Such steps may include measures taken to obtain the required administrative authorisations for the marketing of the generic medicine or to build up an adequate stock of the generic medicine. They may also include all legal steps undertaken by the generic company to challenge the originator's patent.

79 Moreover, the CJEU recognised that transfers of value included in settlement agreements may be justified, in particular, where (1) the payments correspond to compensation for the costs of or disruption caused by the litigation between the generic company and the originator; (2) the payments correspond to remuneration for the actual supply of goods or services to the originator; or (3) the generic company discharges financial undertakings given by the patent holder, such as a cross-undertaking in damages (ibid., Paragraph 86).

induced Teva not to enter the market with a cheaper version of modafinil in exchange for a package of commercial side-deals that were beneficial to Teva and some cash payments. These commercial side deals included an agreement for Teva to supply the input material (API) for modafinil to Cephalon at guaranteed prices and volumes (while Cephalon already had several API suppliers supplying it at lower prices), and a licence to modafinil-related IP rights held by Teva. The EC found that (1) these transactions had no plausible explanation other than the commercial interest of the parties not to compete in the modafinil markets; (2) the total value transfer was significant and the transactions were very attractive to Teva; and (3) it was this package of transactions and payments that induced Teva to stay out of the market for several years and, as a result, allowed Cephalon to continue charging higher prices even if the main modafinil patent had long expired.

In its *Lundbeck* judgment of 25 March 2021,[80] the CJEU adopted the same reasoning as in *Generics*. On the notion of potential competition, the CJEU reiterated that a generic company can be considered a potential competitor if it has a firm intention and an inherent ability to enter the market, and does not meet barriers to entry that are insurmountable. The existence of potential competition must be assessed at the time when the patent settlement agreement was concluded, so that evidence relating to events subsequent to the conclusion of the agreement cannot be taken into consideration. Furthermore, potential competition cannot be excluded because the generic company had not already obtained a marketing authorisation for its generic medicine when the patent settlement agreement was concluded. The CJEU also confirmed its view that the existence of a patent that protects the manufacturing process of an active ingredient cannot, as such, be considered an insurmountable barrier to entry.

Ultimately, the CJEU reaffirmed its position that patent settlement agreements can be considered 'restrictions by object' under Article 101(1) TFEU where it is plain from the examination of the settlement agreement that the transfers of value from the originator to the generic company cannot have any explanation other than the commercial interest of the originator and the generic company not to engage in competition on the merits; and for the purpose of this examination, it is appropriate to assess on a case-by-case basis whether the net gain of the value transfers is sufficiently significant to act as an incentive without a requirement for the net gain to be greater than the profits the generic company would have made if it had been successful in the patent proceedings.

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'[81] 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.

The EC and the courts have interpreted the notions of 'limiting entry' and 'value transfer' broadly.[82] 'Limiting entry of generic competition' could range from an absolute restriction on entry to limited forms of non-immediate or non-independent entry.[83]

80 Case C-591/16 P, *Lundbeck v. Commission*, ECLI:EU:C:2021:243.

81 Case COMP/AT.39226, *Lundbeck*, Paragraph 659.

82 EC Staff Working Document, Technical Annex to the Commission Communication Part 1 (8 July 2009) available at: 'ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf, Paragraph 269.

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

Similarly, 'value transfers' are not limited to direct monetary payments, but can also include more covert transfers of value.[84] 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.[85]

VI INTELLECTUAL PROPERTY AND MERGERS

Under the EUMR, 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.[86]

Below we focus on when the change of control of IP assets, such as patents, know-how, trademarks and copyrights may trigger EU merger control, and 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 copyright, may be considered a concentration within the meaning of the EUMR if the assets constitute a business with a market turnover. A transfer of licences for brands, patents or copyrights, without any additional assets may constitute a concentration only if such licences are exclusive 'at least in a certain territory' and transfer the turnover-generating activity. The granting of licences and the transfer of licences must be effected on a lasting basis.[87] However, 'lasting' need not mean the transfer is permanent.

The EC confirmed this approach in *Microsoft/Yahoo! Search Business*, 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 a business to which market turnover can be attributed.[88]

A creation of a joint venture is a concentration within the meaning of the EUMR only if the joint venture has sufficient resources, including intangible assets such as IPRs, to perform, on a lasting basis, 'all the functions of an autonomous economic entity'.[89] Thus, in *PRSfM/STIM/GEMA/JV*, the EC concluded that the creation of a joint venture for cross-border online music licensing and copyright administration services created by three UK, Swedish

84 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.

85 Case COMP/AT.39226, *Lundbeck*, Paragraph 660.

86 EUMR, Article 2(2).

87 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.

88 Case COMP/M.5727, *Microsoft/Yahoo! Search Business*, Paragraphs 5 and 14–19. Similarly, in a decision falling within the scope of the previously applicable Council Regulation (EEC) No. 4064/89, 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)*, Paragraphs 12–16.

89 EUMR, Article 3(4) and Consolidated Jurisdictional Notice, Paragraph 94.

and German music collecting societies constituted a concentration as the parties provided the joint venture with sufficient resources to operate independently as a business, including all IPRs held by them.[90]

The extension of the scope of an existing joint venture through the significant addition of IPRs may also be considered a new concentration.[91]

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 and obtain regulatory clearance of their concentration by offering commitments (or remedies).[92]

The EC draws a distinction between two types of remedies that may involve IP divestitures or exclusive licensing; and granting access to IPRs to third parties on a non-discriminatory basis.

Divestiture or exclusive licensing of IPRs

The EC's decisional practice confirms its preference for divestitures as a suitable remedy, as such remedies eliminate the possibility of an ongoing relationship between the parties and their competitors.[93] IPRs, such as brands or trademarks relating to the divestment business, are often included in the remedy package to enable the acquirer of the divestment business to compete effectively against the merging parties.[94]

Licensing arrangements may be deemed a suitable alternative in certain cases in which a divestiture of IPRs would not be feasible or practicable – for example, because of the characteristics of the technology or rights concerned, or where it would obstruct ongoing research – provided they are as effective as divestitures in enabling the licensee to compete with the merged entity.[95] In *Mastercard/Nets*,[96] the EC accepted commitments that consisted of the granting of an EEA-wide (or global at the option of the remedy taker) licence to Nets' Realtime 24/7 technology for account-to-account core infrastructure services for interbank payment schemes (A2A CIS), with which Nets was participating in A2A CIS tenders. The licence was exclusive within the EEA and non-exclusive outside the EEA. The remedies also included the transfer of all necessary personnel and services, such as consultancy services and transitional support services. In addition, in *GlaxoSmithKline/Novartis Vaccines Business (excl. Influenza)/Novartis Consumer Health Business*,[97] the EC accepted the granting of an

90 Case COMP/M.6800, *PRSfM/STIM/GEMA/JV*.

91 Consolidated Jurisdictional Notice, Paragraphs 106–108.

92 EUMR, Articles 6(2) and 8(2).

93 Case COMP/M.7737, *Honeywell/Elster*; Case COMP/M.7585, *NXP Semiconductors/Freescale Semiconductor*; Case COMP/M.7559, *Pfizer/Hospira*; Case COMP/M.7499, *Altice/PT Portugal*; Case COMP/M.7420, <I>ZF/TRW</I>. See also EC notice on remedies acceptable under Council Regulation (EC) No. 139/2004 and under Regulation (EC) No. 802/2004 (the Remedies Notice).

94 See, for example, Case COMP/M.9274, *GlaxoSmithKline/Pfizer Consumer Healthcare Business* and Case COMP/M.9408, *Assa Abloy/Agta Record*; Case COMP/M.9779, *Alstom/Bombardier Transportation*.

95 Remedies Notice, Paragraph 38.

96 Case COMP/M.9744, *Mastercard/Nets*.

97 Case COMP/M.7276, *Glaxosmithkline/Novartis Vaccines Business*.

exclusive and perpetual trademark licence for the Nimenrix vaccine to the purchaser as opposed to a full trademark divestiture, given the importance of the IPRs to the merged entity's retained business.[98]

Finally, the EC sometimes accepts rebranding commitments, which entail the granting of an exclusive, time-limited licence to use a brand.[99] During the time of the exclusive licence the licensee is expected to develop its own new brand and capture the licensor's market share and maintain it via rebranding or substitution by another trademark.[100] For example, in *GlaxoSmithKline/Pfizer Consumer Healthcare Business*, GlaxoSmithKline granted the purchaser of the divestment business a temporary licence to certain trademarks to allow the purchaser to meet the regulatory requirements for marketing the products under its own trademarks.[101] Licences for rebranding purposes may also be granted as part of commitments in the other direction, where the purchaser of the divestment business is granted a full licence, with a temporary licence back to the seller of the business for the purpose of rebranding products that were not divested.[102]

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 IPRs to third parties.[103] Such an alternative remedy must have effects at least equivalent to a divestiture of the IPRs.[104]

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 terms that would not distort competition. For instance, the EC cleared the acquisition of Bonnier Broadcasting by Telia subject to the commitment that post-transaction Telia would license to third parties TV channels and ancillary rights, network video recorder rights, and over-the-top (OTT) rights on FRAND terms.[105] On 17 December 2020, the EC cleared Google's acquisition of Fitbit subject to multi-faceted commitments, which included a commitment on the part of Google to continue to license for free to Android original equipment manufacturers, including those of wearable devices, the public APIs covering all the core functionalities that the devices need to interoperate with an Android smartphone.[106] In the same spirit, on 27 January 2022, the EC conditionally cleared the acquisition of

98 ibid., Paragraphs 366 and 370–371.

99 Case COMP/M.7435, *Merck/Sigma-Aldrich*; Case COMP/M.9546, *Gategroup/LSG European Business*.

100 Remedies Notice, Paragraphs 39–42.

101 Case.COMP/M.9274, *GlaxoSmithKline/Pfizer Consumer Healthcare Business*, Schedule 1 of the Commitments.

102 Case COMP/M.7737, *Honeywell/Elster*, Paragraphs 265–269; Case COMP/M.7292, *DEMB/Mondelez/Charger OpCo*, 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.

103 Remedies Notice, Paragraphs 62 and 65.

104 Remedies Notice, Paragraph 61.

105 Case COMP/M.9064, *Telia Company/Bonnier Broadcasting Holding*.

106 Case COMP/M.9660, Google/Fitbit. The EC's press release is available at ec.europa.eu/commission/presscorner/detail/en/IP_20_2484. See also Case COMP/M.7822, Dentsply/Sirona, where the parties committed to extend Sirona's existing licensing agreements with its competitors.

Kustomer by Meta (formerly Facebook) subject to commitments by Meta to guarantee free and equal access to its publicly available APIs for its messaging channels (Whatsapp, Messenger and Instagram) to competitors of Kustomer.[107]

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.

With respect to SEPs, some of the questions that need to be clarified include whether a SEP holder can refuse to license to certain levels in the value chain. The SEP Expert Group report on Licensing and Valuation of SEPs had recommended that the EC should endorse the principles of licensing at a single level in a value chain, with a uniform FRAND royalty irrespective of the licensing level, and recognising that where licensing takes place at an upstream level within a given value chain, suppliers should have the ability to pass the FRAND royalty down the value chain. However, in its draft Revised Horizontal Guidelines, published on 1 March 2022, the EC has not changed its position on licensing SEPs to all third parties. It remains to be seen whether the EC will retain its position following the period of consultation on the Draft Guidelines, which concluded on 26 April 2022.

The CJEU's recent rulings on the legality of reverse patent settlements confirmed that under specific circumstances these can constitute by-object infringements of competition law. Moreover, patent settlement agreements may amount to an abuse of dominance.

As part of the Digital Single Market Strategy, geo-blocking remains relevant in the context of the intersection of competition law and IPRs. However, neither the revised VBER and Vertical Guidelines, nor the ongoing review of the Horizontal Guidelines provide any further clarifications on the applicable legal framework going forward.

107 Case COMP/M.10262, *Meta/Kustomer*. The EC's press release is available at ec.europa.eu/commission/presscorner/detail/en/ip_22_652.

Appendix 1

ABOUT THE AUTHORS

DIETER PAEMEN

Clifford Chance LLP

Dieter Paemen is an antitrust partner in the Brussels office of Clifford Chance LLP. Dieter holds an LLM in Patent and Intellectual Law from George Washington University Law School and a law degree from KU Leuven in Belgium. He has worked on intellectual property and antitrust matters (primarily for technology companies) since 1996.

CLIFFORD CHANCE

Clifford Chance LLP
Avenue Louise 65, Box 2
1050 Brussels
Belgium
Tel: +32 2 533 5012
dieter.paemen@cliffordchance.com

Clifford Chance
Avinguda Diagonal 682
08034 Barcelona
Spain
Tel: +34 93 344 2200
Fax: +34 93 344 2222
miquel.montana@cliffordchance.com

www.cliffordchance.com

ISBN 978-1-80449-089-1