Competition-IP Interface: Transactions, Collaboration, and Unilateral Conduct (Germany)

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A Practice Note considering the interface between competition law and intellectual property (IP) law. This Note discusses: mergers and acquisitions (M&A); licensing, collaboration, or other arrangements; and unilateral conduct, relating to the commercialisation of IP in Germany. This helps private practice lawyers and in-house counsel manage the legal risks commonly associated with the transfer or use of IP, including merger control, joint ventures, collaboration agreements, exclusivity, territorial or customer restrictions, excessive pricing, pay for delay agreements, divisional patents, and disparagement campaigns.

Companies can encounter the interface between competition law and IP when IP rights:

- Are transferred as part of a transaction.
- Form the subject of a collaboration.
- Lead to disputes and litigation.

Within these scenarios, there can be a tension and sometimes conflict between competition and IP considerations. In certain circumstances, companies are under a special responsibility not to exploit their IP in ways that would otherwise be considered ordinary business practices. This is particularly the case where competitors are involved.

Accordingly, companies (and their counsel) should have an appreciation of the complex interplay between the competition and IP rules. This Note explores this interface and provides guidance to help manage the risks.

Regulatory Framework

General Competition Law

Articles 101 and 102 of the *Treaty on the Functioning of the European Union* (TFEU) are the primary EU competition law provisions:

- Article 101(1) of the TFEU prohibits agreements between undertakings (that is, businesses), decisions by associations of undertakings or concerted practices that may affect trade between EU member states and have as their object or effect the prevention, restriction, or distortion of competition within the EU.
- Article 102 of the TFEU prohibits the abuse by one or more undertakings of a dominant market position within the EU (or a substantial part of it) in a way which may affect trade between EU member states.

These are supplemented by several EU block exemption regulations and related Guidelines issued by the European Commission (Commission). For more information on EU competition law, see *Practice Note, EU Competition law: overview*.

Agreements involving IP rights can benefit from safe harbours from the application of Article 101(1) of the TFEU under various block exemption regulations, including:

- The *Technology Transfer Block Exemption Regulation ((EU) 316/2014)* (TTBER).
- The *Horizontal Block Exemption Regulations (R&D) ((EU) 2023/1066)* (RDBER).
- The *Horizontal Block Exemption Regulations (Specialisation) ((EU) 2023/1067)* (SBER).
- The *Vertical Block Exemption Regulation ((EU) 2022/720)* (VBER).

For more information, see *Safe Harbours for IP Agreements*.

Articles 101 and 102 of the TFEU and the block exemption regulations apply directly in Germany and supersede national competition law. As most cases before the FCO and the German civil courts potentially affect trade between EU member states, these are usually decided based on EU competition law rather than national law.

The German Competition *Act (Gesetz gegen Wettbewerbsbeschränkungen)*(GWB) contains the substantive German law on:

- Cartels (sections 1-3, GWB).
- Abuse of dominance (sections 18-20, GWB).
- Merger control (sections 35-43, GWB).
- Public procurement (sections 97-184, GWB).

The GWB provides for civil law remedies for parties whose rights are infringed by anticompetitive behaviour. The GWB is regularly revised, and the latest (11th) revision came into effect in November 2023.

Another important source of law is the interpretation of the relevant statutory provisions in the decisions of:

- The Commission.
- The FCO.
- The *European Court of Justice* (ECJ).
- The German Federal Court of Justice (*Bundesgerichtshof*) (BGH).

Competition Authorities

The FCO has competence to enforce both German competition law and (if the conduct is likely to affect trade between EU member states) EU competition law in Germany. The FCO can:

- Seize information and material.

- Block mergers.
- Order undertakings to stop anti-competitive behaviour.
- Fine infringing companies.

The Commission has exclusive competence to review mergers if the statutory thresholds under the *EU Merger Control Regulation (139/2004/EC)* (EUMR) are met, that is the merger has a "Community dimension" (Article 1, EUMR). This is the case, for example, if both:

- The combined aggregate worldwide turnover of all involved undertakings exceeds EUR5 billion.
- The aggregate community-wide turnover of each of at least two of the undertakings involved exceeds EUR250 million.

The FCO has jurisdiction over mergers that satisfy the national, but not EU, thresholds (section 35, GWB), and which could, therefore, have an impact on the German market. The FCO can take action if, for example, cumulatively:

- The combined aggregate worldwide turnover of all involved undertakings exceeds EUR500 million.
- The aggregate German turnover of at least one of the undertakings involved exceeds EUR50 million.
- The German turnover of at least one further undertaking exceeds EUR17.5 million.

(Section 35(1), GWB.)

A party can appeal a decision of the FCO to the Higher Regional Court of Düsseldorf, and can further appeal, on grounds of law only, to the BGH. (For more information on merger control in Germany, see *Practice Note, Competition: Private Acquisitions and Joint Ventures (Germany)*).

The Commission and the FCO have the power to fine companies for their anti-competitive behaviour. Fines can reach up to 10% of the annual turnover of a company. There is a statutory ceiling of EUR1 million on fines for natural persons such as CEOs and board members in Germany. See further, *Bundeskartellamt, Cartel fine proceedings*.

Private Enforcement

Any agreement that breaches section 1 of the GWB or Articles 101 and 102 of the TFEU is void *ab initio* (section 134, German Civil Code (*Bürgerliches Gesetzbuch*) (Civil Code)).

Competitors and other market participants affected by anti-competitive behaviour can claim:

- Injunctive relief (section 33, GWB).
- Damages (section 33a, GWB).
- Illicit pecuniary benefits (section 34 GWB).

Competitors or other market players affected by the anti-competitive conduct can claim damages. Illicit pecuniary benefits obtained by violating the competition rules accrue to the public treasury. If the case concerns a refusal to grant access to essential facilities, the claim can be for access on fair, reasonable, and non-discriminatory (*FRAND*) terms (see *Practice Note, FRAND Framework: FRAND and RAND*).

Establishing individual loss from anti-competitive behaviour is often difficult in practice. Therefore, claimants can instead bring a class action for a declaratory judgment on damages under German law. Additionally, the BGH has consistently lowered the standard of proof necessary to show that anti-competitive behaviour has led to a financial loss for the aggrieved party. See:

- *BGH, 23 September 2020, KZR 35/19* (*LKW-Kartell*).
- *BGH, 13 April 2021, KZR 19/20* (*LKW-Kartell II*).
- *BGH, 29 November 2022, KZR 42/20* (*Schlecker*).
- *BGH, 5 December 2023, KZR 46/21* (*LKW-Kartell III*).

Various bundled claims for cartel damages against members of price cartels are currently pending before the German courts.

Competition Authority Jurisdiction

If the Commission clears a notified merger as being compatible with the common market, this decision is binding for the national competition authorities of the EU member states ("one-stop-shop" merger assessment). In a recent decision, the BGH reconfirmed this concept, clarifying that the FCO cannot review or challenge the Commission's clearance of a merger under Article 8(2) of the EUMR.

The FCO can still review the undertaking's conduct for a potential abuse of dominance under Article 102 of the TFEU after the merger or acquisition.

If the FCO orders measures or imposes a fine against the merging companies under Article 102 of the TFEU, these measures must recognise any conditions and obligations ordered by the Commission, including the clearance of ancillary restraints to a merger.

However, companies involved in a merger that has been cleared by the Commission should be aware that the FCO will closely follow their post-merger conduct.

(*BGH, 16 Jan 2024, KVR 78/23*.)

Mergers and Acquisitions Involving IP

There are no specific provisions governing mergers that involve IP.

If an acquisition or merger (for example, a substantial acquisition of shares in an undertaking, the acquisition or strengthening of direct or indirect control over another undertaking, or the formation of a joint venture, as further defined under the EUMR or national law) satisfies the statutory thresholds of Article 1 of the EUMR or section 35 of GWB, the competent authority (Commission or FCO) reviews whether the notified measure would significantly impede effective competition, in particular by resulting in, or strengthening, a dominant position of the parties on the relevant markets (Article 2, EUMR; *Commission Notice (2008/C 95/01)*; section 36 GWB, which provides for a test modelled on Article 2 of the EUMR)).

In assessing market dominance, IP rights can play a decisive role (see the FCO's *Guidance on Transaction Value Thresholds* and *Factsheet, Domestic Effects of Merger Control*). For instance, the acquisition of an IP right (such as a patent), or an exclusive licence to use an IP right, which is a substantial asset of the assignor or licensor, can lead to, or strengthen a dominant position of the assignee or exclusive licensee on the technology market covered by the IP right. The FCO takes specific account of IP rights when assessing whether access to a protected technology will be impeded or foreclosed through the concentration or aggregation of IP involved in the merger (FCO, 18 July 2008, B5-84/08 (*Stihl*); Berlin Court of Appeal (*Kammergericht*), 22 March 1990, Kart 6/89 (*Linde*)).

The importance of IP rights and know-how for the assessment of market dominance is also recognised by the lawmaker. Section 35(1a) of the GWB was recently introduced to address "killer acquisitions" that, due to the factual circumstances of the case, put competition on the relevant market at risk, even though the statutory turnover thresholds are not met. A killer acquisition generally involves a large entity acquiring a small but highly innovative tech company, with the aim of eliminating a market player at an early stage, excluding potential future competition. As the target company's turnover often falls below the EUMR and national thresholds, the new section 35(1a) does not require the target to have a minimum annual turnover, but only that it has "significant activities" in Germany (see *Box, Meta/Kustomer*).

Meta/Kustomer

This case involved the acquisition of Kustomer by Meta Platforms, Inc. (formerly Facebook). The FCO applied section 35(1a) of the GWB, finding that, despite the small size and turnover of Kustomer at that time, its business activity in Germany was "significant," considering the number of monthly active users, datasets and approximated revenues.

The FCO's decision was confirmed by the Düsseldorf Higher Regional Court, which emphasised the FCO's obligation to provide sufficient factual evidence for the "significant activities" requirement under section 35(1a) of the GWB.

(Düsseldorf Higher Regional Court, 23 November 2022, Kart 11/21.)

At EU level, the ECJ's position is that competition law can address killer acquisitions by applying post-merger control under Article 102 of the TFEU, if the turnover thresholds of the EUMR are not met (*Towercast v Autorité de la concurrence and others (Case C449/21) EU:C:2023:207*). The Commission had previously invited the FCO (and other national competition authorities) to notify potential killer acquisitions under Article 22 of the EUMR, even if the applicable national thresholds for merger control notification are not satisfied. However, the ECJ recently rejected the Commission's approach upon appeal (*Illumina, Inc v Commission (Case C-611/22 P) ECLI:EU:T:2024:667*).

For more general information on German merger control, see *Practice Note, Competition: Private Acquisitions and Joint Ventures (Germany)*. For comparative information on merger control, see *Quick Compare Chart, Merger Control*.

Application of Merger Control to IP Transfers

In practice, IP transfers in M&A are usually dealt with under the doctrine of ancillary restraints (see *Competition Restrictions Ancillary to M&A*), or considered as part of the assessment of full-function joint ventures (see *Joint Ventures Involving IP*).

Competition Restrictions Ancillary to M&A

Competition authorities can clear so-called ancillary restraints to competition between the parties as part of the merger control process, if these restrictions are deemed "directly related" (that is, economically linked to the main transaction) and necessary to achieve the legitimate goals of the transaction. For example, it can be considered necessary for a transfer of a business to agree on non-compete obligations of the vendor to give the purchaser of the business time to make full use of the acquired know-how and IP, and keep the business running with existing customers. However, any ancillary restraints should be proportionate as regards duration and scope. For instance, a non-compete obligation is likely to be considered disproportionate, if agreed for longer than three years (paragraph 20, Commission Notice (2005/C 56/03)).

Licences of IP rights of the seller to the purchaser are normally considered necessary to achieve the purpose of a transfer of a business, to the extent these are needed to continue the acquired business (paragraph 28, Commission Notice (2005/C 56/03). However, limitations to the licence scope (for example, territorial limitations or limitations of the fields of application) must be proportionate. The same applies to cross-licences between parent companies and their (full function) joint venture (paragraphs 42 and 43, Commission Notice (2005/C 56/03)). This is particularly the case for cross-licences regarding the parent companies' background IP, which are necessary for the joint venture's business activities.

If the transaction involves the assignment and transfer of IP rights, the effects on competition are assessed under the general merger control rules (see paragraph 24, Commission Notice (2008/C 95/01)). This is because transferring a licence to IP rights (especially patent rights covering products and work methods, or copyright covering software programs) can have the practical effect of a transfer (or even a discontinuation by the licensor) of the operative business associated with those intangible assets. If the transaction is, in essence, limited to the transfer and assignment of an IP right, or to an exclusive licence of an IP right, non-compete clauses between licensor and licensee are likely not considered "necessary," as the IP right affords the assignee with exclusionary rights against third parties (paragraph 21, Commission Notice (2005/C 56/03)).

The parties must assess whether ancillary restraints are directly related and necessary for a given transaction. *Commission Notice (2005/C 56/03)* can serve as a basis for the self-assessment.

Competition Remedies

Both the FCO and the Commission can require the parties to accept obligations designed to remedy any competition concerns as a precondition for clearing a merger.

Remedies can involve divestitures or other measures to maintain market access to technology where the merger would otherwise impede effective competition (section 40(3), GWB; Article 8(2), EUMR). Divestments can involve the sale of IP or the grant of licences to third parties.

BASF/Bayer
The FCO required BASF to grant a licence to certain fungicide patents to a third party as a condition for approving its merger with Bayer Crop Science. The FCO's order required that:

- The licence included the right to produce and sell the patented products.
- The licence had a minimum term of five years.
- The licensee was an active undertaking having the capacity to use the licence.

(FCO, 22 May 2003, B 3-6/03.)

See *FCO Press Release, 10 July 2003*).

Getinge/Heraeus
The FCO required the acquiring party in a merger concerning medical devices to settle certain patent infringement disputes with a third party, to allow for continued competition on a product market where the merged companies planned to be active.

(FCO, 29 May 2002, B 4-171/01.)

Foreign Investment Control

Although the *Foreign Direct Investments (FDI) Screening Regulation ((EU) 2019/452)* sets out a basic framework for harmonised control mechanisms and coordinated investment controls under EU law, it does not provide for centralised EU investment control. Therefore, each member state controls foreign investments based on national regulations.

In Germany, M&A transactions involving foreign investments are regulated by the *Foreign Trade and Payments Act (Außenwirtschaftsgesetz)* (AWG) and the *Foreign Trade and Payments Ordinance (Außenwirtschaftsverordnung)* (AWV). Foreign investors must notify and obtain approval from the *Federal Ministry for Economic Affairs and Climate Action (Bundesministerium für Wirtschaft und Klimaschutz)* (BMWK), if either:

- The merger concerns certain critical sectors such as infrastructure, defence, technology, and healthcare.
- The criteria of section 55 and 55a of the AWV for cross-sectional control are met.

Even if there have been no prohibitions of foreign investments based on concerns over IP rights, cross-sectoral investment control applies to companies developing or manufacturing goods based on patents or utility models covering secret technologies, such as atomic isotope enrichment, encryption technologies, and banknote production (section 55a(1), No. 26, AWV). "Dual-use" technologies and services are also covered (see *Bundestag document 19/29216*, page 32).

For example, the BMWK blocked PPM Pure Metals GmbH's acquisition by Chinese company Vital Material Co. due to national security concerns in 2020. In 2022, the BMWK blocked the acquisition of Siltronic GmbH by Taiwanese company GlobalWafers Co., Ltd., emphasising concerns over technology transfer to China.

Joint Ventures Involving IP

R&D or production joint ventures can be subject to merger control under Articles 3(1)(b) and 3(4) of the EUMR, if they are "full-function" joint ventures. In the *Austria Asphalt* case, the ECJ clarified that a change from sole to joint control of an undertaking only falls under the EUMR if the resulting joint venture is full function, that is, it fulfills all the functions of an independent economic entity on a lasting basis (*Austria Asphalt GmbH & Co OG v Bundeskartellanwalt (Case C-248/16)*

ECLI:EU:C:2017:643). If these requirements are met, the joint venture can benefit from the doctrine of (permissible) ancillary restraints (see *Competition Restrictions Ancillary to M&A*).

If the formation of a joint venture does not meet the full-functionality test, the parties must assess whether its formation leads to competition concerns under Article 101(1) of the TFEU. A restriction of competition is presumed if the parent companies no longer compete with each other on the joint venture's market after its formation (*Commission, 5 July 2002, COMP/37.730* (AuA/LH)).

Additionally, a joint venture can give rise to concerns over anti-competitive coordination of the parent companies' conduct, either on the market where the joint venture is active, or on upstream, downstream, or ancillary markets to that market.

Potentially, a joint venture can also lead to anti-competitive "spill-over effects" or "network effects" if the parent companies have control of or influence over several joint ventures in ancillary product markets, as this can lead to the coordination of those joint ventures' competitive conduct (*Commission, 21 September 1994, IV/34.600* (Night Services)). IP licences granted between the parent companies or the joint venture can play a decisive role here, as these can raise or reinforce barriers to market entry for the technologies concerned.

Under Article 2(4) of the EUMR, the parent companies must assess any potential spill-over or network effects under Article 101(1) of the TFEU, including:

- Whether two or more parent companies retain, to a significant extent, activities in:
  - the same market as the joint venture;
  - a market which is downstream or upstream from that of the joint venture; or
  - a neighbouring market closely related to that of the joint venture.
- Whether the coordination resulting from the joint venture's creation can enable the parties to eliminate competition in a substantial part of the products or services in question.

(Article 2(5), EUMR.)

IP Licensing and Collaboration Agreements

Excluding third parties from using IP, or granting third parties licences under IP rights, is generally considered a legitimate use of the specific subject-matter of those IP rights (*Merck v Primecrown and Beecham / Europharm (Case C-267/95) ECLI:EU:C:1996:468*; *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH (Case C-170/13) ECLI:EU:C:2015:477*). However, agreements governing the use of IP rights can be scrutinised under Article 101(1) of the TFEU, particularly where the parties are direct or potential competitors for the IP-protected product or methods on the same, or on upstream or downstream markets. This is because IP rights can be used to:

- Shield anti-competitive arrangements in licence agreements.
- Partition geographical markets.
- Introduce additional hurdles to market entry.

Provisions defining the material scope of the right to use IP fall outside of Article 101(1) of the TFEU, if they are directly related to the manufacturing or selling of licensed products and provided that:

- The licensed IP is valid.
- The licensed know-how is kept confidential.

(Article 2(3), TTBER.)

For more information on the TTBER, see *Individual Exemptions*.

Obligations that are generally considered neutral to competition and, therefore, generally permissible include:

- Provisions on minimum licence fees.
- Minimum quantities of production.
- Obligations to brand the licensed products.

The ECJ has held that an obligation on a licensee to pay licence fees for IP rights that have lapsed or have been declared invalid does not breach Article 101(1) of the TFEU, as long as the licensee was entitled to terminate the licence with respect to invalid rights (*Genentech Inc. v Hoechst GmbH and Sanofi-Aventis Deutschland GmbH (Case C-567/14) ECLI:EU:C:2016:526*).

Other provisions contained in IP licensing agreements, that have as their object or effect the restriction of competition between licensor and licensee or vis-à-vis competitors, are generally subject to more intense review under Article 101(1) of the TFEU, such as:

- Territorial exclusivity.
- Obligations to use.
- Non-challenge clauses (see *No-Challenge Clauses*).

Exclusivity

Exclusive Licences

In general, the IP owner is free to grant licences under its IP rights that limit their use for certain products or allocate rights for **active** sales into certain territories. The TT Guidelines distinguish between:

- Exclusive licences, where the licensor is excluded from the use of its own IP.
- Sole licences, where the use right is granted only to one licensee for a given territory.

(Paragraphs 190 and 191, TT Guidelines.)

Sole licences are usually considered to have less potential anti-competitive effects, than (truly) exclusive licences.

Exclusive cross-licences between competitors can fall under Article 101(1) of the TFEU and are caught by Article 4(1)(c) of the TTBER, as they prevent competitors from licensing their technology to third parties, which can have foreclosure effects (paragraph 192, TT Guidelines). Also, an exclusive licence to a company that is already dominant on the licensed product market can violate Article 101(1) of the TFEU (paragraph 195, TT Guidelines).

Exclusive Dealing and Grant Back Obligations

A direct or indirect obligation of the licensee to grant to the licensor an exclusive licence to improvements or new applications of the licensed technology the licensee has developed (grant back clause) is considered a hardcore restriction (Article 5(1)(a), TTBER) and infringes Article 101(1) of the TFEU. Non-exclusive grant back licences to the licensee's improvements are, however, permissible (paragraph 271, TT Guidelines).

Other Customer or Territorial Restrictions on Resellers

In general, the IP owner is free to limit the scope of a licence to:

- Specific products or technologies.
- Certain forms of use (such as manufacturing, importing, or selling).
- Specific territories where the IP rights are valid.

However, licence restrictions that have as their object or effect to foreclose market access or leverage market power into other markets can breach Article 101(1) of the TFEU and section 1 of the GWB.

Absolute territorial protection in licence agreements is a "by object" restriction of competition, as the ECJ confirmed in a case involving a licence agreement that restricted the cross-border provision of broadcasting services (*Football Association Premier League and Others (Case C-403/08) ECLI:EU:C:2011:631*).

Prohibiting licensees from making *passive sales* into territories that the licensor has allocated to other licensees breaches Article 101(1) of the TFEU and is not exempt under Article 4b of the TTBER.

Ancillary Sports Merchandise

The Commission fined Nike for imposing restrictions on its licensees regarding passive sales of goods licensed to bear its trade mark in certain territories within the EU.

The Commission held that partitioning national markets within the EU single market by restricting passive sales into some markets, goes beyond the specific subject matter of the trade mark right. Therefore, it cannot be justified on the ground of differing IP rights protection in the relevant member states.

(*Commission, 25 MGWBh 2019, AT.40436*.)

Competition authorities scrutinise the practice of limiting sales channels to specific territories using technical means. The Commission fined Guess for obliging its licensees to block access to their online shops from certain countries (known as geo-blocking) (*Commission, 17 December 2018, AT.40428 (Guess)*).

However, limitations on sales channels are permitted if these are necessary and proportionate to protect the essence of the licensed IP right, such as the recognised functions of trade marks. Selective distribution systems where downstream distributors participate subject to meeting certain quality or technical standards are generally considered permissible. Therefore, the contractual restraints required to implement these standards are also permitted.

Coty Germany

The ECJ has ruled that banning authorised distributors within a selective distribution system from marketing luxury products via sales platforms such as eBay or Amazon does not infringe Article 101(1) of the TFEU (*Coty Germany GmbH v Parfümerie Akzente GmbH (Case C-230/16) ECLI:EU:C:2017:941* (*Coty Germany*)).

Aloe2Go

Following the reasoning in *Coty Germany* (see *Box, Coty* Germany), the Hamburg Court of Appeals deemed a sales ban on online platforms such as eBay permissible within a selective distribution system for food supplements, cosmetics, fitness drinks, and personal care products (Hamburg Court of Appeals, 22 March 2018, 3 U 250/16 (*Aloe2GO*)).

This jurisprudence, which recognises the specific need to protect exclusive luxury brands and expands this concept to other branded goods, is reflected in the recent Commission Guidelines on Vertical Restraints. In addition to luxury goods, the Commission explicitly mentions "high-value or high-technology products" as, in principle, justifying the exclusion of certain sales channels that may harm the subject matter of the licensed IP right (paragraph 149, Guidelines on Vertical Restraints).

Resale Price Maintenance (RPM)

Contractual provisions that influence or maintain the resale price of licensed goods and services:

- Are considered hardcore restrictions (for example, under Article 4(1)(a), TTBER for technology transfer agreements, see *Safe Harbours for IP Agreements*).
- Generally, render the entire agreement void under Article 101(1) of the TFEU.

Prohibited conduct includes setting minimum prices and measures with similar effect. For instance, fee arrangements that seek to maintain the licence fee at a certain level despite a reduction in the price for the licensed goods are likely to cause concerns.

Licence fees in a cross-licensing agreement between competitors that are calculated based on individual product sales (running royalties) can also be problematic. Competitors could use these mutual licence fee agreements to coordinate prices on downstream product markets, eliminating price competition between the licensors. (Paragraph 99, TT Guidelines.)

However, licensors can set maximum sales prices or give non-binding resale price recommendations in a technology transfer agreement, if the licensor and licensee do not compete directly or indirectly on the relevant product market (Article 4(2a), TTBER). (Similar restrictions in vertical agreements which are not technology transfer agreements can be exempted under Article 4(a) of the VBER, if other conditions are satisfied.)

In Germany, there are limited sector-specific exceptions. For instance, certain forms of RPM are permissible for print media (for example, books and newspapers) under section 30 of the GWB.

Tying Arrangements

Tying arrangements can be used to leverage market power from a market for sought-after products to neighbouring markets. Therefore, competition authorities see tying arrangements as being critical. However, an obligation on the licensee to buy products from the licensor alongside licensed products can benefit from the safe harbour of Article 2(1) of the VBER, if economically justified (see *Safe Harbours for IP Agreements*). This can be the case where the tied product is, for instance, a supplementary part or expendable part of the IP-protected product. However, tying arrangements only benefit from the VBER exemption if the aggregated market share of the involved undertakings on the market for the tied products is below 30%.

Information Exchange

Article 101(1) of the TFEU prohibits any direct or indirect contact between companies that has the object or effect of aligning the market behaviour of competitors, for example, regarding research and development, or the terms and conditions of product sales. This typically includes sharing commercially sensitive information between competitors, which can eliminate uncertainty about their future commercial conduct. Therefore, information exchange between actual or potential competitors is generally considered critically in view of Article 101(1) of the TFEU.

Unilateral conduct (for example, publishing sensitive business information) is not generally sufficient for a concerted practice between competitors (Nuremburg-Furth District Court, 14 January 2021, 19 O 9454/15 (Candy-Cartel)). However, if this unilateral conduct causes or contributes to a coordination and alignment of the commercial behaviour of competitors, it can have the effect of limiting competition (BGH, 13 July 2020, KRB 99/19 (*Beer-Cartel); T-Mobile Netherlands BV and Others v Raad van bestuur van de Nederlandse Mededingingsautoriteit (Case C-8/08) ECLI:EU:C:2009:343*. Therefore, unilateral conduct must be assessed on a case-by-case basis, taking the particularities of the market into account.

Non-Assertion Clauses

With a non-assertion clause (or a "covenant not to sue") the IP rightsholder agrees not to assert its exclusionary IP rights against the beneficiary. The BGH has recently construed a covenant not to sue as a non-exclusive right to use (that is, a licence) for the beneficiary (BGH, 24 Jan 2023, X ZR 123/20 (*CQI Report II*)). Accordingly, a non-assertion clause is likely considered a non-exclusive back licence to the seller, if given in relation to an M&A transaction, which is unlikely to be deemed to have an adverse effect on competition. Therefore, non-assertion clauses are likely to qualify for exemption under the TTBER (paragraph 53, TT Guidelines). For more information, see *Safe Harbours for IP Agreements*.

No-Challenge Clauses

An obligation not to challenge the validity of IP in a licence agreement ("no-challenge clause") is not a part of the specific subject-matter of an IP right (*Windsurfing International Inc. v Commission (Case 193/83) ECLI:EU:C:1986:75*; *Bayer AG and Maschinenfabrik Hennecke GmbH v Heinz Süllhöfer (Case 65/86) ECLI:EU:C:1988:448*). Therefore, in principle, a no-challenge clause in an IP agreement usually constitutes an unlawful restriction of competition, as these clauses have, as their object, the maintenance of exclusionary rights, which, based on fact and law, should be revoked. Accordingly, an obligation on the licensee not to challenge, directly or indirectly (by supporting third parties or a strawman in a challenge), the validity of licensed IP rights is not exempted from Article 101(1) of the TFEU (Article 5(1)(b), TTBER). See *Safe Harbours for IP Agreements*.

However, in an exceptional case, the BGH found a no-challenge clause permissible where the licensor and IP owner granted a licence free of charge (BGH, 24 April 2007, X ZR 64/04 (*Polymer-Lithium-Batterien*)).

No-challenge clauses can be permissible in the context of settlement agreements, if they are accepted in consideration of the IP owner's waiver of exclusionary rights vis-à-vis a potential infringer (see *Termination Right If Licensee Challenges IP*).

Termination Right If Licensee Challenges IP

The licensor's right to terminate a licence agreement if the licensee challenges the validity of the licensed IP is viewed critically by the TT Guidelines (see *Safe Harbours for IP Agreements*). These termination rights can function like a no-challenge obligation, by preventing licensees from challenging monopoly rights that should not have been granted, to maintain their rights to use other licensed IP. (Paragraphs 133 and 134, TT Guidelines).

However, termination rights in non-exclusive licences must be individually assessed, factoring in:

- The market position of the licensor and licensee.
- The market position of the technology.
- The relevance of the technology on the product market.

(Paragraphs 136 to 138, TT Guidelines.)

The Commission takes a generally more lenient approach towards termination rights in technical know-how licences, given that the licensor's right to terminate the licence can be objectively justified to safeguard the confidentiality of the licensed know-how throughout the distribution chain (paragraphs 140, TT Guidelines).

Termination clauses in favour of the licensor are usually permissible in the case of an exclusive licence (Article 5(1)(b), TTBER). For the definition of an exclusive licence, see *Exclusive Licences*.

Settlement of IP Litigation

The TT Guidelines generally recognise settlement agreements as a commercially reasonable and legitimate means to end IP infringement disputes (paragraph 234, TT Guidelines), although their specific terms are subject to Article 101(1) of the TFEU (see *Safe Harbours for IP Agreements*). Settlement agreements where the technology is licensed or cross-licensed to enable the parties to use that technology are unlikely to be considered anti-competitive as they safeguard market access. Also, a party's obligation to discontinue a certain product is likely to fall outside of Article 101(1) of the TFEU within a dispute settlement if there is, in fact, a considerable probability that the product in question infringes that right. This assessment may differ where a standard-essential patent (*SEP*) is concerned (see *Practice Note, FRAND Framework: Standard-Essential Patents (SEPs)*), as the settlement agreement should grant an SEP licence on FRAND terms to comply with Article 101(1) of the TFEU.

No-challenge clauses can be permitted in settlements concerning IP disputes, given they are consistent with the inherent purpose of a settlement agreement of avoiding further disputes about the IP rights (paragraph 242, TT Guidelines).

IP settlement agreements often involve the acceptance of a judgment finding infringement of the IP right. This acceptance usually involves a waiver of all legal remedies regarding the first instance infringement decision (including rights to appeal), rendering that decision final.

Kartellrechtsneutrale Abschlusserklärung

In a case where a defendant formally acknowledged a preliminary injunction for patent infringement as a final decision, but the Federal Patent Court (*Bundespatentgerich*) (FPC) later declared the patent-in-suit invalid, the Court of Appeals in Munich ruled that:

The defendant's acknowledgment remained valid.

The plaintiff's insistence on the waiver did not breach sections 1 and 19 of the GWB (abuse of dominance).

The acknowledgement of the injunction would be "neutral" under competition law if the defendant had reasonable grounds to believe that it would eventually lose the infringement case. The revocation of the patent-in-suit would not change this, as the decision of the FPC was not final and the appeals court could uphold the validity of the patent.

(Munich Court of Appeals, 11 July 2019, 29 U 2134/19 Kart (*Kartellrechtsneutrale Abschlusserklärung*).)

Trade Mark Delimitation Agreements

Trade mark delimitation agreements can raise market partitioning concerns if the parties are actual or potential competitors (BGH, 15 December 2015, KZR 92/13 (*Pelican/Pelikan*)). This is particularly the case where a delimitation of unused or otherwise invalid trade marks is used to disguise the partitioning of product markets or customer groups (*BAT Cigaretten-Fabriken GmbH v Commission (Case 35/83) ECLI:EU:C:1985:32* (*Toltecs/Dorcet II*)).

However, these settlements are permitted if they aim to solve a genuine conflict of trade mark rights, or a conflict that the parties reasonably perceive could occur in future, by limiting the scope of protected goods and services or agreeing to use a trade mark in a certain style and form. A delimitation valid at the time of entering into the agreement remains valid, even if the factual circumstances regarding a foreseen conflict change in the future. (BGH, 7 December 2010, KZR 71/08 (*Jette Joop*).)

Reverse Payment Patent Settlements

Any settlement of a patent dispute that involves a value transfer in exchange for limiting market entry of the other party, requires scrutiny under Article 101(1) of the TFEU (Paragraph 238 of the TT Guidelines).

When assessing potential competition concerns, the nature and validity of the IP right, as a barrier to market entry, is key. If a settlement involves payments that are not made in reasonable consideration of a right to use a patent (licence fee), but instead are offered in exchange for a no-challenge clause or (in particular) to delay market entry of a competing product (pay-for-delay), this is likely to be considered a restriction of competition by object under Article 101(1) of the TFEU.

Lundbeck

The *EU General Court* ruled that a payment by a pharmaceutical company in the context of a settlement of a patent infringement dispute, with the aim of delaying the market entry of a generic drug, was a restriction of competition by object under Article 101(1) of the TFEU (*Lundbeck v Commission (Case T-472/13) ECLI:EU:T:2016:449*).

The ECJ essentially confirmed the judgment of the EU General Court and underlined that the remaining barriers to enter the market were low for generics manufacturers after the patent on the active ingredient in the drug had lapsed. Therefore, there was a realistic threat of competition, which Lundbeck intended to exclude by paying for delayed market entry. The settlement agreement was only a disguised restriction of competition by generic drugs after the lapse of patent protection for the originator.

(*Generics (UK) v Commission (Case C-588/16 P) ECLI:EU:C:2021:242*.)

Generics UK

The ECJ had to decide on a payment made in consideration of the delayed entry of a generic drug into the market.

The ECJ held that these agreements not only fall under Article 101(1) of the TFEU but can also amount to an abuse of a dominance under Article 102 of the TFEU. It assumed patent protection conferred market dominance on the originator for a specific pharmaceutical product. Given that the originator has a monopoly on this market while it is protected by the patent, its dominance can be expected to persist for a considerable time even after the patent has lapsed.

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

Teva/Cephalon

The EU General Court reconfirmed that settlement agreements on patent infringements between the owner of a disputed IP right and a potential patent infringer have the object of restricting competition if there is no other explanation for the agreed payments or other transfers of value and commitments of the potential patent infringer, other than the mutual interest in avoiding competition. It is therefore not necessary to prove how the competitive situation would have developed without the settlement agreement.

(*Teva Pharmaceutical Industries Ltd and Cephalon Inc. v Commission (Case T-74/21) ECLI:EU:T:2023:651*.)

Perindopril

The EU General Court had to decide on a patent licence granted as a part of a dispute settlement agreement. The licence allowed the generics company to enter the market, but at a date agreed with the patent owner.

The court opined that without factual evidence, it cannot be assumed that the generics company would have entered the market earlier without the settlement agreement, given that the patentee could exclude competitors from the market based on its valid patent.

(*Krka Tovarna Zdravil d.d. v Commission (Case T-684/14) ECLI:EU:T:2018:918*.)

The ECJ has since ruled on the *Teva/Cephalon* and *Perindopril* cases, see *Legal Update, Judgments on appeals by the Commission, Servier and several generic company competitors against General Court's judgments on Servier "pay for delay" decision (ECJ)*.

Safe Harbours for IP Agreements

Certain provisions in licensing or other collaboration agreements involving IP or know-how are exempted from Article 101(1) of the TFEU, if the agreement falls within a relevant EU block exemption regulation. Most block exemption regulations follow the same basic structure by setting out market share thresholds for their application and providing specific provisions on:

- Hardcore restrictions (which prevent the entire agreement from benefitting from the block exemption, and may render it void under Articles 101(1) and 101(2), TFEU).
- Excluded restrictions (which do not prevent the entire agreement from benefitting from the relevant block exemption and which may still be individually exempted under Article 101(3) of the TFEU).

All EU block exemption regulations apply directly in Germany, even if the agreement does not have a direct effect on trade between member states (section 2(2), GWB).

TTBER

For IP licence agreements, the TTBER can help parties assess whether provisions governing the use of IP rights are permitted. The TTBER applies to technology transfer agreements, particularly licence agreements, that seek to transfer or provide access to:

- Technical know-how that is secret, relevant, and clearly identified.
- Patents.
- Supplemental protection certificates (SPCs).
- Utility models.
- Design rights.
- Semiconductor topographies.
- Plant breeders' certificates.
- Software copyrights.

(Article 1(1)(b), TTBER.)

The related *Commission guidelines on the application of the TTBER* (TT Guidelines) provide more detail on the practical application of the TTBER exemption.

In general, contractual provisions between competing companies require stricter assessment than agreements between non-competing companies on different markets. For example, the TTBER can apply to contracts between (direct or potential) competitors only if their combined market share does not exceed 20% on the relevant markets (Article 3(1) of the TTBER). Non-competing parties to an agreement (for example, manufacturers and distributors) can come within the safe harbour of the TTBER if their combined market share on the relevant markets does not exceed 30% (Article 3(2), TTBER).

Other Block Exemption Regulations

Certain agreements involving IP rights may also benefit from safe harbours from the application of Article 101(1) of the TFEU under:

- The *Horizontal Block Exemption Regulations (R&D) ((EU) 2023/1066)* (RDBER), exempting certain categories of research and development agreements.
- The *Horizontal Block Exemption Regulations (Specialisation) ((EU) 2023/1067)* (SBER), exempting certain specialisation agreements.
- The *Vertical Block Exemption Regulation ((EU) 2022/720)* (VBER), exempting certain vertical agreements.

The Commission's *Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements (Horizontal Guidelines)* provide more detail on the practical application of the RDBER and the SBER; the Commission's *Guidelines on Vertical Restraints (Vertical Guidelines)* perform a similar function in respect of the VBER.

Individual Exemptions

Potentially anti-competitive agreements can benefit from individual exemptions under Article 101(3) of the TFEU and section 2(2) of the GWB. German competition law contains a further exemption for small and medium-sized enterprises if their arrangements aim to improve the competitiveness of small or medium-sized companies and compensate competitive disadvantages compared to large companies (section 3, GWB).

f the parties exceed the relevant block exemption thresholds, or if (for example) a technology transfer agreement contains hardcore restrictions within the meaning of Article 4 of the TTBER (see *TTBER*), an individual exemption under Article 101(3) of the TFEU may still be possible if the restrictions:

- Are indispensable to achieve the object of the technology transfer agreement.
- Demonstrably lead to pro-competitive effects.
- Are likely to create consumer value.

For example, licence arrangements that have as their effect a restriction of competition, may be justified if they otherwise facilitate or safeguard market access and implementation of complementary technologies (paragraph 185, TT Guidelines).

In any case, individual exemptions under Article 101(3) of the TFEU are only available in exceptional cases and require substantiation of appreciable pro-competitive effects.

Patent Pools

Patent pools are agreements between at least two parties that aim to cross-license patents with respect to a certain technology (see *Practice Note, FRAND Framework: Patent Pools*). Depending on the number and size of the pool members, patent pools can restrict competition by:

- Stifling competition for alternative (substitutable) technical solutions.
- Raising barriers to market entry.
- Facilitating the formation of de facto technology standards.

However, patent pools can also lead to efficiencies and economies of scale, and therefore reduce barriers to entry, if access to the pooled technologies is made available to non-pool members on FRAND terms. If FRAND access to the pooled technology is sufficiently safeguarded, patent pools can avoid breaching Article 101(1) of the TFEU.

As multi-party agreements, patent pools do not fall within the scope of the TTBER (see *TTBER*), which only applies to bilateral agreements. However, the TT Guidelines detail how to distinguish permissible from anti-competitive patent pools (paragraphs 244-273, TT Guidelines).

The TT Guidelines provide a safe harbour for the creation and operation of patent pools, including licensing out. The patent pool generally falls outside Article 101(1) of the TFEU, irrespective of the parties' market position, if:

- All interested technology rightsowners can participate in the pool creation process.
- Sufficient safeguards are adopted to ensure that:
  - only essential technologies (which are therefore necessarily also complementary technologies) are pooled; and
  - exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool.
- The pooled technologies are:
  - licensed into the pool on a non-exclusive basis; and
  - licensed out to all potential licensees on FRAND terms.
- The parties contributing technology to the pool and the licensees are free to:
  - challenge the validity and the essentiality of the pooled technologies; and
  - develop competing products and technology.

(Paragraph 261, TT Guidelines.)

Moreover, despite the requirement that only essential technologies are pooled, the TT Guidelines indicate in other instances that pools that bundle non-essential technologies, may still be (individually) exempted under Article 101(3) of the TFEU, if they fulfill the TTBER market share thresholds.

When assessing technology pools comprising non-essential but complementary technologies, the Commission can factor in:

Any pro-competitive effects of including non-essential technologies within the patent pool, such as efficiencies in evaluating whether a certain technology is essential in view of the high number of technologies.

Freedom of the licensors to license their respective technologies independently.

Offering separate packages for distinct applications, each comprising only those technologies relevant to the application in question.

Single package or option of licensing only part of the package with a corresponding reduction of royalties to not foreclose third party technologies outside the pool.

(Paragraph 264, TT Guidelines.)

If the technology pool meets the criteria set out both for essential and non-essential technologies, the conditions for exemption under Article 101(3) of the TFEU are likely met.

Outside the TTBER safe harbour, patent pool agreements can also be individually exempted under Article 101(3) of the TFEU, if the benefits of the pool outweigh its anti-competitive effects. In assessing agreements between the pool and third-party licensees, the Commission considers:

- The market position of the pool (lack of market strength).
- The granting of licences to all potential licensees on non-discriminatory or FRAND terms.
- Unjustified exclusion of third-party technologies.
- The lack of restriction on the establishment of alternative pools.
- The absence of hardcore restrictions under Article 4 of the TTBER.

(Paragraph 266, TT Guidelines.)

Mitigation Strategies

Given that many IP rights are, by their nature, monopoly rights, the exercise of IP rights can result in conflicts with EU competition law. Companies doing business in the EU should make antitrust compliance an integral part of their IP strategies when prosecuting, enforcing or otherwise exploiting their IP. Moreover, companies that are leaders in their specific field of technology may also be deemed to have a dominant position in one or more markets. They need to be careful not to leverage their market power into upstream and downstream markets via their IP rights. Beyond triggering market share thresholds for merger control, the commercial value of IP involved in a cooperation can also have a decisive impact on the competition law assessment.

Companies should self-assess the anti-competitive risks associated with the development and exploitation of IP, and may wish to seek expert counsel before entering into an IP-related contract, given that a competition law violation can:

- Result in severe fines by the competition authorities.

- Render an agreement void *ab initio*.

Unilateral Conduct

Abuse of Dominance

Unilateral conduct can be considered anti-competitive if carried out by an undertaking having a dominant position on the relevant market (Article 102, TFEU; sections 19, 19a, and 20, GWB). A company can have a dominant position through its IP-protected technology, if this technology is required to access downstream product or services markets.

Market dominance must be assessed case-by-case considering factors relevant to a company's market position in relation to its competitors such as:

- Market share.
- Financial strength.
- Access to data relevant for competition.
- Access to supply or sales markets.
- Links with other market participants.
- Legal or factual barriers to the market entry of other companies.
- Actual or potential competition from companies domiciled within or outside the area of application of the GWB.
- Its ability to shift its supply or demand to other goods or commercial services.
- Whether its contractual counterparties can switch to other suppliers or customers.
- Competitive pressure driven by innovation.

(Section 18(3), GWB.)

The last criterion (competitive pressure driven by innovation) was added to reflect that, due to the increasing speed of innovation, a "superior" market position can rapidly become "relative" market power in markets where the technology evolves particularly quickly.

Abuse of Economic Dependence

Even if a company is not considered dominant under Article 102 of the TFEU and section 19 of the GWB, it could still be subject to the separate prohibition against abusive behaviour (section 20, GWB) if its upstream suppliers or downstream buyers are economically dependent on its products or services ("relative market power"). Typical cases include the dependence of specialised retailers on certain "leading" brands that they need to offer to be competitive (BGH, 9 May 2000, KZR 28/98 (*Designer Furniture*)).

Undertakings of Paramount Significance for Competition Across Markets

German competition law additionally subjects companies to close scrutiny from the FCO if they have "paramount significance for competition across markets" (section 19, GWB). This provision targets so-called "gatekeepers" in digital markets and platforms with unrivalled market power.

The FCO has decided that Alphabet, Amazon, Apple, Meta and Microsoft have paramount significance across markets within the meaning of section 19a of the GWB. The FCO's decision regarding Amazon was recently confirmed by the BGH on appeal (BGH, 23 April 2024, KVB 56/22). Among other restrictions, the FCO can prohibit gatekeepers from favouring their own services and putting platform sellers at an unfair disadvantage. The FCO can also prohibit gatekeepers from tying their platforms or networks to other services by pre-installing or otherwise favouring their software solutions for these services.

Pricing Conduct

IP licence fee arrangements can amount to an abuse of a dominant market position, if the licence fees do not correspond to the granted scope of use of the IP right. For example, a dominant licensor acts abusively if it also charges licensees for acts that are no longer covered by the IP right (*Der Grüne Punkt – Duales System Deutschland GmbH v Commission (Case C-385/07 P) ECLI:EU:C:2009:456*).

Exclusive discounts or different royalty rates can also constitute an abuse of a dominant position, if the licensor holds an SEP and has committed to a *standard-setting organisation (SSO)* to grant licences to any willing party on FRAND terms. For more information on FRAND licensing, see *Unfair or Discriminatory Licensing Practices*.

Unfair or Discriminatory Licensing Practices

If an IP owner holds a dominant position on any market, it is, in principle, free to exclude third parties from the use of its IP (subject to the doctrine governing *Access to Essential Facilities*). However, if it grants a licence to its IP, the terms of the licence must, in principle, be fair and non-discriminatory so as not to be abusive (Article 102(1), TFEU; section 19(1), GWB).

Access to Essential Facilities

If the IP protects a technology that is indispensable for third parties to offer products and services on the same or neighbouring markets, the dominant company can be obliged to offer access to infrastructure, data, or networks on reasonable and non-discriminatory terms. This can include access to essential technology that is protected by IP rights (Article 102(1), TFEU; section 19(1), No. 4, GWB).

IMS Health

The 2004 *IMS Health* case concerned access to a database structure that was protected by copyright. The Commission decided that refusal of access to essential technology was a violation of Article 102 of the TFEU (*Commission, 24 May 2004, COMP/C-3/37.792* (*Microsoft*)). The ECJ confirmed that access to IP could be an essential facility, required by potential competitors to offer their own products or services (*IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG. (Case C-418/01) ECLI:EU:C:2004:257*).

Rheinmetall

The FCO's investigation of Rheinmetall Landsysteme (Rheinmetall) resulted in Rheinmetall licensing, on fair and reasonable terms, its diagnostic software for the German GTK Boxer army tank, a product of the Rheinmetall and Krauss-Maffei Wegmann joint venture. This enabled FFG Flensburg Fahrzeugbau as a licensee to maintain and service these tanks.

The FCO's preliminary view was that Rheinmetall was dominant in the national market for special tools needed for the maintenance and repair of its Boxer tanks (including so-called DAS inspection systems). Therefore, third parties relied on Rheinmetall's maintenance software to compete in the downstream market for the maintenance of Boxer tanks.

(See *FCO Press Release, 13 March 2023*.)

SEP Enforcement and FRAND Licensing

As regards the interplay of IP law and antitrust law, SEP litigation and FRAND licensing currently dominate the legal debate in Germany and the EU.

SEPs are similar to essential facilities, because they must be used to implement the technical standard.

The Commission has held that, if an SEP holder has committed to license its SEPs on FRAND terms to an SSO (known as a FRAND declaration), there can be an abuse of a dominant position under Article 102 of the TFEU if the SEP holder then enforces its right to injunctive relief against an implementer of the standardised technology (Commission, 21 December 2012, IP/12/1448 (*Samsung*)).

Huawei v ZTE

In a landmark ruling, the ECJ set up a regime of coordinated steps that must be met by the SEP holder and the implementer to avoid a violation of Article 102 of the TFEU (*Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH (Case C-170/13) ECLI:EU:C:2015:477* (*Huawei v ZTE*)). For more information, see *Practice Note, FRAND Framework: EU Position on Antitrust and FRAND: Huawei v ZTE*.

Sisvel v Haier

The ECJ's findings have been refined and clarified by the German Federal Supreme Court in two further landmark decisions:

- *Sisvel v Haier I (BGH, 5 May 2020, KZR 36/17).*

- *Sisvel v Haier II (BGH, 24 November 2020, KZR 35/17).*

While recognising the SEP holder's obligation under Article 102 of the TFEU and section 19(1) of the GWB to offer every willing licensee a licence to the SEPs on FRAND terms, the BGH also emphasised the implementer's obligation to show genuine willingness to take a licence on FRAND terms. Once the SEP holder has notified the implementer about its SEPs and the alleged infringement, the implementer must react without undue delay by:

- Declaring its unconditional willingness to take a licence on whatever terms are, in fact, FRAND.
- Actively participate in negotiating FRAND licence terms with the SEP holder.

If the implementer fails to do so, it is considered an unwilling licensee, and its FRAND-based defence fails. Hence, the SEP holder can claim a permanent injunction under their SEPs without violating Article 102 TFEU.

However, the BGH did not set out in detail what would, in fact, be a FRAND licence. The court merely noted that "fair and non-discriminatory" cannot require the SEP holder to offer identical licence terms to every willing licensee. Rather, the SEP holder can take the nature of the implementer and the conditions of its product market into account in calculating adequate licence terms.

The *Sisvel v Haier* decisions of the BGH have led to several judgments from German lower courts:

Signalsynthese II
In principle, the courts leave it to the parties to determine what is a FRAND licence in each case. An offer by the SEP holder is often regarded as FRAND, unless it is obviously exploitative or discriminatory, which is for the implementer to establish and evidence (Düsseldorf Higher Regional Court (2nd Civil Senate), 12 May 2022, I-2 U 102/22 (*Signalsynthese II*)).

Steuerkanalsignalisierung II
Licence terms or dedicated licensing schemes of the SEP holder that have been accepted by other implementers are regularly considered as an indicator for FRAND compliance. The implementer is expected to accept these terms, even if they do not fit its business model, which may put it at a competitive disadvantage compared with other licensees. (Karlsruhe Higher Regional Court, 2 February 2022, 6 U 149/20 (*Steuerkanalsignalisierung II*).)

Importantly, the FCO has asked several district courts to stay certain pending SEP cases and refer questions to the ECJ under Article 267(2) of the TFEU. In essence, the FCO is seeking to clarify whether, if an SEP holder (who has given a FRAND declaration) refuses to license a willing supplier of infringing components, while at the same time enforcing its claim for an injunction against the manufacturer of the end product (containing the infringing components), this amounts to an abuse of a dominance under Article 102 of the TFEU.

Nokia v Daimler

The District Court of Düsseldorf asked the ECJ for clarification of the application of Article 102 of the TFEU to certain aspects of an SEP holder's conduct. In particular, the court asked whether an SEP holder (having given a FRAND declaration to an SSO) abused its dominant position if it enforced a claim for an injunction against an implementer, namely a car manufacturer, while not granting a licence to the supplier of the patent-infringing component product to the car manufacturer, although that supplier was willing to take a licence to the SEPs on FRAND terms. However, given that the parties of the patent infringement proceeding settled the case, the ECJ reference was rendered obsolete.

(Düsseldorf District Court, 26 Nov 2020, 4c O 17/19 (*Nokia v Daimler*).)

Regarding the same issue that arose in *Nokia v Daimler*, the District Courts of Mannheim and Munich expressed their opinion that an SEP holder is free to decide at which level of the distribution chain it wants to license its SEPs. Further, enforcing the SEPs against implementers in succession is objectively justifiable, given that enforcing the SEPs against all known implementers at the same time is inefficient and requires substantial investment in time and resources (Munich District Court, 10 Sep 2020, 7 O 8818/19; Mannheim District Court, 18 Aug 2020, 2 O 34/19).

The Commission takes the view that the German case law on the FRAND defence, implementing the guidelines of the German Federal Supreme Court in *Sisvel v Haier*, contradicts the test established by the ECJ in *Huawei v ZTE*. Therefore, in April 2024, the Commission filed an *amicus curiae* brief with the Munich Appeals Court (*15 April 2024, 6 U 3824/22Kart (HMD Global Oy v VoiceAge)*). The Commission believes that the ECJ decision sets out consecutive obligations for both the SEP owner and the implementer, which must be closely followed, and reviewed and appraised by the national courts. The Commission is particularly unhappy with assessing (and often finding) the unwillingness of the implementer to take a licence on FRAND terms, without having first reviewed whether the SEP holder's licence offer is FRAND. It remains to be seen whether this *amicus curiae* brief will change the German courts' approach to the FRAND defence.

To strengthen the position of implementers in licence negotiations with patent pools of SEPs, the FCO cleared the Automotive Licensing Negotiation Group (ALNG) in June 2024 (see *FCO Press Release, 10 June 2024*; *FCO Notice, 10 June 2024*). This allows *OEM* car manufacturers and their suppliers to cooperate in negotiating FRAND terms with pools and SEP owners on behalf of the ALNG's members. The FCO opined that this cooperation is permissible under competition law rules to the extent that:

- Membership of the group is voluntary and open to everyone.
- The group does not only address standards specific to the automotive industry.
- The exchange of information between its members is limited to what is essential to achieving the legitimate goals of the ALNG.

Rambus

The Commission considered a patent owner to violate Article 102 of the TFEU, because it intentionally did not disclose its SEP to the relevant SSO, affording it with a dominant position to ask for exploitive and discriminatory licences to its SEP (patent ambush) (*Commission, 9 December 2009, COMP C3/38.626*).

German courts are likely to oblige the SEP holder to offer a licence on FRAND terms to willing licensees in similar scenarios, even if the patent owner did not give a FRAND declaration to the relevant SSO (see *Box, Sisvel v Haier*).

Unified Patent Court and FRAND

Several SEP cases have already reached the Unified Patent Court (UPC), which started operation in 17 EU member states on 1 June 2023. While not an EU court, the UPC is a common court of the participating member states that apply EU law and, in case of doubt, must refer questions to the ECJ for clarification under Article 267 of the TFEU.

The UPC has not issued a decision on the merits in any of these cases. However, the UPC Local Division Munich has indicated that it is likely to apply the approach of the German courts on the Article 102 TFEU defence (FRAND defence) of a SEP implementer (UPC Local Division Munich, 19 September 2023, UPC CFI 2/2023). For more information, see *Practice Note, Patent Litigation: Pre-Suit and Pleadings (UPC)* and *SEP Enforcement and FRAND Licensing*.

Panasonic

On 30 April 2024, the UPC issued an order in a case between Panasonic and Xiaomi, emphasising transparency in SEP licensing negotiations regarding three EPs. The court ordered Panasonic to disclose its SEP licences with third parties, highlighting their relevance in assessing compliance with FRAND obligations.

The decision, invoking the *Huawei v ZTE* framework (see *SEP Enforcement and FRAND Licensing*), underscores that comparable SEP licences are crucial for determining FRAND terms at the UPC.

(UPC Local Division Mannheim, 30 April 2024, UPC_CFI_ 223/2023.)

In another case involving Panasonic as the plaintiff, the UPC enjoined Oppo from offering and selling certain products implementing the 4G telecommunication standards in Germany, France, Italy, the Netherlands, and Sweden. The UPC found Oppo not genuinely willing to take a FRAND licence to SEPs of Panasonic. The reasoning applied by the UPC is similar to that of the District Court Mannheim in SEP cases.

(UPC Local Division Mannheim, 22 November 2024, UPC_CFI_ 210/2023.)

Relevant Market and Dominance

Not every IP right affords its owner a dominant position under Article 102 of the TFEU and section 19(1) of the GWB and even SEPs do not automatically lead to market dominance in the relevant product market. The technology covered by the SEP or other IP right must be indispensable to offering a competitive product on the related market, because it is technically impossible and commercially unreasonable to circumvent the patented technology without losing important product functionality (*Box, Huawei v ZTE*). This is usually the case if an SEP covers a technology relating to connectivity or interoperability of certain technologies. Typical cases are SEPs essential to the 5G or Wi-Fi telecommunication standards.

According to the ECJ and the BGH, the specific technology for which a patent or other IP right is considered essential must be identified as the relevant market (*Box, IMS Health*; *BGH, 13 July 2004, KZR 40/02*; *Munich District Court, 14 Sep 2023, 7 O 1971/22*).

Exploitative or Exclusionary Conduct

Obliging an IP licensee to source certain products or take a licence to other IP rights the licensee does not require (tying) can amount to an abuse of dominance, as it can involve leveraging market power into the market of the tied product. However, an obligation to source products (for example, spare parts) may be objectively justified, if it is necessary to market an IP-protected product meeting required quality standards.

Bundling a licence for SEPs with a licence to non-SEPs would likely amount to abusive tying, if the licence seeker does not require a licence to non-SEPs (*Sisvel v Haier I,* see *Box, Sisvel v Haier*).

Misuse of a Regulatory Process

If an IP owner gives incorrect or willfully incomplete information to an authorisation or market surveillance authority, this can be considered to violate competition law rules. In particular, this can happen if the IP owner misuses the formal legal framework of IP right protection to obtain or prolong exclusory rights beyond their original scope and duration of protection, with the intention of keeping competitors off the market. These situations arise most commonly in the field of pharmaceuticals and generic drugs.

AstraZeneca

AstraZeneca was accused by the Commission of blocking manufacturers of generics from entering a specific market for pharmaceutical preparation, because it had sent misleading information to national patent offices to obtain supplementary patent protection certificates (COMP/A. 37.507/F3).

Both the EU General Court and the ECJ confirmed that obtaining SPC protection through willfully incorrect information was an abuse of dominance (*AstraZeneca AB and AstraZeneca plc v Commission (Case C#457/10 P) ECLI:EU:C:2012:770*; *AstraZeneca AB and AstraZeneca plc v Commission (Case T-321/05) ECLI:EU:T:2010:266*).

The decisions were also based on another form of abuse under Article 102 of the TFEU. AstraZeneca had withdrawn marketing authorisations for a dominant medicinal product in some member states to block or delay the market entry of generic manufacturers that, due to regulation, needed to rely on the originator's market authorisation to prove marketability of their generic product.

Misuse of the Litigation Process

According to the EU General Court, an IP holder can abuse its dominant market position through legal action if it claims something that it could not reasonably consider to be part of its IP rights. In that case, the action is considered to be filed solely for the purpose of harassment (*ITT Promedia NV v Commission (Case T-111/96) ECLI:EU:T:1998:183*). However, cases of misuse of the litigation process are rare, as it is understood that the right to exclude third parties from unauthorised use (a claim for injunctive relief) is pivotal to every IP right, even if the IP owner is market dominant. Therefore, there must be specific circumstances that render the enforcement of IP abusive.

MS-Therapie

This case was based on sections 3 and 4 of the *Act against Unfair Competition (Gesetz gegen den unlauteren Wettbewerb)* (UWG) rather than section 19 of the GWB (due to lack of a dominant position), as the thresholds for market dominance were not met.

A patent holder enforced a patent within a larger patent family. The holder was found to have acted unfairly by hindering a decision on the validity of a parallel patent from the same family by voluntarily abandoning the challenged parallel patent, impeding the invalidity defence of the alleged patent infringer.

The District Court considered in its ruling that the violation of unfair competition law could only be remedied if the patent holder released the alleged infringer, its suppliers, and customers, from any patent liability with respect to the entire patent family.

(*Munich District Court, 24 February 2020, 7 O 1456/20* (*MS-Therapie*).)

For information on "pay for delay" settlement agreements, see *Settlement of IP Litigation*.

Objective Justification for Unilateral Conduct

Engaging in potentially abusive conduct may not amount to an abuse of dominance, if the conduct can be objectively justified by the dominant undertaking.

For example, the ECJ has ruled that differences in national collecting rights regimes can constitute an objective justification for applying discriminatory terms and conditions in certain situations (see *Kanal 5 Ltd and TV 4 AB v Föreningen Svenska Tonsättares Internationella Musikbyrå (STIM) upa (Case C-52/07) ECLI:EU:C:2008:703*).

Similarly, in the *AstraZeneca* decision, the ECJ accepted statutory obligations to monitor the drug on the market as required to maintain the marketing authorisation to be an objective justification (see *Box, AstraZeneca*).

In general, an IP owner's decision not to grant licences to its IP at all may be objectively justifiable in view of its right to exploit its own accomplishments and investments. Keeping sensitive trade secrets and technical know-how confidential can be an objective justification. However, for data or information to qualify as a trade secret, it must meet the statutory requirements of the *Trade Secrets Directive ((EU) 2016/943)* and the *German Act on Trade Secret Protection (Gesetz zum Schutz von Geschäftsgeheimnissen)* (GeschGehG).

In any event, the competition assessment must balance the interests of the dominant undertaking in protecting its IP against the other market participants' interests in creating a level playing field. Any objective justifications put forward by the dominant company must be proven to be relevant, certain, and sufficiently significant.

Exhaustion of IP Rights

The exhaustion principle is an overarching concept of EU and national IP law. If units of a product are put on the market under the control and with the consent of the IP rightsholder, the IP rights are exhausted for those specific units of the product, and the IP rightsholder cannot prohibit onward sales within the European Economic Area (EEA).

A licence to offer, import, and market a licensed product within the EEA usually establishes consent for these purposes. In its *CQI-Report II* decision, the BGH also considered a covenant to sue (specifically, a covenant to be sued last) to establish consent to market the affected products in the EEA (*BGH, 24 January 2023, X ZR 123/20* (*CQI-Report II*)).

The exhaustion of rights principle applies to all forms of IP rights. It is expressly codified in:

- Article 29 of the *Unified Patent Court Agreement (UPCA)* regarding European and Unitary Patents.
- Article 15 of the *EU Trademark Regulation ((EU) 2017/1001)*.
- Section 24 of the *German Trademark Act (Gesetz über den Schutz von Marken und sonstigen Kennzeichen) (MarkenG)*.
- Article 21 of the *Community Design Regulation (6/2002/EC)*.
- Section 48 of the *German Design Act (Designgesetz) (DesignG)*.

While not codified in German patent law, case law has long recognised the exhaustion principle (for example, see *CQI-Report II*).

Exhaustion is EEA-wide rather than international exhaustion in the sense of the US "first sale" doctrine (BGH, 14 December 1999, X ZR 61/98 (*Karate*)).

EEA-wide exhaustion makes it difficult for an IP rightsholder to prevent unauthorised distribution. However, licence restrictions can influence and, potentially, hinder the exhaustion of rights, for example under:

- Article 15(2) of the EU Trademark Regulation.
- Section 24(2) of the German Trademark Act.

A trade mark owner, operating a selective distribution system in the EEA that prohibits sales to external dealers, alleging infringement against an external dealer making parallel imports, has the burden of proving units bearing the trade mark did not originate from a licensed distributor in the EEA. Otherwise, the trade mark rights are exhausted for those units and the trade mark owner cannot stop the parallel imports. (*BGH, 15 October 2020, I ZR 147/18* (*Marktabschottung durch selektives Vertriebssystem*).)

If the licensee violates these restrictions while putting the products on the market, they are not acting with the rightsholder's consent, and exhaustion does not occur. However, if IP rights with respect to specific units of a product are exhausted, licence restrictions do not limit the legal effects of the exhaustion. (*Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens (Case*

C-140/10) ECLI:EU:C:2011:677; *Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL) (Case C-59/08) ECLI:EU:C:2009:260*; *FCJ, 6 July 2000, I ZR 244/97* (*OEM-Version*)).

Exhaustion of Rights in Patent Law

In principle, patent exhaustion applies only to product patents. The exhaustion of process claims is not possible (*BGH, 24 September 1979, KZR 14/78* (*Fullplastverfahren*).

Also, the exclusive right to manufacture a patented product is not subject to exhaustion. This means that the repair or refurbishment of a patented product can amount to patent infringement if the refurbishment can be considered to be making the patented product (*BGH, 24 October 2017, X ZR 55/16* (*Trommeleinheit*)).

Given that the rights under a patent can only be exhausted for the product specified in the patent claim, the IP holder's rights under its patent are generally not exhausted through the sale of components of that product. This principle has, however, been addressed by the decision of the BGH in the case *CQI-Report II*, according to which the delivery of a component of the patented product can cause the exhaustion of patent rights under certain circumstances.

The ECJ has established one notable exception from the principle of EU-wide patent exhaustion. Owners of pharmaceutical patents or supplementary protection certificates (SPCs) can object to parallel imports from some eastern European countries under the so-called "Special Mechanism." The Special Mechanism, based on Annex IV, Number 2 of the *Act on the EU Accession Treaty of 16 April 2003* (EUBeitrVtrCZEuaG), regulates the parallel import of medicinal products from EU member states that joined the EU in 2004, 2007, or 2013, and allows for the restriction of exhaustion. Its purpose is to ensure that these imported products meet the EU's high quality standards, protecting the domestic market and public health. This framework is detailed in *official notices* published by the German authorities BfArM, PEI, and BVL.

Exhaustion of Rights in Trade Mark Law

Labelling products with the CE mark can be considered to indicate that the IP owner expects and tacitly consents to the marketing of the product in the EU (Higher Regional Court of Dusseldorf, 28 April 2017, 1-15 U 68/15).

However, there is an exemption from the exhaustion of rights under a trade mark, if the trade mark owner has legitimate reasons to object to the further commercialisation of its products (Article 15(2), EU Trademark Directive; section 24(2), German Trademark Act). Legitimate reasons include that:

- The product has been modified after the first sale.
- The product has been marketed under conditions that are detrimental to the functions and reputation of the trade mark.

(*Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV (Case C-337/95) ECLI:EU:C:1997:517*; *Coty Germany*; Frankfurt Higher Regional Court, 12 July 2018, 11 U 96/14 (*Luxusparfüm im Internet II*).)

Grey Market Products

The Düsseldorf District Court applied CJEU's principles relating to luxury goods. According to the Düsseldorf Court, luxury goods are selected branded products marketed as exclusive and positioned in an upscale market segment, with the trade mark owner deciding whether to market its products as luxury items.

The Court considered that the presentation of goods in certain sales outlets impaired the image of the cosmetic products, as these outlets did not allow for an aura of exclusivity. This potentially justifies an exception to the principle of exhaustion and allows the trade mark owner to enforce claims against unauthorised dealers.

(Düsseldorf District Court, 29 September 2022, 37 O 95/18 (*Graumarktware*).)

According to a recent ECJ decision, a trade mark owner cannot, based on Article 15(2) of the Trademark Directive, prohibit the further sale of goods that have been refilled and relabelled by a reseller, if this relabelling does not create a risk of confusion among consumers that there is an economic connection between the reseller and the trade mark owner. This risk of confusion must be assessed based on:

- The information on the product.
- The new labelling.
- The distribution practices of the relevant industry, and consumer awareness of these practices.

(*Soda-Club (CO2) SA, SodaStream International BV v MySoda Oy (Case C-197/21) ECLI:EU:C:2022:834*.)

Based on the change of product objection, the ECJ and the BGH have developed detailed standards for the relabeling and repacking of branded pharmaceutical products for reimports from other EU countries:

- Reimporting repacked products can be prohibited under certain conditions, where the original labelling or packaging has noticeably been impaired by the repacking company.
- Relabeling and repacking of branded pharmaceutical products must be necessary to comply with national statutory provisions, and proportionate.
- Repacking is permissible only if relabeling is not possible due to national provisions.
- The direct wrapping of a drug (the blister pack) and the trade marks on this wrapping must not be impaired.

(*Novartis Pharma GmbH v Abacus Medicine A/S (Case C#147/20) ECLI:EU:C:2022:891*.)

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