

THE ETERNAL STRUGGLE BETWEEN IP RIGHTS AND ANTITRUST LAW IN LIGHT OF THE HUAWEI CASE

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The relationship between patents and competition law is complicated. A large number of antitrust cases relate to patent protection, especially when they involve pharmaceutical, electronic device and communication businesses, where technology and innovation play a fundamental role.

Dilatory practices have long been a matter of debate: medicinal product patent holders (the originators) try to block other manufacturers (generic companies) from entering the market when their patent protection expires.

This blocking often takes the form of “reverse payments”, whereby the originator pays generic companies not to market the “unprotected” product. This arrangement may take various forms, such as distribution agreements and settlement agreements to close legal actions to challenge the validity of the patent. This practice constitutes an infringement of antitrust law and was first seen in the USA², but it recently came to the attention of the European

Commission in the *Lundbeck*, *Servier*, and *Johnson&Johnson* cases³.

High penalties are also imposed on undertakings whose use of their IP rights - and, in general terms, rights deriving from regulations - is considered an abuse of dominant position⁴. This happened in the well-known *AstraZeneca* case⁵, in which the European Commission fined a pharmaceutical company for having provided national patent authorities misleading information and having deregistered the marketing authorisation in some specific countries to delay the entry into the market of competing products when its patent expired. Similarly, in the *Pfizer* case⁶ the Italian Competition Authority (“ICA”) fined Pfizer for having abused its dominant position in the market for medicines to treat visual glaucoma. The ICA found that Pfizer had requested a supplementary protection certificate to extend

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² See SUMANTH ADDANKI - BUTLER HENRY N., *Activating Actavis: Economic Issues in Applying the Rule of Reason to Reverse Payment Settlements*, Minnesota Journal of Law, Science & Technology 15, 2014, p. 77; HOVENKAMP, HERBERT, *Anticompetitive Patent Settlements and the Supreme Court's Actavis Decision*, Minnesota Journal of Law, Science & Technology 15, 2014, p. 3.

³ European Commission decisions of 19 June 2013, Case AT.39226 - Lundbeck; of 9 July 2014, Case AT.39612 - Perindopril (Servier); and of 10 December 2013, Case AT.39685 - Fentanyl.

⁴ For further information related to abuses in the pharmaceutical sector see SARA LEMBO, GIULIO MATARAZZI, *Dominance in the pharmaceutical sector: An overview of EU and national case law*, 18 June 2015, e-Competitions Bulletin Pharma & Dominance, Art. N° 73506.

⁵ See European Commission Decision of 15 June 2005, Case COMP/A. 37.507/F3 - AstraZeneca

⁶ See ICA, Decision No. 23194 of 11 January 2012. A431 - Ratiopharm/Pfizer

its patent protection in an attempt to impede generic products entering the market. In the *Boehringer* case⁷, the Commission closed an investigation against a pharmaceutical company which had filed patent applications which included a new active ingredient that another pharmaceutical company had discovered only after the two companies had found an agreement which removed the alleged blocking positions.

In other cases, the licence was held to be an essential facility and, consequently, the refusal to grant one was found to be an abuse of a dominant position⁸. In the *IMS Health* case⁹, an undertaking collecting data about the pharmaceutical markets was ordered by the Commission, through an interim measure, to grant a competitor a licence for its industry standards. Similarly, in the *Merck - Principi attivi* case¹⁰, the ICA investigated a pharmaceutical company's refusal to grant competitors a licence for a medicinal product that intended to market the generic version of the product in countries where the patent protection had expired¹¹.

⁷ See European Commission Press Release of 6 July 2011 (IP/11/842)

⁸ See European Court of Justice, Decision of 29 April 2004, case *IMS Health*, C-418/01, where the Court of Justice described the conditions necessary to consider a license an essential facility.

⁹ European Commission, Decision of 3 July 2001, COMP D3/28.044, *NDC Health/IMS Health*.

¹⁰ ICA Decision No. 16597 of 15 March 2007, A364 - *Merck - Principi attivi*.

¹¹ See also the *Bayer* case: ICA Decision No. 22558 of 28 June 2011, A415 - *Sapex Agro/Bayer-Helm*; and Italian

The matter of the relationship between IP rights and antitrust rules is even more complicated when it comes to standard-essential patents (SEPs). As explained in a paper published in this review¹², these types of patents are essential to implement industry standards, *i.e.*, the rules, guidelines and characteristics approved by a standard-setting body and commonly used in an industry. Industry standards have a wide range of benefits in terms of economic efficiency; for example, they guarantee interoperability between electronic devices marketed by different producers. Nevertheless, an industry standard implies a *de facto* need for all undertakings which operate in a sector to apply for a licence to the SEP holders, which are thus well placed to adopt exclusionary and exploitative strategies. These strategies should be prevented by the fact that SEP holders must commit to licence the SEP on fair, reasonable and non-discriminatory ("FRAND") terms, as if they do not, the standard-setting body can exclude the patent in the industry standard. The problem is that FRAND terms are not better specified, so negotiations between a SEP holder and an aspiring licensee do not always lead to a successful outcome. From an antitrust perspective, the question is: when negotiations collapse, can the seeking of an injunction

Council of State, Decision No. 548 of 11 January 2013. See also the well-known *Microsoft* case, European Commission Decision of 24 March 2004, COMP/C-3/37.792.

¹² MARCO LO BUE, *The Commission Decisions on Samsung and Motorola: the Antitrust Effects of Licensing "SEPs"*, Italian Competition Review No. 1/2015.

against the undertaking that used the technology protected by the SEP be considered an abuse of a dominant position?

In the recent *Motorola*¹³ and *Samsung*¹⁴ cases, the Commission argued that seeking an injunction for a SEP can constitute abusive conduct if the potential licensee is willing to enter into a licence at FRAND terms, as determined by a court of competent jurisdiction¹⁵. More recently, the Court of Justice tackled the issue in the *Huawei* case, adopting an approach more favourable to the patent owner. Indeed, the court described a very detailed list of actions the patent owner should take. Whenever this “procedure” is followed (or the licensee refuses to follow it) an injunction does not constitute abusive conduct. In practice, it is a way of conducting negotiations which should, in the opinion of the court, guarantee that both the patent owner and the potential licensee act in good faith¹⁶.

¹³ European Commission Decision of 29 April 2014, case AT.39985 - Motorola - Enforcement of GPRS standard essential patents.

¹⁴ European Commission Decision of 29 April 2014, case AT.39939 - Samsung - Enforcement of UMTS standard essential patents.

¹⁵ The Commission had dealt with the standard setting rules in the different form of “patent ambush” also in the previous *Rambus* case, where an undertaking had been accused of having intentionally concealed that it had patents included in an industry standard, later charging high royalties for their use. See European Commission Decision of 9 December 2012, COMP/38.636 – Rambus.

¹⁶ In particular: (i) a SEP owner which considers its patent infringed must, “alert the alleged infringer of the infringement complained about by designating that SEP and specifying the way in which it has been infringed”; (ii) the alleged

All these abuses, each with its own features, originate in a way or another from a misuse of patent rights. What is peculiar is that those infringements do not consist in a violation of patent rules, or at least are independent thereof. An infringement of antitrust law can thus arise from a use of patent rules which is not forbidden, and sometimes is even expressly allowed. This situation is well described in a recent decision of the Italian Supreme Administrative Court (the “Consiglio di Stato”), which applied the concept of “abuse of right” - which means using a legitimate right

infringer must express its “willingness to conclude a licensing agreement”; (iii) the SEP owner shall “present to that alleged infringer a specific, written offer for a licence on FRAND terms, in accordance with the undertaking given to the standardisation body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated”; (iv) the alleged infringer must diligently “respond to that offer, in accordance with recognised commercial practices in the field and in good faith, a point which must be established on the basis of objective factors and which implies, in particular, that there are no delaying tactics” and, if it does not accept the offer, must submit “promptly and in writing, a specific counter-offer that corresponds to FRAND terms” and, if it uses “the teachings of the SEP before a licensing agreement has been concluded, it is for that alleged infringer, from the point at which its counter-offer is rejected, to provide appropriate security, in accordance with recognised commercial practices in the field, for example by providing a bank guarantee or by placing the amounts necessary on deposit [which] must include, inter alia, the number of the past acts of use of the SEP, and the alleged infringer must be able to render an account in respect of those acts of use”; and (v) “where no agreement is reached on the details of the FRAND terms following the counter-offer by the alleged infringer, the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay” (European Court of Justice, decision of 16 July 2015, C-170/13, paragraphs 60-68).

for an illegitimate purpose - to antitrust infringements¹⁷.

I believe this is the result of a contrast inherent in the nature of patent and competition law, which has been efficaciously compared to squabbling bride and groom¹⁸. It is true that both areas of law have the ultimate purpose of enhancing economic growth and wellness, as the one seeks to encourage innovation and the other one efficiency. However, one must admit that their primary goals are quite discordant, as a patent implies the power to exclude unauthorised third parties, whereas competition law is deeply adverse to exclusions. This contrast can be denied at a theoretical level, but on a practical one it is confirmed by the large number of antitrust cases which have dealt with patents.

This is not shocking in the world of law. Law, as indeed human society, has always been awash with conflicting interests, and its aim is precisely to conciliate and find the ultimate balance. The problem is that patent regulations do not provide any indications on what should be considered forbidden for being restrictive to competition, and competition law is quite general in nature.

¹⁷ The Italian Supreme Administrative Court Decision No. 693 of 12 February 2014.

¹⁸ See MARIO MONTI, *The New EU Policy on Technology Transfer Agreements*, SPEECH/04/19, Ecole des Mines (Paris, 2004). See also GUSTAVO GHIDINI, *The Bride and the Groom. On Intersection between Intellectual Property and Antitrust Law*, in GIANDONATO CAGGIANO, GABRIELLA MUSCOLO, MARINA TAVASSI, *Competition Law and Intellectual Property*, Wolters Kluwer, 2012, p. 27.

Therefore, undertakings can find no safe handles when they approach the minefield of the “grey area” where they are, on the one hand, admitted according to patent law but, on the other hand, exposed to the risk of putting a foot on an antitrust infringement. Those handles are sometimes fixed by competition authorities, but only in the very limited areas where they have previously found an infringement and often the principles established are so general in nature that they are quite hard to apply to cases which are even little far from the handle. The problem is that this “grey area” should not exist at all. A patent should be a green garden within which patent owners can legitimately exclude competitors, surrounded by a red area forbidden by antitrust law, with a well-defined fence along the boundary. Exhaustive statutes and regulations (possibly patent regulations) - as a result of discussions between all the interested parties - should constitute this clear fence; antitrust authorities and courts should only supervise it and fix the holes when they find them. Otherwise, legal certainty will suffer.

This might have devastating consequences on innovative undertakings, whose role in the modern economy is beyond dispute. If it is not possible to clearly forecast the benefits connected to every single innovation, undertakings might not devote the necessary efforts and resources to develop new technologies. Consequently, competitiveness within the EU would be affected and the social utility of IP rights reduced.

Therefore, the unusual Court of Justice’s decision in the *Huawei* case seems to be determined by this legislative gap. Indeed, quite

rarely does a court decision set out detailed procedures to be followed as the Court of Justice did in this case. These rules should be established by the legislator, not the court, unless it is somehow “forced” to do so in order to fill a legislative gap. However, despite the worthy decision of the Court of Justice, which however “covers” only the specific case of SEPs, a comprehensive reform of the patent system, which took into account also antitrust principles, would certainly be a progress towards the legal certainty and a help for undertakings.