Jochen Bühling Krieger Mes & Graf v der Groeben

Europe
The IP law and competition law overlap: lessons to learn for patent owners

Introduction

Recently intellectual property has again become a focus of attention for competition law experts. Criticism has been levelled from various sides regarding the alleged abuse of dominant market positions resulting from key IP rights in different business sectors. The public view means that intellectual property is sometimes condemned as being anti-competitive, as well as being bad for the social and economic development of nations.

In addition, investigations in this area, triggered by politicians, seem to suggest that intellectual property should be considered more critically. In particular, in recent years the European Commission has undertaken a number of exercises concerning the relationship between intellectual property and competition law. The *Microsoft Case* and the latest inquiry into the pharmaceutical sector are just two of the highly debated issues in this area. Many people have seen these exercises as examples of how intellectual property can have a negative effect on society and are trying to steer political strategy towards a stricter limitation of IP rights. Open source movements have raised their voices not only with regard to copyright, but also in the field of patents. Further, increasing numbers of calls are being made to limit IP rights in the area of 'green' intellectual property.

In this context, the fact that defendants in patent infringement cases often raise the defence of the patentee's anti-competitive behaviour must also be taken into account. In particular, where the non-infringement defence is rather weak, defendants tend to raise issues of competition law in order to avoid being the target of an injunction. This can be seen not only in cases which involve standard essential patents, but also in more unusual cases where such arguments would not normally be expected.

This chapter highlights some of the key issues and gives practical guidance as to how patentees and other IP rights owners should behave in order to comply with competition regulations where they cross over into the IP field. Although the focus is on patents, other IP rights must also be taken into account, particularly trademarks and copyrights.

Keeping technology secret

Patents and other technical IP rights, such as utility models, play a vital role for many companies. A well-planned portfolio of different rights can secure a company's position in the market, open up new markets and allow a company to pursue new business activities. Technical innovations are key for a successful business, in particular when a company can find a niche in which it can distinguish itself from other businesses. The natural tools for the protection of those inventions are technical IP rights. They give their owner the right to use the patented (or otherwise protected) technology exclusively, in the sense that any third party can be excluded from using the protected subject matter without the consent of the IP rights owner. Any use – be it as a manufacturer, a trader or in other business functions – requires the consent of the IP rights owner. In general, it is solely down to the discretion of the IP owner if and to what extent it wishes to give such consent. With the exception of certain rare cases where a compulsory licence can be requested by a third party, the IP owner cannot be forced to make the technology available to others. On the contrary, one purpose of IP rights is to award exclusivity to the owner.

On the other hand, a company may also choose to keep the specific technical knowledge that it has gained and developed secret. With a patent application or utility model the applicant is forced to disclose the specific technological innovation and developments that it has made. In cases where this specific know-how is not incorporated into a device or a method in a way in which it can be retrieved by others and will not otherwise become public (eg, in cases concerning chemical compounds or specific manufacturing processes), the owner of the know-how may choose to keep it secret.

This secret and confidential know-how is also exclusively awarded to the owner and third parties may be excluded from use of that know-how.

Under trademark law a mark must be used within five years of registration in order to maintain exclusive rights in the mark, thus giving third parties the opportunity to obtain rights in the mark if it has not been sufficiently used by the owner. In contrast, patent law does not lay down such a strict requirement. In principle, the owner of a patent is not required to use the protected technology. Rather, often further technical developments have taken place which supersede the protected technology. In such cases the owner may not feel the need to use the technology itself. Nevertheless, the patent may still serve as a deterrent for third parties and may also preclude them from using the protected technology. In particular, if the further developed technology is in itself subject to patents, the IP rights owner can slowly build up a portfolio covering various aspects of an invention, even if only part of the portfolio is used by the owner itself.

In general, blocking competitors from using a certain technology without the rights owner actually needing to use that specific technology itself is not prohibited. It is inherent in patent legislation and serves as an incentive for further technical innovation and development as it forces competitors to find solutions to circumvent the patented technology.

Nevertheless, competition law may set limits on this. There is an inherent conflict between the monopolies created by IP rights and the freedom of competition and market opportunities which all market participants should have. Although in general IP rights prevail and the existence of an IP right as such does not affect competition in an illegal manner, there may be circumstances in which certain limits are imposed on the exercise of IP rights. This is particularly the case where the rights owner has a dominant market position. Obviously, it must be carefully assessed whether the dominant position is the result of the IP right itself or whether other factors have contributed, and if so to what extent.

The stronger a market position is and the less competition there is (eg, as a result of a lack of competitors), the stricter the limits imposed by competition law will be. Patents which are not exploited by practising the invention, but which are mainly used to block others and prevent third parties from entering the market with a similar technology, may be seen as obstacles to competition which go beyond the limits of IP rights. In such cases the IP owner may be forced to practise the patented technology. Another solution may be to grant a compulsory licence to a third party that would otherwise be unable to enter the market.

Certainly, this rule should be applied only in exceptional cases and under specific circumstances. However, every IP owner must be conscious of the problems which occur when a portfolio of IP rights is established and is used against third parties to keep them out of the market. The authorities whose duty it is to safeguard the freedom of competition are highly sensitive in such situations and may react in favour of third parties, in particular where the scope of the portfolio is rather broad.

Patent licensing and pools

Patent licensing and patent pools create specific problems which are critical in the context of competition law. While the licensing of patents as such is one way to make the technology available to the public and to disseminate it in the market, nevertheless there may be circumstances in the relationship between the IP owner and the licensee which make the behaviour of the parties incompatible with competition law. In particular, licence agreement provisions which limit the freedom of one of the parties (usually but not always the licensee) to act under the licence agreement on the market are critical, and in most cases unlawful. In the European Union, a legal framework has long been established which gives guidance to the parties as to which clauses in a licence agreement may be tolerated and which are unacceptable and prohibited.

In general, any limitation which goes beyond the scope of the IP right and which would not be allowed for the patentee itself cannot be imposed on the licensee either. For example, this applies to provisions which limit the licensee to certain markets or customers, or which force it to grant certain conditions to customers (eg, minimum prices, limitations of the amount of licensed goods). When the patentee tries to use a licence agreement to regulate the market, this will be prohibited by competition law and will trigger actions by the competent authorities. Only where the parties to the licence agreement are of a size which might let them appear not significant for the market as a whole may broader exceptions be applicable, according to a *de minimis* rule. Therefore, a careful assessment of what the parties intend to agree to in a licence contract and of the market as a whole is inevitable to avoid an unexpected awakening.

Further problems occur when both parties own IP rights which are then cross-licensed to each other in the agreement. Such cross-licence agreements may have a tendency to exclude third parties, and to regulate the

> **Patents which are not exploited by practising the invention, but which are mainly used to block others and prevent third parties from entering the market with a similar technology, may be seen as obstacles to competition which go beyond the limits of IP rights**

market and the competition between the two parties so that competition law is immediately affected. This situation often occurs between two licensors which together are quite strong on the market, so that it is even more difficult for smaller competitors either to enter the market or to compete when they face the two licensors as a bloc. Therefore, a thorough check of a cross-licence agreement and its potential discriminatory effect for third parties is highly recommended.

Patent pools are in an even more difficult situation. They are characterised in that a general agreement is concluded between several IP owners which contribute their intellectual property to the pool and which allow each member of the pool to use the intellectual property under certain conditions which, in principle at least, are equal for all members of the pool. Here the problem of discrimination against outsiders is even more obvious than in other cases of cross-licences. As long as the pools are open to third parties and are not 'closed shops', a more liberal approach may be applicable. On the other hand, closed pools will face a more rigid regime.

Many companies have become extremely careful in sharing information about their behaviour on the market (eg, the conditions they grant to customers or licensees). The exchange of information between competitors is not necessarily anti-competitive, but may cause the parties to concert their behaviour, which again might be seen as limiting competition. Consequently, a more reluctant policy can be observed, mainly in regard to multinational companies, when it comes to sharing such information with competitors.

Patent litigation

Patent litigation has become the focus of attention since the European Commission launched its sector inquiry in the pharmaceutical sector. A number of questions in this inquiry also related to litigation. In principle, the enforcement of an IP right cannot be criticised as violating the rules of competition law. The sector inquiry has highlighted certain problems which arise from specific ways of conducting litigation.

Litigation may also be used not with the purpose of safeguarding the rights of the IP owner, but rather to put additional pressure on a competitor in order to gain market power. Examples are multinational litigation proceedings in parallel or wilfully asserting claims against a defendant based on invalid patents. To be fair, this occurs in the minority of cases and any conclusions from the pharmaceutical sector inquiry should be drawn carefully. Although it is very difficult, and most likely impossible, to generalise those findings for the entire pharmaceutical industry, and even beyond that for other business sectors, the inquiry has certainly encouraged the authorities to pay more attention to IP litigation in other fields. And defendants will likely try to get away with a defence which claims that the litigation started against them is anti-competitive as such.

Therefore, it is vital for the plaintiff to show that it is pursuing its legitimate rights under the patent or other IP rights which have been conveyed to it, and that initiating the litigation does not put excessive pressure on the defendant. This should not stop the patentee from taking those steps, but requires a careful assessment of the strategy and the escalation involved.

Other IP rights

Other IP rights are less critical than patents. Nevertheless, there have been extensive investigations in the past, particularly in the field of copyright licence agreements and provisions which force the licensee to purchase other copyright works together with the main licensed product. A vivid example is the software business, where the licensing of one product may be linked to other licences as well, which then limits the licensee more than is necessary.

The same may apply to trademarks. Obviously a trademark does not prevent a third party from offering a certain product on the market, but only excludes that party from the use of a specific designation. Under certain circumstances, the use of a trademark or of an entire trademark family and the exercise of rights conveyed to the trademark owner against third parties may lead to a limitation of competition, depending on whether the trademark owner has a dominant position on that market.

Conclusion

Competition law plays an increasing role in the assessment of business actions undertaken by enterprises with regard to their intellectual property in various situations. Therefore, it is crucial for companies to check and assess their IP strategies, as well as the way in which they deal with their existing intellectual property in the market – be it as a licensor, a member of a patent pool or a plaintiff – when enforcing IP rights against third-party infringers. In all circumstances it is inevitable to take competition law into consideration and to evaluate the effect which the business actions may have on the national or international competition in that specific market.

Jochen Bühling
Partner
Tel +49 211 440 3370
Email jochen.buehling@krieger-mes.de
Krieger Mes & Graf v der Groeben
Germany

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