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# Licensing of IP rights and competition law – Note by the EU

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More documents related to this discussion can be found at

http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm

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# *EU*[1]

## 1. Licensing and Competition Law in the European Union

1. The relationship between the licensing of intellectual property rights ("IPRs") and competition law in the European Union ("EU") is well summarised in the preamble of the Technology Transfer Guidelines issued by the European Commission (also referred to simply as the "Commission"). In this text, two main messages are conveyed: first, it is stated that the fact that intellectual property laws grant exclusive rights of exploitation does not imply that IPRs are immune from competition law intervention; and second, it is made clear that IPRs and competition policy should work in a similar direction insofar as both bodies of law share the same basic objective of promoting consumer welfare and an efficient allocation of resources.[2]

### 1.1. General framework applicable to IPR licensing under EU competition law

2. The full applicability of competition law to IPRs and the acknowledgment of their complementary objectives constitute the primary explanation of how the law of the EU deals with IPR licensing.

3. Most notably, this means that Article 101 of the Treaty on the Functioning of the European Union ("the Treaty") – which sanctions anticompetitive agreements and concerted practices –, Article 102 of the Treaty – sanctioning the abuse of a dominant position – and also the Merger Regulation[3] – establishing a pre-notification system for mergers of a "Community dimension" – will be fully applicable to situations or transactions involving IPRs or the licensing thereof.

4. Equally, both Articles 101 and 102 of the Treaty, as well as the Merger Regulation leave room for analysing efficiencies that may be brought about by IPRs. These efficiencies include the need to reach a widespread distribution of the different technologies and creations protected by IPRs.

5. This balance between licensing of IPRs and competition law in the EU was already a reality with the adoption of Regulation (EEC) No 2349/84[4] and Regulation (EEC) No

[1] Directorate-General for Competition, European Commission (hereafter "the Commission").

[2] Communication from the Commission — Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, OJ C 89, 28.3.2014, p. 3–50, para.7.

[3] Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the "Merger Regulation"), OJ L 24, 29.01.2004, p. 1-22.

[4] Commission Regulation (EEC) No 2349/84 of 23 July 1984 on the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreement, OJ L 219, 16.08.1984, p. 15-24.

556/89[5] governing the issuance of 'individual exemptions' by the Commission to patent and know-how licensing agreements respectively. A few years later, Regulation (EC) No 240/96[6] replaced these two group exemptions in the drive for simplification of the previous rules.

6. With the adoption of Council Regulation (EC) No 1/2003[7] and its entry into force in 1 May 2004, European competition law moved towards a self-assessment regime, which is still in force today. According to this system, the Commission no longer needs to grant individual exemptions, but the burden is shifted to companies which have to self-assess their licensing agreements in order to ensure that they are legally valid and, thus, enforceable. This change of framework coincided with the adoption of a new simpler Regulation on technology transfer agreements.[8] The underlying principles enshrined in this Regulation are preserved in the current regime, which is best portrayed by Regulation (EU) No 316/2014, better known as the Technology Transfer Block Exemption Regulation or "TTBER".[9]

7. The aforementioned developments broadly reflect the approach adopted in the OECD IP Recommendations. In line with the latter, EU competition law recognises that the licensing of IPRs can positively stimulate competition by boosting access to IPRs throughout the market. At the same time and also in accordance with the OECD IP Recommendations, EU competition law recognises that certain business practices involving licensing of IPRs may be harmful for competition.

## 1.2. The particular case of Article 101 of the Treaty and the licensing of IPRs

8. Article 101 of the Treaty governs the applicability of EU competition law to agreements that may have as their object or effect the restriction of competition. Since every IPR licensing arrangement requires the conclusion of an "agreement" between two or more parties, Article 101 entails a particular importance.

9. Article 101 of the Treaty is structured as a two-step test: whereas Article 101(1) of the Treaty prohibits all agreements having as their object or effect the restriction of competition, Article 101(3) of the Treaty allows for the balancing of pro-competitive

[5] Commission Regulation (EEC) No 556/89 of 30 November 1988 on the application of Article 85 (3) of the Treaty to certain categories of know-how licensing agreements, OJ L 61, 04.03.1989, p. 1-13.

[6] Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85 (3) of the Treaty to certain categories of technology transfer agreements, OJ L 31, 09.02.1996. This Regulation reflected a less strict competition assessment of license agreements.

[7] Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ L 1, 4.1.2003, p. 1-25.

[8] Commission Regulation No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123, 27.04.2004. This Regulation was regarded as simpler and more flexible than Regulation No 240/96; it broadly adopted the same approach than the Vertical Block Exemption Regulation.

[9] Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements, *OJ L 93, 28.3.2014, p. 17–23.*

effects against the negative effects on competition. More specifically, according to Article 101(3) of the Treaty, the prohibition of Article 101(1) of the Treaty may be declared inapplicable where an agreement or concerted practice contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and the agreement or concerted practice does not (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of those objectives, and (b) afford those undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

10. Building on this general test, there exists secondary legislation that is of relevance to the assessment of IPRs under EU competition law. This secondary legislation is intended to provide legal certainty for companies entering into certain types of agreements and takes the shape of so-called Block Exemption Regulations or "BERs".

11. Each BER establishes a presumption allowing a certain category of agreements falling within Article 101(1) of the Treaty to be regarded as satisfying all the conditions laid down in Article 101(3) of the Treaty, and therefore allowing some types of agreements to benefit from a sort of "safe harbour". The most notable BERs with relevance for the licensing of IPRs are the Technology Transfer BER or "TTBER", the Vertical BER or "VBER",[10] the Research & Development BER or "R&D BER"[11] and the Specialisation BER.[12]

12. Guidelines building on these BERs which are of special relevance for the licensing of IPRs are those accompanying the Technology Transfer BER and the Vertical BER[13]. The Horizontal Guidelines[14], which do not accompany a single BER but apply to most types of horizontal agreements, also contain some references to the applicability of competition law to IPRs. A more detailed analysis of these pieces of secondary legislation and guidelines is provided in Section 2 of this Contribution.

13. The conclusion on how IPR licensing agreements are regarded under Article 101 of the Treaty (and by extension under all Union competition rules) is, again, well

[10] Commission Regulation (EU) No 330/2010 of 20 April 2010 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, *OJ L 102, 23.4.2010, p. 1–7.*

[11] Commission Regulation (EU) No 1217/2010 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 research and development agreements, *OJ L 335, 18.12.2010, p. 36–42.*

[12] 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, OJ L 335, 18.12.2010, p. 43–47.

[13] Guidelines on Vertical Restraints, *OJ C 130, 19.5.2010, p. 1–46.*

[14] Communication from the Commission — Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements ("Horizontal Guidelines"), *OJ C 11, 14.1.*2011*, p. 1–72.*

summarised by the TTBER Guidelines: *"The great majority of licence agreements are therefore compatible with Article 101."*[15]

## 2. Advocacy and Guidance in relation to IPR Licensing under EU Competition Law

14. As briefly introduced in Section 1, under EU competition law there exists substantive secondary legislation and guidance as regards the treatment of licensing arrangements. The presence of this type of interpretative rules as regards the intellectual property field is especially prominent in relation to Article 101 of the Treaty.[16]

15. Secondary legislation concerning Article 101 of the Treaty mainly takes the shape of BERs and Guidelines. Whereas BERs codify categories of agreements commonly meeting the conditions for exemptions under Article 101(3) of the Treaty, the Guidelines mainly summarise and interpret the case-law of the Court of Justice of the European Union ("CJEU").[17] These Guidelines also provide practical examples of how to assess the compatibility of certain conduct with competition law rules.

16. Both BERs and Guidelines are adopted by the Commission and are reviewed at regular intervals. They are also commonly used for the assessment of competition cases both at EU[18] and national[19] level, as well as by the CJEU.[20]

[15] See para 9 of the Technology Transfer Guidelines.

[16] A handful of instruments related to Article 102 of the Treaty and the Merger Regulation make punctual references to IPRs. See, for example, Communication from the Commission — Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, OJ C 45, 24.2.2009, and Commission Regulation (EC) No 802/2004 of 7 April 2004 implementing Council Regulation (EC) No 139/2004 on the control of concentrations between undertakings, OJ L 133, 30.4.2004, p. 1–39.

[17] Relevant recent cases which have influenced the BERs include, for example, Case C-457/10, *Astra Zeneca v Commission*, EU:C:2012:770; Joined Cases C-501/06 P, C-513/06 P, C-515/06 P and C-519/06 P, *GlaxoSmithKline Services and Others v Commission and Others*, EU:C:2009:610, paras 59 to 64; Case C-8/08, *T-Mobile Netherlands and Others*, EU:C:2009:343, , paras 31 and 36 to 39 and Case C 32/11, *Allianz Hungária Biztosító and Others*, EU:C:2013:160, paras 33 to 38.

[18] See, for example, para 162 of Case AT. 39226 – *Lundbeck*; para 1187 of Case AT. 39612 – *Perindopril (Servier)*; para 183 of Case AT. 39985 – *Motorola - Enforcement of GPRS Standard Essential Patents*. For examples of references to the Vertical Guidelines, see also para 127 of Case AT.40428 – *Guess*; para 165 of Case AT. 40182 – *Pioneer.*

[19] See, for example, decision by the Spanish Competition Authority in Case S/0316/10 – *Sobres de Papel*, p 23-24, 252. The decision was readopted in Case VS/0316/10, after the Supreme Administrative Court required the NCA to recalculate the amount of fines imposed. For examples of references to the Vertical Guidelines, see decisions by the German Competition Authority in Case B6 – 132/14 – *CTS Eventim*, para 107; Case B9-66/10 – *HRS – Best Price Claus*es, para 146; Case B9-121/13 – *Booking,* para 275.

[20] See, for example, Case T-470/13, *Merck v Commission*, EU:T:2016:452, para 112; Case T-684/14, *Krka v Commission*, ECLI:EU:T:2018:918, para 130; and Case T-680/14, *Lupin Ltd v Commission*, EU:T:2018:908, para 85.

17. The main pieces of secondary legislation and guidelines dealing with IPRs, as well as a brief description of the way in which they apply are presented immediately below.

## 2.1. Common elements to all BERs

18. Before providing an explanation on the different BERs, there are a number of elements that are common to all BERs and can be pointed out:

1. First and foremost, the fact that an agreement does not benefit from the safe harbour in the BERs does not mean that the agreement is automatically prohibited under EU law: the block exemption of agreements is based on the presumption that — to the extent that they are caught by Article 101(1) of the Treaty — those agreements fulfil the four conditions laid down in Article 101(3). At the same time, there is no presumption that technology transfer agreements falling outside the block exemption are caught by Article 101(1) or fail to satisfy the conditions of Article 101(3) of the Treaty.[21]
2. BERs generally apply only as long as certain market share thresholds are not exceeded. Once those market share thresholds are exceeded, the agreements cannot be regarded as benefitting from the safe harbour in the BERs.
3. Certain types of clauses will never enjoy the protection of the safe harbour from the BERs. There are generally two groups of clauses which cannot benefit from the safe harbours that the different BERs provide:
    - So-called "hardcore restrictions" are the most egregious type of clauses and the presence of one of them automatically brings the whole agreement outside the safe harbour of the BER. These hardcore restrictions generally include price-fixing clauses and output restrictions. The Commission considers that these hardcore restrictions are restrictive by their very object and are thus unlikely to fulfil the conditions for exemption of Article 101(3) of the Treaty.[22]
    - Some BERs also list so-called "excluded restrictions", which may not benefit from the protection of the BER. The presence of these excluded restrictions in an agreement does not mean that the rest of the agreement cannot benefit from the safe harbour of the BER, if the remainder of the agreement is severable from the excluded restriction(s).[23]
4. Even for agreements falling under a BER and hence benefitting from their safe harbour, there always exists the possibility for the Commission to "*withdraw the benefit of this Regulation, pursuant to Article 29(1) of Regulation (EC) No 1/2003*".[24]

[21] See, for example, paras 41 and 43 of the Technology Transfer Guidelines.

[22] See, for example, paras 14 and 18 of the Technology Transfer Guidelines.

[23] See, for example, para 128 of the Technology Transfer Guidelines.

[24] See, for example, Article 29(1) of Council Regulation (EC) No 1/2003. See Recital 17 and Article 6 of the TTBER; Recital 13 of the VBER; Recital 19 of the R&D BER; Recital 13 of the Specialisation BER. For further details on the withdrawal procedure, see the accompanying Guidelines.

## 2.2. Technology Transfer BER and its accompanying Guidelines

19. The TTBER – Commission Regulation (EU) No 316/2014) – is the key element of secondary legislation concerning the application of competition law to licensing agreements. It is also the piece of legislation most commonly used to assess the compatibility of licensing agreements with Article 101 of the Treaty.

20. In short, the TTBER establishes that "technology transfer agreements" between two parties will be presumed to benefit from Article 101(3) and will hence not be subject to the prohibition of Article 101(1) of the Treaty. As with other BERs, the safe harbour is available as long as certain market share thresholds are not exceeded and as long as those agreements do not contain certain "hardcore" or "excluded restrictions". Six elements are important to note in the exemption provided by the TTBER:

1. Only "technology transfer agreements" are covered, meaning that in principle only licensing agreements or assignments of technology rights for the production of contract products will benefit from the TTBER.[25]
2. While agreements involving more than two parties, such as most technology pools, are not covered by the TTBER, "*the Commission will apply by analogy the principles set out in the TTBER*" to those types of agreements.[26]
3. Not all IPRs are covered by the exemption: Article 1 of the TTBER lists a series of IPRs covered by the Regulation. While patents, utility models, design rights, software copyright and others[27] are listed and hence covered by the TTBER, agreements concerning the transfer of other rights such as non-software copyright or trade marks cannot benefit from the TTBER. Having said that, "*[t]he Commission will, however, as a general rule apply the principles set out in the TTBER and these guidelines when assessing licensing of copyright for the production of contract products under Article 101 of the Treaty*." Moreover, for trade mark licences "*directly related to the use, sale or resale of goods and services [which do] not constitute the primary object of the agreement*", the Guidelines explicitly refer to the VBER.
4. The exemption in the TTBER applies as long as certain combined market share thresholds are not exceeded: 20% for competing undertakings and 30% for non-competing undertakings.
5. Hardcore restrictions under the TTBER include price-fixing clauses and most output restrictions.[28]

[25] Article 2(1) of the TTBER, read in conjunction with Article 1(c) of the same Regulation.

[26] Para 57 of the Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements.

[27] Topographies of semiconductor products, supplementary protection certificates for medicinal products or other products for which such supplementary protection certificates may be obtained and plant breeder's certificates are also explicitly mentioned as falling under the TTBER.

[28] Article 4 of the TTBER.

6. Clauses classified as "excluded restrictions" include non-challenge and most types of terminate-on-challenge provisions.[29]

21. The "Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements" complement the TTBER and provide interpretative guidance on the application of its substantive rules to issues such as royalty obligations, field of use restrictions, non-compete obligations or settlement agreements.

22. These Guidelines also provide a framework to examine agreements not covered by the block exemption. A prominent example of this is Section 4.4 of the Guidelines, dealing with technology pools. As briefly outlined above, technology pools would generally not be covered by the TTBER since they usually involve more than two parties. Despite not falling under the scope of the TTBER, the Guidelines dedicate a full section to explain how to maximise the procompetitive effects of those types of agreements in order to ensure their compliance with EU competition law.[30]

## 2.3. VBER and its accompanying Guidelines

23. The VBER – Commission Regulation (EU) No 330/2010 – defines categories of vertical agreements which the Commission regards as normally satisfying the conditions laid down in Article 101(3) of the Treaty. Vertical agreements are agreements between undertakings operating at different levels of the production or distribution chain, and relating to the conditions under which the parties may purchase, sell or resell certain goods or services.

24. While not being focussed on licensing agreements, the VBER may actually at times apply to vertical agreements concerning IPRs. This application is, however, limited "*to vertical agreements containing provisions which relate to the assignment to the buyer or use by the buyer of intellectual property rights, provided that those provisions do not constitute the primary object of such agreements and are directly related to the use, sale or resale of goods or services by the buyer or its customers.*"[31] [emphasis added]

[29] Article 5 (1) (b) of the TTBER. Para 133 of the Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements defines non-challenge clauses as "*direct or indirect* obligations *not to challenge the validity of the licensor's intellectual property*". Para 136 of the same Guidelines describes terminate-on-challenge provisions as clauses allowing "*the licensor to terminate the agreement in the event that the licensee challenges the validity of any of the intellectual property rights that the licensor holds in the Union*".

[30] See Section 4.4 and para 56 of the Technology Transfer Guidelines.

[31] Article 2(3) of the VBER states that the protection of the VBER will only apply "*on condition that, in relation to the contract goods or services, those provisions do not contain restrictions of competition having the same object as vertical restraints which are not exempted under this Regulation*".

25. In a similar manner to the TTBER and other BERs, the VBER exemption also applies to agreements not exceeding a certain market share (30%)[32] and not containing a certain series of "hardcore" and "excluded" restrictions.[33]

26. The principles set out in the VBER are further detailed in its accompanying "Guidelines on Vertical Restraints", which provide guidance for companies in order to be able to self-assess their vertical agreements. Section 4 of the Guidelines is dedicated to "*Vertical agreements containing provisions on intellectual property rights*".

27. Finally, it needs to be noted that on 3 October 2018, the Commission launched the review of the VBER, which is due to expire on 31 May 2022.[34]

## 2.4. R&D BER

28. The R&D BER – Commission Regulation (EU) No 1217/2010 – provides for a block exemption regarding certain categories of agreements, decisions and concerted practices "which have as their object the research and development of products, technologies or processes up to the stage of industrial application, and exploitation of the results, <u>including provisions regarding intellectual property rights</u>." [emphasis added]

29. In a similar manner as the TTBER, a specific mention is made of IPRs:

> *"The exemption provided for in paragraph 1 shall apply to research and development agreements containing provisions which relate to the assignment or licensing of intellectual property rights to one or more of the parties or to an entity the parties establish to carry out the joint research and development, paid-for research and development or joint exploitation, provided that those provisions do not constitute the primary object of such agreements, but are directly related to and necessary for their implementation."*

30. Similarly to what is the case for the VBER, the R&D BER will only apply to licensing agreements if the following cumulative conditions are met: (i) the IPR provisions do not constitute the primary object of such agreements; (ii) certain market share thresholds are not exceeded; and (iii) certain hardcore and excluded restrictions are not present in the agreement. These restrictions concern, for example, output limitations or restrictions as regards the freedom of the parties to carry out R&D activities in unrelated fields (hardcore restrictions), or non-challenge obligations (excluded restrictions).[35]

31. Finally, the applicability of the R&D BER is also subject to certain prerequisites.[36] These prerequisites include the need for all parties to have full access to the final results of

[32] Article 3 of the VBER.

[33] Articles 4 and 5 of the VBER.

[34] The evaluation phase is aimed at gathering evidence on the functioning of the VBER (together with the accompanying Guidelines) in order to decide whether it should be lapsed, prolonged or revised. The evaluation phase will end with the publication of a Staff Working Document foreseen for the first half of 2020.

[35] Article 4 contains the market share thresholds, Article 5 explains the hardcore restrictions and Article 6 the excluded restrictions.

[36] Article 3 sets out these additional conditions for exemption.

the R&D and, under certain conditions, also to any pre-existing know-how of the other parties concerned.

## 2.5. Specialisation BER

32. The Specialisation BER – Commission Regulation (EU) No 1218/2010 – provides a block exemption for specialisation agreements. Specialisation agreements concern situations where two or more parties cooperate on the production and supply of certain products, including situations where one party agrees to cease production of certain products or to refrain from producing those products and to purchase them from the other party.

33. The Specialisation BER applies on condition that the combined market share of the parties to the agreement does not exceed 20% and as long as the specialisation agreement in question does not aim, directly or indirectly, at the fixing of prices, the limitation of output or sales or the allocation of markets or customers ("hardcore restrictions").[37]

34. As with the VBER and the R&D BER, agreements with an IPR component may benefit from the exemption contained in the Specialisation BER "*provided that [provisions which relate to the assignment or licensing of intellectual property rights to one or more of the parties] do not constitute the primary object of such agreements, but are directly related to and necessary for their implementation*".[38] In other words, only specialisation agreements where the IPR provisions are ancillary to the main agreement may benefit from the Specialisation BER.

## 2.6. Horizontal Guidelines

35. The Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements ("Horizontal Guidelines") complement the R&D Block Exemption Regulation and the Specialisation Block Exemption Regulation and provide further details on the principles required to benefit from the exemption in those two BERs. Additionally, the Horizontal Guidelines contain detailed explanation on how to self-assess certain types of horizontal agreements.

36. A specific section is dedicated to standardisation agreements, which are regarded by the Guidelines are "*usually produc[ing] significant positive economic effects*". The Guidelines also mention the following elements as most important to ensure pro-competitive effects of standardisation: unrestricted participation in the standard for companies, transparent procedures for adoption of the standard and rules ensuring effective access to the standard on fair, reasonable and non-discriminatory terms.[39]

37. The main exceptions flagged as "restrictions of competition by object" are those aimed at excluding actual or potential competitors, or those used as a cover to jointly fix prices either of downstream products or of substitute IPR or technology.[40] A detailed

[37] Article 3 contains the market share thresholds and Article 4 explains the hardcore restrictions.

[38] Article 2(2) of the R&D BER.

[39] Section 7.3 of the Horizontal Guidelines.

[40] Section 7.3.2 of the Horizontal Guidelines.

explanation on the potential restrictive effects on competition that standardisation agreements could have is also included in Section 7.3.3 of the Horizontal Guidelines.

# 3. EU Competition Enforcement in the field of IPR Licensing

38. As explained above, the European Commission's general approach and experience from its competition enforcement practice with respect to licensing agreements is contained in the TTBER and its accompanying Guidelines.[41]

39. As the Guidelines make clear,[42] the fact that intellectual property laws grant exclusive rights does not imply that IPRs are immune from competition law intervention. Nor does it imply that there is an inherent conflict between IPRs and the EU's competition rules. As noted above, the Commission considers that both bodies of law share the same basic objective of promoting consumer welfare and an efficient allocation of resources, in particular with respect to innovation. IPRs promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. So does competition by putting pressure on undertakings to innovate.

40. The TTBER and its Guidelines reflect that licensing is in most cases pro-competitive and provide guidance to firms on how to license in ways that stimulate innovation without including anti-competitive clauses that lead, in particular, to the fixing of prices, limiting output, allocating markets or customers or restricting the exploitation of the licensee's own technology.

41. In addition, the Commission has intervened in a few instances in which licensing practices in themselves or together with other behaviour constituted an infringement of the competition rules.

## 3.1. Competition law enforcement related to the licensing of IPRs other than standard essential patents

42. The main area of enforcement of competition law in the IPR field concerns standard essential patents ("SEPs"). There exist, however, a number of enforcement actions outside this field. Action outside SEPs mainly concerns the application of Article 101 of the Treaty in order to achieve a truly integrated European Single Market.

43. For example, in March 2019, the Commission adopted a decision making legally binding the commitments offered by Disney, NBCUniversal, Sony Pictures, Warner Bros. and Sky. In a previous decision of July 2016, the Commission already made legally binding similar commitments offered by Paramount Pictures.[43] In its investigation, the Commission raised preliminary concerns regarding certain clauses in these film studios' licensing contracts for *pay-TV* with Sky UK, which restricted cross-border services. To address these concerns, the parties committed not to enforce existing or include new clauses in their pay-TV output agreements that prevent European pay-TV broadcasters from providing pay-TV services legally available in other EU countries by satellite or the Internet in response to

[41] TTBER; Technology Transfer Guidelines.

[42] Para 7 of the Technology Transfer Guidelines.

[43] Case AT.40023 – *Cross-border access to pay-TV.*

unsolicited requests from European consumers. The commitments apply throughout the European Economic Area ("EEA")[44] for five years and cover both online and satellite pay-TV services. Following the acquisition of Fox by Disney, the commitments also apply to Fox. The Commission's decision concerning Paramount's commitments was appealed by Canal+ and later upheld by the General Court ("GC"). Canal+'s appeal against the GC's judgment before the CJEU is currently pending.[45]

44. Also in March 2019,[46] the European Commission fined sports apparel manufacturer *Nike* €12.5 million for the way in which the company was licensing certain brands in order to allow for the manufacture and distribution of licensed merchandise products by its third party licensees.[47] In this case, the Commission took the view that by banning licensees from selling across the EEA Nike's licensing and distribution agreements unduly restricted out-of-territory sales by licensees and were in breach of EU competition law. Nike achieved this restriction of out-of-territory sales with a plethora of both contractual and non-contractual measures including direct bans, imposition of double royalties for sales outside the territory or by carrying out audits to ensure compliance with the restrictions. The Commission found that such behaviour constituted a restriction of competition by object.

45. In another recent case[48] concerning financial markets, the Commission investigated whether 13 investment banks together with bank-controlled associations *Markit* and *ISDA*, foreclosed market players from establishing exchange-trading of CDS futures. The Commission had concerns that the refusal to license two indispensable inputs may have prevented the migration of CDS trading from OTC markets (where dealer banks were the intermediary) to regulated, exchange traded venues. The first indispensable input was the set of Markit controlled CDS indices (CDX and iTraxx) which at the time constituted 90% of global trading; and the second was the ISDA controlled de facto auction standard "final price". On 20 July 2016, Market and ISDA entered into parallel 10-year commitments, including governance changes to reduce bank influence over licensing decisions and FRAND licensing of inputs.

46. In the field of IPR licensing, it is also worth mentioning the Commission's investigation concerning *Thomson Reuters*' Instrument Codes insofar as it was pursued under Article 102 of the Treaty, which sanctions the abuse of a dominant position.[49] In this investigation, the Commission had concerns that Thomson Reuters could be abusing its dominant position in the market for consolidated real-time datafeeds through the licensing

[44] The European Economic Area is made up of all the Member States of the EU as well as Iceland, Liechtenstein and Norway.

[45] Case T-873/16, *Groupe Canal* +, EU:T:2018:904. Appeal before the Court of Justice C-132/19 P.

[46] Case AT.40436 – *Ancillary sports merchandise.*

[47] Licensed merchandising products are extremely varied (e.g., mugs, bags, bedsheets, stationery, toys) but all carry one or more logos or images protected by IPRs, such as trademarks or copyright. Through a licensing agreement, one party (a licensor) allows another party (a licensee) to use one or more of its IPRs in a certain product. Licensors typically grant non-exclusive licenses to increase the number of merchandising products in the market and their territorial coverage.

[48] Case AT.39745 *CDS - Information market*.

[49] Case COMP/39654 – *Reuters Instrument Codes*.

practices implemented as regards its IPR-protected Instrument Codes. In December 2012, a commitments Decision under Article 9 of Regulation (EC) 1/2003 brought the investigation to an end by making certain commitments binding on Thomson Reuters. In a move seeking to allow for a broader licensing of its codes, Thomson Reuters committed to creating a new licence allowing customers, for a monthly fee, to use its Reuters Instrument Codes for data sourced from its competitors. The new licence meant that financial institutions could switch codes without needing to rewrite their applications.

## 3.2. Competition law enforcement related to the licensing of standard essential patents

47. The area of licensing in which most enforcement actions have been pursued is that of SEPs. SEPs are patents covering technology that reads on a standard without which it is impossible to manufacture standard-compliant products.[50]

48. Standards are of particular importance for innovation and growth. They ensure interoperability and can facilitate the creation and integration of markets, foster positive feedback loops, reduce uncertainty in the market place and lower costs and prices for downstream products.[51]

49. An important building block in many standard-setting efforts is the interplay of standards and IPRs, in particular patents. On the one hand, patent holders must be sufficiently rewarded for contributing their technology and participate in standard-setting. On the other hand, standard-setting creates a specific competition law context, not at least because the standard-setting in most cases eliminates pre-existing technology competition. Depending on the context, standardisation may sometimes be misused to enable patent holders to engage in anti-competitive behaviour, for example by "holding-up" standard implementers after the adoption of the standard either by refusing to license the necessary SEP or by extracting excessive royalty fees or other anti-competitive terms.[52]

50. Standard-setting organisations typically try to balance these interests in their IPR policies, in particular by requiring their members to disclose their standard-essential patents and to commit to license these on (fair) reasonable and non-discriminatory ("RAND" or "FRAND") terms.[53]

51. Against this background, the Commission has several times investigated issues related to SEPs and FRAND commitments. For instance, the Commission investigated allegations that *Rambus* infringed obligations it had adopted under a standard-setting organisation and which obliged it to disclose all patents that it considered essential for the

[50] SEPs are different from patents that are not essential to a standard ("non-SEPs"), because companies can generally find alternative solutions that do not infringe a non-SEP (whereas they cannot design around a SEP).

[51] See, for example,, Horizontal Guidelines, p. 1, para 263; OECD, Policy Roundtable on Standard Setting, Background Note, DAF/COMP(2010)33, pp. 25-30.

[52] FRAND Commitments can prevent patent holders from engaging in such anti-competitive behaviours. See, for example, Horizontal Guidelines, para 269.

[53] See, for instance, the IPR Policy of the European Telecommunications Standards Institute, Sections 4 and 6, available at: http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf.

standards (so-called "patent ambush").[54] The investigation ended with a commitment decision according to which Rambus capped its royalty rates for products compliant with the relevant standards.[55] The Commission furthermore investigated *IPCom* for allegedly not honouring a FRAND commitment related to patents that it had acquired from a member of a standard-setting organisation.[56] Following the Commission's investigation, IPCom declared that it was willing to be bound by the FRAND commitment given by the original SEP holder.

52. The last two Commission decisions in this area date from 2014 and focused on the use of injunctions on the basis of FRAND-encumbered SEPs in the context of the so-called "smartphone patent wars".[57]

53. In the first decision, the Commission concluded that Motorola Mobility (*Motorola*) abused its dominant position by seeking and enforcing an injunction against Apple before the German courts on the basis of a SEP which it had committed to license on FRAND terms.[58]

54. The second Commission decision rendered commitments offered by Samsung Electronics (*Samsung*) legally binding. According to these commitments, Samsung refrained from seeking injunctions in Europe for a period of five years on the basis of its SEPs for smartphones and tablets against licensees who signed up to a specified licensing framework and agreed to have the FRAND terms set by a court or arbitrator.[59]

55. The Commission's approach in both cases was that seeking injunctions before courts is generally a legitimate remedy for patent holders in case of patent infringements. However, the seeking of an injunction based on SEPs may constitute an abuse of a dominant position if a SEP holder has given a voluntary commitment to license its SEPs on FRAND terms and the company against which an injunction is sought is willing to enter into a licence agreement on such FRAND terms.[60]

56. In terms of overall approach and appropriate remedy, the two Commission decisions aimed at striking a balance between the aforementioned interests of licensees to get access to SEPs on FRAND terms for the manufacturing of standard-compliant products and the interests of SEP holders to get a fair return for their investments. SEP holders are

[54] For a summary of this case, see the European Union's contribution to OECD, Policy Roundtable on Standard Setting, DAF/COMP(2010)33, pp. 199-202.

[55] Case COMP/38.636 – *Rambus.*

[56] For a summary of the case, see the European Union's contribution to OECD, Policy Roundtable on Standard Setting, DAF/COMP(2010)33, p. 199.

[57] See the European Union's contribution to the OECD Policy Roundtable on Intellectual Property and Standard Setting, DAF/COMP/WD(2014)117, paras 17-39.

[58] Case AT.39985 - *Motorola - Enforcement of GPRS standard essential patents*.

[59] Case AT.39939 - *Samsung - Enforcement of UMTS standard essential patents*.

[60] The decisions made clear that challenging the validity and infringement of the concerned SEPs does not make a potential licensee unwilling to enter into a FRAND licensing agreement (for all valid and infringed SEPs).

entitled to FRAND terms and conditions and can enjoin implementers that are unwilling to take a licence on such terms.

57. The Commission's approach has been confirmed by the CJEU in *Huawei v ZTE*.[61] In its preliminary ruling, the Court even went beyond the Commission's approach by setting out several steps for: (i) owners of SEPs to avoid that their seeking of injunctions can be considered anticompetitive; and (ii) alleged infringers of those SEPs to show that they are willing to take a licence on FRAND terms and should thus not be subject to injunctions. The *Huawei v ZTE* ruling has been widely applied by national courts in applications for injunctions. More than 40 judgments and orders flesh out the respective steps set out by the CJEU, such as the content and timing of an offer or counter-offer on FRAND terms.[62]

58. While the injunction issue and the smartphone patent wars have subsided, other issues related to the licensing of SEP patents may arise in the future, in particular with respect to the Internet of Things, Artificial Intelligence and with industries integrating wireless communication technologies into their products.[63]

### 3.3. Competition law enforcement related to refusal to license

59. A final issue with respect to the application of competition rules to licensing practices is the question of whether the holders of intellectual property can refuse or are obliged to license. As a general rule, undertakings are free to choose their business partners and whether or not to license their intellectual property. This rule also applies to dominant undertakings. However, in exceptional circumstances the refusal to license competitors can amount to an abuse of a dominant position.

60. Pursuant to the case-law of the EU Courts the following circumstances, in particular, must be considered exceptional: (i) the refusal relates to a product or service indispensable to the exercise of a particular activity on a neighbouring market; (ii) the refusal is of such a kind as to exclude any effective competition on that neighbouring market; and (iii) the refusal prevents the appearance of a new product for which there is potential consumer demand or limits technical development.[64] Once the presence of these

[61] Case C-170/13, *Huawei Technologies*, EU:C:2015:477.

[62] German Courts are the forum of preference for SEP disputes. See, *e.g.,* Mannheim District Court (LG Mannheim), Case No. 7 O 66/15, *NTT DoCoMo v. HTC*, 29 January 2016, paras 73, 74, 76 and 77, which provide further details on the conditions to notify, to make a licensing offer and on the issue of the appropriate counter-offer on the part of the user of a SEP. See also Dusseldorf District Court (LG Dusseldorf), Case No. 4a O 93/14, *Sisvel v. Haier*, 3 November 2015, para. 176, and Mannheim District Court (LG Mannheim), Case No. 2 O 106/14, *Saint Lawrence v. Deutsche Telekom,* para 271, which clarify the condition to make a licensing offer.

[63] At the end of 2017, the Commission adopted a Communication entitled "Setting out the EU approach to Standard Essential Patents", which laid out the Commission's holistic view on a general licensing framework for SEPs in particular against the backdrop of the emerging Internet of Things (COM(2017) 712 final). Key aspects of that framework focused on (i) a more transparent environment for negotiations between SEP holders and potential licensees, (ii) valuation principles for SEP technology, and (iii) a balanced and predictable enforcement regime.

[64] Case T-201/04 *Microsoft v Commission*, EU:T:2007:289, para 332.

circumstances are established, it is upon the holder of the dominant position to show that the refusal is objectively justified.

61. This exceptional circumstances test was first adopted by the CJEU in the *Magill* case.[65] Following *Magill*, the CJEU further developed the doctrine in the *Bronner*,[66] *IMS Health*[67] and *Microsoft*[68] cases.

62. In the *Microsoft* decision,[69] the Commission rejected Microsoft's argument that its refusal was justified because the interface information was protected by IPRs. However, the Commission assesssed the impact on Microsoft's incentives to innovate of an obligation to supply in this case. In the first place, the Commission concluded that an order to supply the relevant information could not lead to the cloning of Microsoft's product. In the second place, the Commission took account of the fact that disclosure of interoperability information was commonplace in the industry. In the third place, the Commission drew inspiration from the *IBM* undertaking[70] and the Software Directive[71], which strikes a balance between interoperability and copyright in restricting in specific circumstances the exercise of copyright over software in favour of interoperability, thereby stressing the importance of interoperability in the software industry in order to enhance competition and innovation.

63. The Commission ordered Microsoft to provide access to the interoperability information but allowed it to request a remuneration under reasonable and non-

[65] Joined cases C-241/91 P and C-242/91 P *Radio Telefis Eireann (RTE) and Independent Television Publications Ltd (ITP) v. Commission*, EU:C:1995:98.

[66] Case C-7/97, Bronner, EU:C:1998:569.

[67] Case C-418/01 *IMS Health*, EU:C:2004:257, although confirming that the IMS' refusal to license might constitute an abuse of a dominant position, the CJEU left the ultimate decision on whether, given the circumstances of the case, IMS' refusal amounted to an abuse, to the national court.

[68] Case T-201/04 *Microsoft v. Commission*, EU:T:2007:289.

[69] The decision and related information are available here http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=1_37792. For a summary of the decision, see, *e.g.*, Nicholas Banasevic, Jean Huby, Miguel Pena Castellot, Oliver Sitar and Henri Piffaut, "Commission adopts Decision in the Microsoft case", available at http://ec.europa.eu/competition/publications/cpn/2004_2_44.pdf.

[70] Undertaking made by IBM to the Commission in Case IV/29.479. As part of that undertaking, IBM agreed to disclose, in a timely manner, sufficient interface information to enable competing companies in the back-then European Community (now EU) to attach both hardware and software products of their design to IBM's System/370 computer range. Furthermore, IBM agreed to disclose adequate and timely information to competitors to enable them to interconnect their systems or networks with IBM's System/370 using a set of network protocols which IBM had developed.

[71] Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, OJ L 122, 17.5.1991, p 42-46. The content of Directive 91/250/EEC was amended by Council Directive 93/98/EEC of 29 October 1993 harmonising the term of protection of copyright and certain related rights. In the interests of clarity and rationality, the Software Directive was later been codified by Directive 2009/24/EC of 23 April 2009 on the legal protection of computer programs (codified version), OJ L 111, 5.5.2009, p. 16–22, which is the one currently in force.

discriminatory terms to sufficiently preserve Microsoft's incentive to include innovative features in.[72]

64. In reviewing the case on appeal, the GC sided with the Commission and agreed to adopt a more flexible stance on the "new product" condition of the exceptional circumstances test. More concretely, the judgement relaxed the criteria by clarifying that a refusal to license might constitute an abuse of dominance position not only if it prevents the development of a new product, but also if it gives rise to a limitation of technical development[73].

[72] However, the Commission and Microsoft disagreed about what constituted a reasonable remuneration for access to or use of the interoperability information. The dispute lead to another Commission decision, which was finally upheld by the General Court in T-167/08 Microsoft v Commission, EU:T:2012:323.

[73] Case T-201/04 *Microsoft v. Commission*, EU:T:2007:289, para. 647.