

**Refusal to License Intellectual Property Rights as an Abuse of  
Dominance under EU Competition Law:  
What is the Best Solution for Legal Certainty from a Rule of Law  
Perspective?**

**By**

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## ABSTRACT

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The researcher has adopted the rule of law as a theoretical framework to critically analyse European Union ('EU') competition law intervention in cases of refusal to license intellectual property right ('IPR'). The research also examined the approaches adopted by EU judiciary and competition authorities when dealing with a competition law defence. The study was particularly focused on the 'exceptional circumstances' test used by EU competition authorities to assess unlawful conduct of dominant undertakings. The exceptional circumstances test under Article 102 Treaty on the Functioning of the European Union ('TFEU') has aggressively expanded throughout EU case law. This has resulted in inconsistencies or gaps in law as EU case law progressed which could clash, to some degree, with one of the basic elements of the rule of law: the legal certainty, predictability consistency of decision-making.

The case of finding abusive conduct by patent or standard essential patents' owners ('SEPs') under EU competition law can potentially challenge the rule of law doctrine, the essence of IPRs, the protection offered under CFREU and Directive 2004/48 on the Enforcement of Intellectual Property Rights. A lot of attention in contemporary EU law has been focused on the question of when should competition law compel a dominant undertaking to license its intellectual property ('IP') to its rivals? And what are the required terms, if supply was found to be mandatory? These questions are discussed with reference made to EU case law starting with one of the earliest cases, *Volvo v Veng*, and some of the latest cases, most prominently *Huawei v ZTE*.

This thesis has contributed to knowledge through the use of the doctrine of the rule of law as a tool to assess EU case law and explore the extent to which the rule of elements has been met. It has also contributed to knowledge via the reflection on EU law and how it has been interpreted by national courts pre-and-post *Huawei v ZTE*. The UK, Germany and Netherlands are used as examples to evaluate how the EU competition law has been applied and interpreted by the domestic judiciary and to explore the implications of *Huawei v ZTE* on cases brought before domestic cases.

The researcher ultimately called for major reforms to Article 102 TFEU to identify its scope and limitations and its main objectives. It was concluded that the EU competition law is built on a degree of uncertainty and EU decision-making can be categorised by unconformity that could be challenged by some of the rule of law elements. The study indicated that the EU judiciary and competition law authorities could adopt an approach similar to that of the UK by examining the legitimate expectations of both right-holders and licence seekers as opposed to the examination of the legitimate expectations of licence seekers.

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## LIST OF ABBREVIATIONS

<b>ANSI</b>	<b>American National Standards Institute</b>
<b>CDIP</b>	<b>Committee on Development and Intellectual Property</b>
<b>CFI</b>	<b>Court of First Instance</b>
<b>CFREU</b>	<b>Charter of Fundamental Rights of the European Union</b>
<b>CJEU</b>	<b>European Court of Justice, General Court, European Civil Service Tribunal</b>
<b>CMA</b>	<b>Competition Markets Authority</b>
<b>ECJ</b>	<b>European Court of Justice</b>
<b>ETSI</b>	<b>European Telecommunications Standards Institute</b>
<b>EU</b>	<b>European Union</b>
<b>FRAND</b>	<b>Fair Reasonable and Non-Discriminatory (intellectual property licensing)</b>
<b>GATT</b>	<b>General Agreement on Tariffs and Trade</b>
<b>GC</b>	<b>General Court</b>
<b>ICT</b>	<b>Information and Communication Technology</b>
<b>IP</b>	<b>Intellectual Property</b>
<b>IPRs</b>	<b>Intellectual Property Rights</b>
<b>R&amp;D</b>	<b>Research and Development</b>
<b>SEP</b>	<b>Standard Essential Patent</b>
<b>SEPs</b>	<b>Standard Essential Patents</b>
<b>SSO</b>	<b>Standard Setting Organisation</b>
<b>SSOs</b>	<b>Standard Setting Organisations</b>
<b>TEU</b>	<b>Treaty on the European Union</b>

<b>TFEU</b>	<b>Treaty on the Functioning of the European Union</b>
<b>TRIPS</b>	<b>Trade-Related Aspects of Intellectual Property Rights</b>
<b>UK</b>	<b>United Kingdom of Great Britain and Northern Ireland</b>
<b>VCLT</b>	<b>Vienna Convention on the Law of Treaties</b>
<b>WIPO</b>	<b>World Intellectual Property Organisation</b>
<b>WTO</b>	<b>World Trade Organisation</b>

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## CHAPTER ONE

### INTRODUCTORY CHAPTER

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#### I. OUTLINE: THE RELEVANCY OF THIS TOPIC AS A CURRENT LEGAL ISSUE

Competition law and IPRs have developed as two distinct systems of the law. Both areas of law are meant to foster innovation and economic growth. However, different methods are adopted for reaching the set-out objectives.<sup>1</sup>

Generally, IPRs and competition law have been seen as contradictory principles, given that IPRs provide right holders with monopolies that can facilitate barriers to entry, whereas competition law aims to maintain effective competitive structure by preventing legal barriers to entry.<sup>2</sup> It has, thus, been argued by some scholars<sup>3</sup> that there is a considerable gap between both areas of law, particularly in the intersection of their goals<sup>4</sup> and the means embraced to meet such objectives.

The finding of abusive conduct could oblige a proprietor to allow others to use the IPR in question. Therefore, this system has passed criticism to the subject matter, whereby

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<sup>1</sup> L. Bently and B. Sherman, *Intellectual Property Law* (4th edn, Oxford University Press 2008) 320

<sup>2</sup> J. Turner, *Intellectual Property and EU competition Law* (2<sup>nd</sup> edn, Oxford University Press, 2010)

<sup>3</sup> Such as the arguments put forward by Steven Anderman, *The Interface Between Intellectual Property Rights and Competition Policy* (Cambridge University Press 2009) 1.

<sup>4</sup> *Atari Games Corp.v. Nintendo of America Inc*, [1990] F, 2d. 1572 (Fed. Cir.)

numerous commentators have questioned the constitutionality<sup>5</sup> and the fairness<sup>6</sup> of such practices.

It is important to mention here that the objective of Article 102 TFEU, ex Article 82 EC, has been set out to ensure that:

*...A **balance** should be kept between the interest in preserving or creating free competition in a particular market and the interest in not deterring investment and innovation by demanding that the fruits of commercial success be shared with competitors.*<sup>7</sup>

With the exclusive exercise of IPRs, there is a possibility that such an exercise could establish an abuse of dominance under EU competition law.<sup>8</sup> However, the determination of an appropriate 'balance' could be difficult to achieve or even to identify. Indeed, it is not the aim of Article 102 TFEU to prevent a business from becoming dominant as the mere dominant position in the market is not considered as an abuse.<sup>9</sup> Nonetheless, Article 102 TFEU normally comes to play after a dominant industry had abused its market power by participating in abusive conduct that has an adverse impact on competition.<sup>10</sup>

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<sup>5</sup> N. Reitz, 'Compulsory Licensing in the Industrial and Commercial Arena: A Compromise' [1966] 54(3) California Law Review 1364-1381; Note, 'Compulsory Licensing: A Controversial Topic in the Latest Revision of Our Copyright Law' [1964] 83 (33) U. Cinc. L. Rev. 94-98

<sup>6</sup> N. Reitz, 'Compulsory Licensing in the Industrial and Commercial Arena: A Compromise' [1966] 54(3) California Law Review 1364-1381

<sup>7</sup> C-109/03 *KPN Telecom BV v Onafhankelijke Post en Telecommunicatie Autoriteit* [2004] E.C.R. I-11273, (Poiates Maduro A.G.'s Opinion), at [39].

<sup>8</sup> C-53/87 *Consortio Italiano della Componentistica di Ricambio per Autoveicoli v Regie Nationale des Usines Renault* [1988] E.C.R. 6039, at [16].

<sup>9</sup> C- 322/81 *Neverlansche Banden Industrie Michelin v. Commission* [1985] 1 C.M.L.R 282, [57]; Joined Cases C-395/96 P and C-396/96 P *Campagne Maritime Belge Transports v. Commission* [2000] 4 C.M.L.R 1076 [37]; Case C-52/09 *Konkurrensverket v. TeliaSonera Sverige* [2011] 4 C.M.L.R 18, [24].

<sup>10</sup> C-209/10 *Post Danmark A/S v Konkurrenceradet* [2012] 4 C.M.L.R 23, [21]-[32]

As mentioned above, the determination of an appropriate balance between competition law and IP is a challenging task. It has even been argued that this is one of its most contentious fields of EU law which might be due to the unclear law and its interpretations which makes it difficult for IPR owners to foresee the circumstances that could constitute an abuse of dominance.<sup>11</sup> Therefore, competition law and IPRs commentators have been calling for a more precise guidance on the assessment of abuse of dominance.<sup>12</sup> The need for a more detailed guidance is because competition law intervention in IP-related matters can be unclear, lengthy and uncertain.<sup>13</sup>

For the reasons set out above, the research critically analyses this issue and assesses, from a rule of law perspective, where and to what extent the EU competition law intervention on IP matters lacked, to some degree, transparency, clarity, stability and predictability. As a matter of fact, IP specialists have argued<sup>14</sup> that IP owners have been facing challenges in predicting, controlling, managing and even understanding how to plan for the future which has, thus, led to this research adopting the rule of law doctrine to call for a predictable legal system for the sake of right holders so that they can plan for the future more effectively.

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<sup>11</sup> A. Jones and B. Sufrin, *EU Competition Law* (6th edn, Oxford University Press 2014), at p. 271

<sup>12</sup> L. Kjolbe, 'Rebates Under Article 82 EC: Navigating Uncertain Waters' (2010) *European Competition Law Review* 6:22-80; B. R. Galindo 'Prohibition of the Abuse of a Dominant Position' (2007) the International Symposium on Anti-Monopoly Enforcement, p. 11 available at <[http://ec.europa.eu/competition/speeches/text/sp2007\\_18\\_en.pdf](http://ec.europa.eu/competition/speeches/text/sp2007_18_en.pdf)> last accessed on 1 May 2018

<sup>13</sup> B. Vesterdorf, 'Article 82 EC: Where do we stand after the *Microsoft* judgment?' (2008) 1 *Global Antitrust Review*, 1, 8 and 14. See also S. Fodor 'Compulsory licensing under the TRIPS Agreement: a tool for developing countries' access to technology transfer' (2011) Lunds University, Department of Business Law <

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.874.5433&rep=rep1&type=pdf>> accessed on 8 May 2018. See also J. Atik and H. Lidgard, 'Embracing Price Discrimination: TRIPS and the suppression of parallel trade in pharmaceuticals' [2007] 27(4) *U Pa J Int'l Econ L* 1043-1076, at p. 1049

<sup>14</sup> This is addressed in chapter two, the literature review. For example, F. Fine, 'European Community Compulsory Licensing Policy: Hersey versus Common Sense' (2004) 24 *NW.J.INT'L L. & BUS* at 622; J. Tudor, 'Compulsory Licensing in the European Union' [2008] 4(2) *Geo Mason J Int'l Com Law* 222-258; K. Czapracka, 'Where Antitrust Ends and IP Begins-On The Roots of the Transatlantic Clashes' (2007) 9 *Yale Journal of Law and Technology* 44, at 47-48 and 72-77

The rule of law has been used as a supporting tool to the examination of the implementation and interpretations of Article 102 TFEU in the EU legal system. The study aims to highlight areas where the essence of IPRs could be strengthened so that undertakings with protected IPRs can plan their conducts according to a set of clearly defined rules that provide for transparency, predictability and uniformity which better adhere with the rule of law core elements.

The ECJ, GC and EU competition authorities have established in a set of case law<sup>15</sup> that a refusal to share an IPR by a dominant undertaking could be found unlawful under Article 102 TFEU.<sup>16</sup> The test used by EU courts and competition authorities to determine abuse of dominance is the ‘exceptional circumstances’ test under Article 102 TFEU. In other words, an IPR owner would only be found abusing its dominant position in rare circumstances. The research aims to portray that the ‘exceptional circumstances’ test used to determine abuse of dominance has been, to some degree, inconsistently interpreted and has even become progressively more aggressively applied in refusal to license cases. This research also argued that the test has become over-inclusive and

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<sup>15</sup> Case 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122; Case C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743; Case C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791; C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743; *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final; Case T-201/04 *Microsoft Corp v Commission* [2007] ECR ii-3601 (GC); T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (General Court) (The Microsoft judgement); C-170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14; C-170/13 *Huawei Technologies Co Ltd v ZTE Corp*. [2016] R.P.C. 4

<sup>16</sup> TFEU 2009, Art. 102 states the following:

*Any abuse by one or more undertakings of a dominant position within the internal market or in substantial part of it shall be prohibited as incompatible with the internal market in so far as it may effect trade between Member States.*

*Such abuse may, in particular, consist in:*

- (a) Directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;*
- (b) Limiting production, markets or technical transactions with other trading parties, thereby placing them at a competitive disadvantage;*
- (c) Making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.*

such over-inclusivity of competition law in refusal to license instances has, arguably, led to Article 102 TFEU going beyond its scope to deal with matters that are already covered under other areas of law, such as the CFREU.<sup>17</sup>

An example of how Article 102 TFEU has become over-inclusive narrates to the recent case by the ECJ in *Huawei v ZTE*.<sup>18</sup> It has been indicated by the ECJ here that, in exceptional circumstances, the pursuit of IP infringement proceedings by SEP owners against ‘infringing’ users could constitute abuse under Article 102 TFEU.<sup>19</sup> The ECJ has contemplated here that Huawei should not have sought a prohibitory injunction or a claim for damages against ZTE as Huawei should not have refused to license its IPR on FRAND terms in the first place. However, the recent limitations regarding access to justice under the exceptional circumstances test of Article 102 TFEU is already a matter covered under the CFREU.

Moreover, the research has adopted the rule of law doctrine as the theoretical framework of addressing and assessing areas that can lead to inconsistency, legal uncertainty and unpredictability in EU case law. In order to highlight the areas of legal uncertainty from a rule of law perspective, the research examines the evolution of the ‘exceptional circumstances’ test in EU case law. It also aims to explore how national courts applied and interpreted the application of Article 102 TFEU pre and post the recent case of *Huawei v ZTE*. The UK, Germany and Netherlands are used as examples to study the potential implications of the ECJ’s ruling on national courts when they are presented with an EU competition law defence.

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<sup>17</sup> As seen in C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14; C-170/13 *Huawei Technologies Co Ltd v ZTE Corp*. [2016] R.P.C. 4

<sup>18</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14; C-170/13 *Huawei Technologies Co Ltd v ZTE Corp*. [2016] R.P.C. 4

<sup>19</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14; C-170/13 *Huawei Technologies Co Ltd v ZTE Corp*. [2016] R.P.C. 4

The research has, thus, aimed to emphasise that the application of Article 102 TFEU, under the 'exceptional circumstances' test, must be limited in scope to safeguard that the basics of the rule of law are better preserved within the EU legal system. From a legal standpoint, the determination of a predictable legal framework provides a higher level of IP protection and maintains the incentives to innovate and invest in further R&D of future patents or existing ones within the EU market.

## II. KEY DEFINITIONS AND DESCRIPTIONS

This section outlines the central definitions of the main concepts and terms used throughout this research. It starts by explaining the meaning of patents and SEPs, as well as the essence of IPR and abusive conduct. It then identifies a definition for compulsory licensing which is followed by introducing refusal to license as potential abuses of EU competition law. It then defines the meaning of SSO and FRAND commitments.

### A) Patent and SEP

A patent is granted to protect an invention that is made or used, new and inventive.<sup>20</sup> Some types of inventions cannot be patented, such as literary and artistic works, some mobile apps, discovery and more.<sup>21</sup> Moreover, a SEP is a patent that is essential to a standard set by an SSO.<sup>22</sup>

### B) The Essence of IPR in the Context of this Project

The essence of IP provides right holders with the exclusive rights and the power to stop others from commercialising, using or manufacturing a protected IPR. This has been

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<sup>20</sup> Gov.uk, 'Patenting your invention' (gov.uk) <https://www.gov.uk/patent-your-invention> accessed 4 December 2018

<sup>21</sup> Gov.uk, 'Patenting your invention' (gov.uk) <https://www.gov.uk/patent-your-invention> accessed 4 December 2018

<sup>22</sup> Competition Directorate, 'Competition policy brief' (euroa.eu, June 2014) <  
[http://ec.europa.eu/competition/publications/cpb/2014/008\\_en.pdf](http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf)> accessed 4 December 2018

called '*ius prohibendi*' which means that the right holder might acquire monopolistic position whilst the right is protected as an IPR.<sup>23</sup>

However, the exclusivity of such rights is not absolute, as in some circumstances a dominant business's refusal to license its IP could be deemed unlawful under Article 102 TFEU. In such cases, the court or relevant authority can decide to issue a compulsory licence. It must be highlighted here that time restriction and adequate compensation are applicable. Moreover, compulsory licences are non-exclusive, in other words, they can be granted to various third parties that can use and utilise the protected patent.<sup>24</sup>

### C) Definition: Compulsory Licences

A compulsory licence<sup>25</sup> has been defined as the following:

*'Authorisation given by a national authority to a person, without or against the consent of the title holder, for the exploitation of a subject matter protected by a patent or other intellectual property rights.'*<sup>26</sup>

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<sup>23</sup> C. M. Correa, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at <[https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf)> last accessed on 08/03/2018

<sup>24</sup> 'None-exclusive' suggests that a compulsory license can be issued to multiple third parties with no exclusive right enjoyed using the patent.

<sup>25</sup> Agreement on Trade-Related aspects of Intellectual Property Rights (TRIPS) 1995 [hereinafter referred to as TRIPS], Art. 31 refers to compulsory licenses as '*Other use without the authorization of the right holder*'

<sup>26</sup> C. M. Correa, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at <[https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf)> last accessed on 08/03/2018

#### D) 'The Exceptional Circumstances' Test

The exceptional circumstances test usually indicates that only in rare and specific circumstances would the exercise of the exclusive IPR lead to the finding of abuse of dominance.<sup>27</sup> Sometimes, 'the exceptional circumstances' test incorporates the essential facilities doctrine. In other words, the patent should be indispensable or essential in the market for an authority to determine a compulsory licence. Other times the test could incorporate the balancing assessment. In other words, balancing the right holder's incentives to innovate versus the innovation in the whole market.<sup>28</sup>

#### E) 'Abusive' Refusal to License

In some circumstances, third parties might be interested in using, manufacturing and selling the IPR but the patent holder refuses to provide a licence. The court or relevant authority usually finds an abuse of dominance when the market economy is hindered by the patent owner's refusal to license to the licence seeker.<sup>29</sup> A compulsory licence can be decided if the right holder rejects to license altogether or present an offer to a licence seeker that is based on unreasonable terms.<sup>30</sup>

It must be mentioned here that the interpretation of 'reasonable terms' by courts or relevant authorities is challenging. Normally, the interpretation of 'reasonable terms' takes place on a case-by-case basis. The examination of 'reasonable terms' comprises various elements, such as the nature of the patent, the requirements of already

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<sup>27</sup> Case T-201/04 *Microsoft Corp v Commission* [2007] ECR ii-3601 (GC), [6]

<sup>28</sup> These are discussed further in the literature review chapter

<sup>29</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) *Journal of Law and Technology* 153-190; The United Kingdom Patents Act 1949, S. 37, 48 and 49. This Act is no longer in force and has been repealed by the Patent Act 1977

<sup>30</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) *Journal of Law and Technology* 153-190; British Patents Act 1949, S. 37 (2)(d). This Act is no longer in force and has been repealed by Patent Act 1977; *Loewe Radio Co. Ltd's Application* [1929] 46 R.P.C. 479, at p. 489-90

established licences, the expenses encountered by the patentee during the development of the invention, consumer demand and the current state of the market in that area of trade.<sup>31</sup>

Royalties are usually determined based on market prices of the product as well as considerations to the practice in trade. Furthermore, the patent's costs for marketing, R&D must also be reviewed during the assessment of appropriate fees.<sup>32</sup> Some examples on the terms that are thought to be unreasonable by a relevant authority can include royalties that are based on different sale quantities, post-expiration royalties<sup>33</sup> and package licensing that require the licensee to pay fees for patents that are not intended for use.<sup>34</sup>

It must be mentioned, however, that the courts' assessment of the 'reasonable terms' can change with time due to the constant development of antitrust laws.<sup>35</sup> The demand of royalties and restriction of exports for a product can be thought as reasonable in the circumstances of when the patent owner refuses to license one profitable product instead of a package licensing.<sup>36</sup> Moreover, the terms can be reasonable when they maintain competition and do not unreasonably burden consumers.<sup>37</sup> Further, it has been indicated that a patent holder should enjoy legal rights associated with the patent

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<sup>31</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; *Brownie Wireless Co. Ltd.'s Application* [1929] 46 R.P.C. at 453, 457

<sup>32</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; *Brownie Wireless Co. Ltd.'s Application* [1929] 46 R.P.C. at 453, 457

<sup>33</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; *Kamborian's Patent* [1961] R.P.C. 403, at 406

<sup>34</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; *Brownie Wireless Co. Ltd's Application* [1929] 46 R.P.C. at 476-8

<sup>35</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190

<sup>36</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; *Cooperative Union Ltd's and Others' Application* [1933] 50 R.P.C. 164

<sup>37</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190

and thus, refusal to license based on the reason to give the patent an opportunity to be exploited in the initial market in order to recover the costs of R&D can be thought as reasonable justifications for its refusal to license the IPR.<sup>38</sup>

#### F) SSOs and the Meaning of 'FRAND'

The refusal to license patents or SEPs<sup>39</sup> can, in exceptional circumstances, be considered abusive. This research examines how the courts and EU competition authorities dealt with the refusal to license by patent owners, as well as the refusal to license by SEP owners on FRAND terms.

To start with, technical standards are set by specific organisations that approve some patents that have been declared essential as SEPs and, in return, SEP owners should make their patents available to FRAND licences.<sup>40</sup> Nowadays, FRAND licences are managed within SSOs due to various reasons. Some of which is the expansion of patents, particularly, in the ICT section which has led to '*patent thickets*'. The term '*patent thickets*' represents an overlap between the ability to manage intense patents and to commercialise the technology.<sup>41</sup>

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<sup>38</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; *Colborne Enginerring Co. Ltd's Application* [1955] 72 R.P.C. 169, 179

<sup>39</sup> Patents that have been declared essential to standard set by an SSO during the standardising setting process

<sup>40</sup> S. Ragavan and R. Dave, 'A comparison of FRAND and Compulsory forms of Licenses' [2015] 35(4) The Licensing Journal 10-15

<sup>41</sup> C. Shapiro, 'Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard-Setting' Innovation Policy & The Economy 1, 118-150 <http://faculty.haas.berkeley.edu/shapiro/thicket.pdf> accessed 8 December 2017

Accordingly, the SSOs are membership organisations that manage SEPs.<sup>42</sup> An Example on an SSO includes ANSI<sup>43</sup> which is an international SSO that leads patents that influence businesses in various sectors, such as dairy and energy distribution.<sup>44</sup> Other SSOs include the ETSI<sup>45</sup> which covers the European telecommunications industry.<sup>46</sup>

Patent holders submit their patents to an SSO for an evaluation, and the organisation decides as to whether the patent can be recognised as an SEP. The terms for licensing are detailed within the policies of an SSO which usually designate that the SEP is to be licensed on FRAND terms.<sup>47</sup> In other words, FRAND licensing is a practice which allows other standard users to use a SEP while having to pay fair and reasonable payments to a SEP holder.<sup>48</sup> It must be mentioned here that EU competition authorities have established FRAND commitments,<sup>49</sup> due to the existing challenges in the framework of SSOs and patent pools when the SEP holder<sup>50</sup> is unwilling to license the IP in question

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<sup>42</sup>A. Updegrove, 'What and (Why) is an SSO?' (consortiuminfo.org) available at <<https://www.consortiuminfo.org/essentialguide/whatisansso.php>> accessed on 8 December 2017

<sup>43</sup> American Standard Institute, 'ANSI: About ANSI' (ANSI- American Standard Institute, 2018) <[www.ansi.org](http://www.ansi.org)> accessed 22 January 2018

<sup>44</sup> American Standard Institute, 'ANSI: About ANSI', (ANSI celebrating 100 years 1918-2018, 2018) <[http://ansi.org/about\\_ansi/introduction/history.aspx?menuid=1](http://ansi.org/about_ansi/introduction/history.aspx?menuid=1)> Accessed 27 November 2017

<sup>45</sup> European Telecommunications Standards Institute, 'ETSI's Mission' (etsi.org) available at <<http://www.etsi.org/about>> accessed on 8 December 2017

<sup>46</sup> A. Updegrove, 'Laws, Cases and Regulations' (consortiuminfo.org) <<http://www.consortiuminfo.org/essentialguide/laws.php#dell>>. Accessed on 14 December 2017

<sup>47</sup> R. Brooks and D. Geradin, 'Taking Contracts Seriously: The Meaning of the Voluntary Commitment to License Essential Patents on 'Fair and Reasonable Terms'', <[http://www.cravath.com/files/uploads/documents/publications/3233990\\_1.pdf](http://www.cravath.com/files/uploads/documents/publications/3233990_1.pdf)> assessed on 15 December 2017

<sup>48</sup> R. Brooks and D. Geradin, 'Taking Contracts Seriously: The Meaning of the Voluntary Commitment to License Essential Patents on 'Fair and Reasonable Terms'', <[http://www.cravath.com/files/uploads/documents/publications/3233990\\_1.pdf](http://www.cravath.com/files/uploads/documents/publications/3233990_1.pdf)> assessed on 15 December 2017

<sup>49</sup> There is no unified definition of FRAND commitment, yet it has been highlighted by R Rapp and L Stiroh, 'Standard Setting and Market Power' (nera.com, 2002) <[www.nera.com/content/dam/nera/publications/archive1/5156.pdf](http://www.nera.com/content/dam/nera/publications/archive1/5156.pdf)> accessed on 12 November 2018  
'The typical SSO patent policy mandating that royalty be 'fair, reasonable, and non-discriminatory' gives little guidance for royalty determination because 'reasonable' can mean different things to a technology owner and a technology buyer'.

<sup>50</sup> J. Turner, *Intellectual Property and EU Competition Law* (2<sup>nd</sup> edn, Oxford University Press, 2010)

without having specified the terms of a licence between both parties. IPR owners in FRAND commitments are still not prevented from receiving appropriate royalties.

Although a FRAND commitment is not a contract as a SEP holder is only expected to license its SEP on ex-ante or equivalent terms, the owner can still be considered abusing its dominance under Article 102 TFEU when there is a breach of a FRAND commitment.<sup>51</sup> There is lack of clarity in the approaches adopted when dealing with FRAND ‘violations’, and thus, this research aims to examine guidance provided by courts in cases of refusal to license IPRs, given that refusal to license patents, and FRAND violations are on a similar footing.

Further to the above, SEP owners are expected to offer similar licensing terms to all licensees. While the overall condition is to be fair and reasonable, the actual connotation of FRAND terms has been argued to be undefined.<sup>52</sup> Mostly, the word ‘fair’ narrates to the elimination of licensing terms that are anti-competitive or abusive, while ‘reasonable’ transmits to an evaluation of the actual significance of the technology itself, and ‘non-discriminatory’ is set to guarantee similar licensing terms amongst competitors.<sup>53</sup>

Typically, patent holders are encouraged to declare their patent as a SEP and engage in FRAND licensing practices. This is because it gives them room to have some authority as a member of the governing process to influence the course of progress of a

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<sup>51</sup> M. Marieniello, ‘Fair, Reasonable, and Non-Discriminatory (FRAND) Terms: A Challenge for Competition Authorities’ [2011] 7(3) Journal of Competition Law and Economics 525

<sup>52</sup> J. Radcliffe and G. Sproul, ““FRAND” and the Smart-phone Wars’, Intellectual Property Magazine, Winter 2012/2012 at 45-47

<sup>53</sup> J. Radcliffe and G. Sproul, ““FRAND” and the Smart-phone Wars’, Intellectual Property Magazine, Winter 2012/2012 at 45-47

standard.<sup>54</sup> These types of licences lead to the reduction of transaction costs, advancement of economy and enhancement of the product's value to consumers via a network facilitated under standardisation.<sup>55</sup> This allows consumers to move from one product to the other quickly and more easily.<sup>56</sup> Therefore, standards have a role in harmonising different operational features of the industry and creating a comprehensive platform for an effective interface between patent owners.<sup>57</sup>

Sometimes, a patent owner might engage in a hold-up of the SEP by, for example, refusing to license the SEP on FRAND terms.<sup>58</sup> If the SEP holder has been found involved in a hold-up matter, then a compulsory licence can come into effect to prevent anti-competitive or abusive practices, given that FRAND commitments have been seen as means for growing and further developing innovation.<sup>59</sup>

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<sup>54</sup> J. Radcliffe and G. Sproul, "FRAND" and the Smart-phone Wars', *Intellectual Property Magazine*, Winter 2012/2012 at 45-47. See also M. Dewatripont and P. Legros, 'The Essential Patents, FRAND Royalties, and Technological Standards', Working Paper N 6925 (Centre for Economic Policy Research, 2008) 1

<sup>55</sup> M. Mariniello, 'Fair, Reasonable, and Non-Discriminatory (FRAND) Terms: A Challenge for Competition Authorities' [2011] 7(3) *Journal of Competition Law and Economics* 524

<sup>56</sup> R. Srividhya and D. Raj, 'A Comparison of FRAND and Compulsory Forms of Licenses' [2015] 35(4) *Licensing Journal* 10-15

<sup>57</sup> M. A. Lemley, 'Intellectual Property Rights & Standards- Setting Organisations' 90 [2002] *California Law Review* 1889

<sup>58</sup> S. Ragavan and R. Dave, 'A comparison of FRAND and Compulsory forms of Licenses' [2015] 35(4) *The Licensing Journal* 10-15

<sup>59</sup> S. Ragavan and R. Dave, 'A comparison of FRAND and Compulsory forms of Licenses' [2015] 35(4) *The Licensing Journal* 10-15

### III. THE MAIN AIM AND RESEARCH QUESTIONS

The overall aim is to portray how the ‘exceptional circumstances’ test falling under EU competition law has been inconsistently applied and interpreted throughout EU case law, particularly in cases of refusal to license. The research mainly calls for the need to ensure consistency in EU decision making; the theoretical framework of the rule of law doctrine always stresses the importance of consistency in decision-making and how it would strengthen legal certainty and predictability that is provided in any legal system. Indeed, it may be crucial for the intervention of competition law in the exclusive rights conferred to IP holders, yet the researcher argues that courts and competition authorities must only do so in very exceptional and rare circumstances in order not to weaken the essence of IPR. It has been stressed in this thesis that the strengthening of the essence of IPRs would, in return, strengthen the rule of law within the EU legal system. Moreover, the study aims at highlighting that the relationship between IPRs and competition law should be viewed as complementary and not antagonistic. The researcher also intends to address the treatment of refusal to license resulting in abuse of dominance as breach of competition law by identifying the best logical solution for legal certainty and in better fulfilment with the rule of law core elements.

To demonstrate and tackle the highlighted challenges, the project examines the international obligations which are followed by an examination of EU case law on ‘abusive’ refusal to license cases and FRAND ‘violations’ and observes the specific circumstances for when a refusal to license has been regarded illegal under Article 102 TFEU. The research then investigates how the change of priorities throughout EU case law has influenced the administration of Article 102 TFEU by the EU Member States,

particularly post-*Huawei v ZTE*.<sup>60</sup> The research utilises the investigation of existing case law, from the rule of law perspective, to address issues of enforcement under competition law for refusal to license and illustrate the implications of the development of the 'exceptional circumstances' test throughout EU case law.

The key research questions can be summarised into four subjects as the following:

- To what extent are the basic or core elements of the rule of law doctrine met by the EU legal system when a dominant undertaking is found to be abusing its dominant position under Article 102 TFEU?

To make such as assessment, this project must examine the primary definitions of the rule of law, as well as its elements in chapter three of this research. Generally speaking, for now, the rule of law has been defined by Raz as the following:

*'The rule of law means literally what it says: the rule of law. Taken in its broadest sense this means that people should obey the law and be ruled by it.'*<sup>61</sup>

Legal certainty commonly refers to the predictability of the outcome of litigation. Conversely, this attitude necessitates the fact that individuals should be aware of their rights and obligations. Therefore, this project has adopted the rule of law as the philosophical doctrine for assessing the extent under which the elements of the rule of law have been met in cases of the 'exceptional' EU competition law intervention in IP-related matters.

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<sup>60</sup> Chapter six of this research

<sup>61</sup> J. Raz, 'The Rule of Law and its Virtue', in J. Raz, *The Authority of Law: Essays on Law and Morality*, 1979, pp. 210-232.

- What role do international agreements play with regard to abusive conduct by IP holders? What is the position of the EU towards the direct effect of international agreements?

The examination of international agreements is an essential element of this research. International agreements allow countries to initiate collaborative work and cover vital issues that are cross-border or international in scope. The TRIPS Agreement, for example, has an integral part in enabling an exchange of knowledge and creativity, in settling disputes in trade, as well as, safeguarding WTO Members the room to attain their national aims and objectives.<sup>62</sup>

For the objective of this research, international regulation of competition law has been found to correlate with IP law.<sup>63</sup> During the early periods of regulating competition law, it was recognised that the protection against abuses of IPR forms an integral part of industrial property protection.<sup>64</sup> 'Abusive' refusals to license IPR can be covered under Article 5(A)(2) of the Paris Convention, as well as, mainly Articles 8.2, 13, 31 and 40 of the TRIPS Agreement.

This research aims to explore these provisions and analyse the recommendations of the WIPO regarding the conclusion of an abuse of dominance. It then seeks to address the position of the EU towards international agreements and then examining the principle

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<sup>62</sup> WTO, 'Intellectual property: protection and enforcement' (wto.org) [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm7\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm7_e.htm) accessed 13 November 2018

<sup>63</sup> R. W. de very, *Towards a European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers 2006) 17

<sup>64</sup> R. W. de very, *Towards a European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers 2006) 17

of consistent interpretations and hierarchy of norms to assess the obligations of the EU towards international agreements.

- What are the requirements of ‘the exceptional circumstances’ test used by EU judicial and competition authorities to determine abusive conduct under Article 102 TFEU? Is the framework of the ‘exceptional circumstances’ test consistently applied and interpreted throughout EU case law?

As mentioned earlier, this project aims at demonstrating the challenges and implications of EU competition law in refusal to license cases by examining the courts’ interpretation and application of Article 102 TFEU. This research aims to assess whether EU judicial and competition authorities have been successful in achieving such a balance between competition law and IP without undermining, to some degree, the essence of IPRs. It also aims to showcase how ‘the exceptional circumstances’ test has been inconsistently applied throughout EU case law. The examination of the evolution of the test aims to highlight this issue throughout the exploration of some of the prominent EU case law in this area. Ultimately, the research aims to eventually address whether Article 102 TFEU goes beyond its scope to cover other areas of already established rules, such as Article 17(2) and 47 CFREU and the objectives of Directive 2004/944 EC.

- How do national courts apply and interpret Article 102 TFEU pre and post-*Huawei v ZTE*?

The research aims to explore the potential impact of *Huawei v ZTE* on the administration of EU competition law by domestic courts. It aims first to examine the interpretation and application of EU competition law by national courts pre-*Huawei v*

*ZTE* and then investigate the implications of this decision on domestic courts for finding an abuse of dominance under Article 102 TFEU. The research is limited to examining the approaches of the UK, Germany and Netherlands as examples to demonstrate the potential impact of *Huawei v ZTE*. The purpose of reviewing the administration of EU competition law by the three named jurisdictions is to identify the best solution for legal certainty, given that domestic courts usually contribute and could also significantly influence the development of the EU legal system.

#### IV. RESEARCH DESIGN AND METHODOLOGY

The examination of the effectivity of the aims and objectives of the competition law available at a global, regional and domestic level is undertaken in this thesis with particular focus on the EU legal system and its administration by national courts. Following the examination of the interface of competition law and IPRs at an international and EU level, the jurisdictions of the UK, Germany and Netherlands are explored to assess the administration of EU competition law by different EU Member States and highlight the attention-grabbing differences that exist between them when interpreting and applying Article 102 TFEU.

Additionally, this study mainly utilises the doctrine of the rule of law as a measuring tool when investigating the potential gaps and inconsistencies in EU competition law intervention. Therefore, the rule of law is adopted as a theoretical doctrine in this research as legal uncertainty in this area of law can be problematic. This is because right holders would have been compelled to provide a licence to licence seekers when they have already invested in researching and developing their innovations. Accordingly, legal certainty should not be undermined when a compulsory licence is to be issued.

Indeed, one of the EU's main fundamental values is the rule of law<sup>65</sup> and the accession of new Member States is subject to their adherence with the rule of law.<sup>66</sup> Nonetheless, the adherence to the rule of law is, theoretically, proven difficult in a multilevel context due to the wide range of different approaches adopted to monitor the rule of law.<sup>67</sup> Consequently, the aim of this thesis is to address the central question: To what extent are the core values of the rule of law met by EU instruments and institutions as they monitor the rule of law and its performance in the context of EU competition law and its interface with IPRs?

To tackle the overall objective of this study, it is important first to provide black letter methodology by looking into the contributions of scholars and commentators for a deeper understanding on the theories regarding competition law and IP-related issues, as well as the rule of law doctrine. The black letter approach is a significant method for conducting legal research as it focuses on the law in theory rather than in action for the formulation of a comprehensive interpretation on the views regarding abusive conduct in the case of a refusal to license a patent or SEP. The black letter approach is used also to examine contributions to the rule of law doctrine and its principles.

The black letter methodology was then trailed by the investigation of primary sources from the EU, domestic legal systems, and international legal orders, incorporating sources of primary and secondary legislation. The research is carried out with a conventional legal approach by looking at EU legal source material, such as legislative text, preparatory work, case law, legal doctrine and articles. The EU legal method

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<sup>65</sup> TEU 2012, Article 2

<sup>66</sup> Elaine Mak and Sanne Taekema, 'The European Union's Rule of Law Agenda: Identifying its Core and Contextualising its Application' [2016] 8(1) Hague Journal on the Rule of Law 29-50

<sup>67</sup> Elaine Mak and Sanne Taekema, 'The European Union's Rule of Law Agenda: Identifying its Core and Contextualising its Application' [2016] 8(1) Hague Journal on the Rule of Law 29-50

emphasises the importance of case law from the ECJ, GC and the Commission as it outlines the general legal principles and its interpretations.

The case law study is of particular importance as it is a vital methodology that aims to give an in-depth analysis and exploration of the law in action and highlight the issues that potentially could overlap with the rule of law elements. The case law study aims to contextualise and carefully analyse how various cases were solved throughout the evolution of ‘the exceptional circumstances’ test. The analysis is performed regarding EU case law and its implications on three domestic courts of EU Member States as they administer the application of Article 102 TFEU domestically. Additionally, comments and case reports are referred to further the critical examination of the judgments themselves.

Accordingly, the study can be described as a combination of black letter methodology as well as evaluative<sup>68</sup> and qualitative<sup>69</sup> research of the exceptional circumstances test that has been introduced by EU institutions and is used to examine the relation between patents and competition. The qualitative case-based methodology is conducted by the critical examination of existing case law by EU courts and competition authorities, as well as several national courts. Moreover, the evaluative research methodology is conducted by the exploration of the compliance of EU courts and competition authorities with the theoretical framework of the rule of law doctrine when applying and interpreting the ‘exceptional circumstances’ test falling under Article 102 TFEU.

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<sup>68</sup> M. V. Hoecke, *European Academy of Legal Theory Series, Methodologies of Legal Research, Which Kind of Method What Kind of Discipline?* (1 edn, Hart Publishing Ltd 2011) p. 1

<sup>69</sup> G. Wisker, *Postgraduate Research Handbook: Succeed with Your MA, MPhil, EdD and PhD* (1 edn, Palgrave Macmillan 2008) 120

One of the main challenges for the rule of law evaluative approach is taken in this thesis is the potential criticism that could be brought up by some economists. Some could argue that the rule of law approach is a 'rigid' approach as it could add constrictions when restrictions are unfavourable to businesses and their progression. However, one of the counter-arguments used is the fact that legal certainty in this field of law is crucial for investors. The lack of legal confidence would lead to the risk of investors losing their interest in further investing in the EU market which would have a negative impact on the economy. Another counter-argument would be that the set-out research design and methodology is aimed at supporting the argument that it is, arguably, necessary to take further steps towards introducing a set of rules that provide for the uniformity of regulation of refusal to supply or licence as abuse of dominance. Alternatively, at least, to provide a more transparent set of standards and guidelines that clearly outline the obligations of undertakings, so businesses and courts can follow them.

## V. CONTRIBUTION TO ACADEMIC RESEARCH

The EU legal order and its policies are based and founded on the rule of law as set under Article 2 TEU.<sup>70</sup> Thus, Member States and their citizens expect that EU institutions observe, in their actions, the rule of law. It is, consequently, anticipated that the enforcement authorities apply clearly defined rules with adequate predictability, transparency and uniformity so that private actors can predict what and when their actions are lawful in order to fashion their actions accordingly.

The rule of law doctrine has been significantly brought into attention in the research. This doctrine has been used as a mechanism or a supporting tool to the discussions

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<sup>70</sup> TEU 2012, Article 2

concerning the implementation and interpretation of Article 102 TFEU in the EU legal system. In order to do so, the examination of the development of EU case law has been undertaken to highlight areas where the rule of law and the essence of IPRs could be strengthened so that undertakings with protected IPRs can plan their future endeavours according to a set of clearly defined rules that provide for consistency, transparency, predictability and uniformity.

The rule of law approach is the thesis's main original contribution to knowledge, and as far as the writer is aware, no research has ever adopted a rule of law perspective to assess areas of inconsistencies or legal uncertainty in EU competition law in IP-related matters. Generally, there is a wide variety of important and significant research on this area of law, yet an economic tactic was mainly embraced to support competition law interventions as the key to effective competition. Indeed, the economic perspective is most definitely a vital factor in this area of law. Nevertheless, the research supports the argument that law is supreme and thus, the law must be clear, consistent and predictable before any economic advantage can surface.

Additionally, and undeniably, national courts play a very important role in influencing and further developing the enforcement of EU law. As a matter of fact, national courts can act as guardians of the EU legal order, given that most EU disputes are resolved centrally before national courts. Therefore, the study of the administration of Article 102 TFEU by three previously named jurisdictions, the UK, Germany and the Netherlands, is aimed at identifying areas where more enhanced legal certainty is being offered to IP holders at a domestic level, and how this could be echoed at an EU level to help influence and shape the advancement of legal certainty and predictability that is being offered to such owners.

Overall, this project has also contributed to knowledge via the reflection on the evolution of EU case law from a rule of law perspective, as well as the examination of how the application of Article 102 TFEU has been administered by the three previously named national jurisdictions pre-and-post the recent case of *Huawei v ZTE*. Moreover, this research does not only examine the significant and recent case of *Huawei v ZTE*, but it also explores its implications on consequent cases that have been brought forward after the preliminary reference was delivered by the CJEU.

## VI. LIMITATIONS AND DIFFICULTIES

Like any research, this study has faced certain limitations and difficulties. As mentioned earlier, the thesis critically analyses the exceptional circumstances test used to identify abuse of dominance in cases of refusal to license. The research is, thus, limited to the examination of the compulsory licensing system and competition law intervention as a remedy to abusive conduct by dominant undertakings in the context of a refusal to license and FRAND violations by dominant firms. Nonetheless, compulsory licences can also be granted on other grounds such as public health, emergencies, environmental reasons, epidemics, public non-commercial use and other properties deemed suitable under national law as the TRIPS Agreement gave much flexibility in that regards.<sup>71</sup>

The research has also been limited in the selection of case studies to some of the most prominent cases, such as the case of *Huawei v ZTE*. The evaluation of the chosen set of cases has been undertaken to critically examine the development of the conditions of ‘exceptional circumstances’ throughout years. Therefore, the focus has been placed on the test that is used to establish abuse of dominance in order to examine how the test

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<sup>71</sup> TRIPS Agreement

has developed throughout EU case law which help identify the implications of such developments.

Another delimitation is the fact that a lot of significant contributions have been made to define and outline the concept and values of the rule of law, but the research has only examined some of the most prominent work on the doctrine to incorporate its central principles in this research. Various academics and scholars adopted their definition of the theory and their viewpoint on the rule of law, and thus, it was challenging to choose a definition of the rule of law and contribute to existing academic research in that regard. This study had still assessed and summarised the key rule of law elements that are relevant to this research to evaluate the areas of inconsistencies and legal uncertainties in this field of law against these summarised rule of law elements which all together brought an original contribution to this research.

Moreover, competition law is a vast and extensive area of law, and much literature has been conducted on this area of law. Therefore, the thesis examined international and EU competition law and its impact on domestic courts within the EU. The examination of EU administration by national courts has been limited to three EU Member States which include German, Dutch and English law due to the remarkable differences in interpreting EU case law. The delimitation or challenge particularly faced here is that the writer does not speak German or Dutch. If no English translation is available, algorithms were used as an initial translation of a Dutch or German case, but these algorithms were not relied upon in this research. The project had to, thus, resort to case law comments made by commentators and specialists that do speak these languages and are available in journal articles, internet sources, blogs and textbooks as a means of confirming and formalising the first means of informal interpretation.

## VII. THESIS STRUCTURE

The thesis has been divided into seven chapters. This chapter is the first chapter, and it is the introductory chapter. The second chapter is the literature review, and it investigates the approaches taken by various commentators and scholars and their contributions in the area of IP-competition law. This is followed by chapter three which examines the rule of law doctrine and its fundamental principles. Then, chapter four explores international agreements and EU interpretations of international obligations. This is followed by chapter five which conducts an in-depth analysis of EU case law to assess the development of ‘the exceptional circumstances’ test for finding an abuse of dominance in refusal to license cases and FRAND commitments. Following this, chapter six examines the admissibility of EU competition law defence in the UK, Germany and Netherland before *Huawei v ZTE* and then goes on to assess case law post-*Huawei v ZTE* in these same jurisdictions to highlight the potential impact of ECJ’s decision on domestic courts across EU member states. Finally, chapter seven presents the concluding remarks and recommendations for the development of a framework that could provide more legal certainty for patent and SEP owners.

## CHAPTER TWO

### LITERATURE REVIEW

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#### I. INTRODUCTION

This chapter is set to inspect some of the most prominent contributions brought by scholars and commentators on the intersection of competition laws and IPR. The developments throughout EU competition law has sparked the debate on such a crossing. This chapter is set to explore the different theories, as well as legal and economic perspectives of IP experts and competition law experts in this field of law.

This chapter studies the recent progress in EU competition law, the idea of EU compulsory licensing as a remedy, social obligations and public interest. It also covers the legal and economic perspectives of the competition-oriented theory, the essential facilities doctrine and the incentives balance test. This is followed by the thoughts as to whether the right to grant a voluntary licence is indeed optional and the business community perspective. It finally rationalises the rule of law approach and provides concluding remarks.

## II. DEVELOPMENTS IN EU COMPETITION LAW

EU competition law has dramatically changed over the past years. Significant reforms<sup>72</sup> were commenced and completed in regards to the enforcement of Article 101 TFEU and merger control.<sup>73</sup> Whereas, the calls made for reforms to Article 102 TFEU have not received the same enthusiasm by the DG Competition in comparison to Article 101 TFEU,<sup>74</sup> even though competition law academics and practitioners have stressed their concerns regarding the adopted standards that deal with anti-competitive or abusive practices under Article 102 TFEU.<sup>75</sup>

Following the several decisions that dealt with matters of abusive practices,<sup>76</sup> discussions were moved towards the analysis and application of Article 102 TFEU. The overwhelming majority of contributions suggest that it is imperative to initiate reforms to Article 102 TFEU, particularly given that improvements have been enthusiastically undertaken and completed for Article 101 TFEU and the merger control regime.<sup>77</sup>

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<sup>72</sup> T. Eilmansberger, 'How to Distinguish Good from Bad Competition under Article 82 EC: In Search of Clearer and More Coherent Standards for Anti-Competitive Abuses' (2005) 42 CML Rev. 129-177. See also W. Wils, *The Modernisation of EU Competition Law Enforcement in The EU* (1st edn, Cambridge University Press 2004), p. 661.

<sup>73</sup> T. Eilmansberger, 'How to Distinguish Good from Bad Competition under Article 82 EC: In Search of Clearer and More Coherent Standards for Anti-Competitive Abuses' (2005) 42 CML Rev. 129-177; W. Wils, *The Modernisation of EU Competition Law Enforcement in The EU* (1st edn, Cambridge University Press 2004), at 661.

<sup>74</sup> T. Eilmansberger, 'How to Distinguish Good from Bad Competition under Article 82 EC: In Search of Clearer and More Coherent Standards for Anti-Competitive Abuses' (2005) 42 CML Rev. 129-177

<sup>75</sup> T. Eilmansberger, 'How to Distinguish Good from Bad Competition under Article 82 EC: In Search of Clearer and More Coherent Standards for Anti-Competitive Abuses' (2005) 42 CML Rev. 129-177

<sup>76</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final ; Case T-203/01 *Michelin v. Commission* [2003] CFI II-4083; Case T-219/99 *British Airways v. Commission* [2003], CFI II 5925; C-418/01 *IMS Health v. NDC Health* [2004] ECR I 5039; *NDC Health v IMS Health: Interim measures* (Case COMP D3/38.044) [2003] O.J. 2003, L 268/69

<sup>77</sup> T. Eilmansberger, 'How to Distinguish Good from Bad Competition under Article 82 EC: In Search of Clearer and More Coherent Standards for Anti-Competitive Abuses' (2005) 42(1) CML Rev. 129-177. See also B. Sher 'The Last of the Steam-powered Trains: Modernising Article 82' [2004] 25(5) European Competition Law Review 243-246

Usually, the courts and relevant authorities had to distinguish between competition on the merits and unlawful practice of a dominant undertaking under Article 102 TFEU.<sup>78</sup> Articles 101 and 102 TFEU also provide the Commission with authority to apply and impose fines on businesses that infringe EU antitrust rules.<sup>79</sup> However, it is not easy to determine when a refusal to license is unlawful under Article 102 TFEU, and thus, debates around the assessments used by courts are inevitable.<sup>80</sup>

The above-mentioned has resulted in the wide-ranging academic literature on the correlation of competition law and IPR.<sup>81</sup> In the EU context, dominant undertakings are prohibited from abusing their position under Article 102 TFEU.<sup>82</sup> It has been emphasised that abuse of dominance under Article 102 TFEU is only in *exceptional circumstances*.<sup>83</sup> Mainly, EU competition authorities aim to achieve a balance between IPR and competition law through making sure that the conduct of right holders does not hamper economic efficiency.<sup>84</sup> In such circumstances, considerations to the impact of the right holder's practice in the market are taken into account when analysing static efficiency<sup>85</sup>, whereas considerations to long-term effects of a specific behaviour are taken into account when examining dynamic efficiency<sup>86</sup>. Usually, minimum protection of IPR is

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<sup>78</sup> Case 322/81 *NV Nederlandsche Banden Industrie Michelin v Commission* [1983] ECR 3461, [70].

<sup>79</sup> European Commission, 'Antitrust: Overview' (*Competition*, 21 April 2014) <[http://ec.europa.eu/competition/antitrust/overview\\_en.html](http://ec.europa.eu/competition/antitrust/overview_en.html)> accessed 17 May 2018

<sup>80</sup> P. I. Colomo, 'Intel and Article 102 TFEU Case Law: Making Sense of a Perpetual Controversy' (2014) LSE Law, Society and Economy Working Papers 29/2014 <<http://awa2015.concurrences.com/IMG/pdf/ssrn-id2530878.pdf>> accessed on 19 September 2018

<sup>81</sup> V. Korah, *Intellectual Property Rights and the EC Competition Rules* (Hart Publishing, 2006). H Ullrich, 'The Interaction between Competition Law and Intellectual Property Law- An Overview' in CD Ehlermann and I Anastasiu (eds) *European Law Annual 2005* (Hart Publishing, 2006). See also I. Govarere, *The Use and Abuse of Intellectual Property Rights in EC Law* (Sweet & Maxwell, 1996). See also S. Anderman and H. Schmidt, *EU Competition Law and Intellectual Property Rights: The Regulation of Innovation* (2<sup>nd</sup> edn, Oxford University Press, 2011)

<sup>82</sup> Treaty on the Functioning of the European Union [2010] OJ C83/01 (TFEU), Article 102.

<sup>83</sup> Such as the cases covered in the following chapters of *Magill*, *IMS Health* and *Brunner*.

<sup>84</sup> L. Kaplow, 'The Patent-Antitrust Intersection: A Reappraisal' [1984] 97 Harvard Law Review 1813

<sup>85</sup> Static efficiency occurs when the marginal production costs are minimised or when the price consumers pay for the goods or services equate to the production cost.

<sup>86</sup> Dynamic efficiency occurs when undertakings have an incentive to invest in innovation

required under static efficiency<sup>87</sup> whereas predicable IPR protection is necessary under the dynamic efficiency as it is considered vital for incentives to innovate, participation in the expansion of new products and services as well as technological progress.<sup>88</sup>

The Commission has stated that it aims to provide shelter for competitors within the EU market as a secondary objective to EU competition law.<sup>89</sup> The CFI, at that time, has criticised the Commission for the shortage in an economic examination<sup>90</sup> in *Airtours*,<sup>91</sup> *Tetra Laval* <sup>92</sup>and *Schneider Electric*.<sup>93</sup> Nevertheless, the following was stated by the Commission's Competition Commissioner, at that time, Neelie Kroes:

*'[F]irst it is competition, and not competitors, that is to be protected. Second, ultimately the aim is to avoid consumers harm.'*<sup>94</sup>

It has been indicated that such a point of view includes assumptions that may not be equally applied by all countries. This includes, for example, the assumption that relates to the fact that competition policy aims to boost consumer welfare, but this is a complicated matter in some countries. Additionally, there is a debate that has risen in some countries about the ability of competition policy to consider political or social factors on top of the considerations of economic efficiency.<sup>95</sup>

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<sup>87</sup> L. Kaplow,, 'The Patent-Antitrust Intersection: A Reappraisal' [1984] 97 Harvard Law Review 1813

<sup>88</sup> L. Kaplow,, 'The Patent-Antitrust Intersection: A Reappraisal' [1984] 97 Harvard Law Review 1813

<sup>89</sup> According to the analysis in chapter five, it appears that competitors are the primary aim for EU competition law.

<sup>90</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) European Competition Law Review 351-364

<sup>91</sup> Case T-342/99, *Airtours v Commission* [2002] 5 C.M.L.R 7

<sup>92</sup> Case T-5/02, *Tetra Laval v Commission* [2002] 5 C.M.L.R. 29

<sup>93</sup> C-310/01 *Electric v Commission* [2003] 4 C.M.L.R 17

<sup>94</sup> N. Kroes, 'Preliminary Thoughts On Policy Review Of Article 82' (2005)

<[http://europa.eu/rapid/press-release\\_SPEECH-05-537\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-05-537_en.htm?locale=en)> accessed 9 June 2018.

<sup>95</sup> OECD, 'Competition Policy and Intellectual Property Rights' (OECD.org, 2006) available at <<http://www.oecd.org/regreform/sectors/2376247.pdf>> last accessed on 27 May 2018.

Interestingly, the Commission's Competition Commissioner noted that the ultimate aim is to prevent consumer harm, however, it is portrayed in chapter 5 of this research that the EU case law did not particularly thoroughly examine potential consumer harm when deciding for a competition law intervention. An example is portrayed in the following paragraph.

On the one hand, some commentators have claimed that the compulsory licensing system has become *easily* applied which weakens the value of IPR.<sup>96</sup> It has been argued that this would significantly dissuade innovation as well as competition.<sup>97</sup> Additionally, Wurmnest argued that in the light of a decision made by the ECJ<sup>98</sup>, the Commission is not entitled to declare 'consumer welfare' which it ought not to be the only objective of competition law.<sup>99</sup> Instead, he advocated an approach which places welfare considerations on an equal footing with other goals, such as the security to economic freedom, market integration and the promotion of innovation.<sup>100</sup>

On the other hand, some have adopted economic perspectives as seen the conference hosted by the Max-Planck Institute for Intellectual Property, Competition and Tax Law to bring to light and discuss the impact of the major changes proposed by the Commission. The conference brought various academics from all over Europe where Ulf Böge who was at that time was the President of the German Cartel Office highlighted the importance of considering the possible repercussions on their private enforcement of an effects-based style to the application of Article 102 TFEU. Besides the backdrop of the analysis presented by Ulf Böge, several academics from different countries filed papers on the proposed reforms of Article 102 TFEU based on an economic approach as well as the distinct features of private enforcement of Article 102 TFEU.<sup>101</sup> An

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<sup>96</sup> The case C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] E.C.R. I-5039; [2004] 4 C.M.L.R. 28 is discussed later on the research. See also J. T. Lang, 'Compulsory Licensing of Intellectual Property in European Community', DOJ/FTC Hearing 19 (Washington D.C., May 2002)

<sup>97</sup> J. T. Lang, 'Compulsory Licensing of Intellectual Property in European Community', DOJ/FTC Hearing 19 (Washington D.C., May 2002)

<sup>98</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] E.C.R. I-5039; [2004] 4 C.M.L.R. 28

<sup>99</sup> M.O Mackenrodt and others, *Abuse of Dominant Position: New Interpretation, New Enforcement Mechanisms?* (5th edn, Springer Berlin Heidelberg 2010)

<sup>100</sup> M.O. Mackenrodt and others, *Abuse of Dominant Position: New Interpretation, New Enforcement Mechanisms?* (5th edn, Springer Berlin Heidelberg 2010)

<sup>101</sup> M.O. Mackenrodt and others, *Abuse of Dominant Position: New Interpretation, New Enforcement Mechanisms?* (5th edn, Springer Berlin Heidelberg 2010)

example of this can be seen where Wolfgang Wurmnest offered an evaluation of the Commission's Discussion Paper on exclusionary abuses. He criticised the Paper as it has given limited guidance as to the economic tools and insights that should be applied when assessing alleged abuses.<sup>102</sup>

The DG Competition published the abovementioned Discussion Paper.<sup>103</sup> The Paper emphasised that, generally, IPR holders are not obliged to licence their IPR. The Paper has suggested that refusal to license is only abusive under specific circumstances. For instance, refusal to license is considered unlawful if it '*prevents the development of the market for which the licence is an indispensable input, to the detriment of consumers.*'<sup>104</sup> The Paper has further suggested that a business must have the intention to create new services or goods when it requests a licence from the right owner.<sup>105</sup> However, it has been advised that the Paper did not address whether a new product must appear in the same or the downstream relevant market.<sup>106</sup>

The following section of this research examines the contributions of scholars and commentators on whether the EU competition intervention is set as an effective remedy to achieve a balance between competition law and the protection of IPRs.

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<sup>102</sup> M.O. Mackenrodt and others, *Abuse of Dominant Position: New Interpretation, New Enforcement Mechanisms?* (5th edn, Springer Berlin Heidelberg 2010)

<sup>103</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) European Competition Law Review 351-364; DG Competition, *Discussion Paper on the Application of Article 82 of the Treaty to Exclusionary Abuses*, public consultation, Brussels (December 2005).

<sup>104</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) European Competition Law Review 351-364; N. Kroes, 'Preliminary Thoughts on Policy Review Of Article 82' (2005) at [239] <[http://europa.eu/rapid/press-release\\_SPEECH-05-537\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-05-537_en.htm?locale=en)> accessed 9 June 2018

<sup>105</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) European Competition Law Review 351-364; N. Kroes, 'Preliminary Thoughts on Policy Review of Article 82' (2005) at [239] <[http://europa.eu/rapid/press-release\\_SPEECH-05-537\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-05-537_en.htm?locale=en)> accessed 9 June 2018

<sup>106</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) European Competition Law Review 351-364

### III. THE IDEA OF EU COMPULSORY LICENSING SYSTEM AS A REMEDY

This section first examines the idea of EU compulsory licensing system, in itself, as a remedy. It then considers the idea of a compulsory licensing system as an antitrust remedy.

#### A. The idea of EU Compulsory Licensing System, in itself, as a Remedy

Articles 101 and 102 TFEU provide the Commission with authority to determine not only a compulsory licence in itself but also the duration of the compulsory licence, as well as, the royalty payment.<sup>107</sup> However, given that technology is increasingly developing and growing, it has made it difficult to define an appropriate royalty as well as the duration for a licence.<sup>108</sup> It is important to mention here that the ECJ can alter or reverse a compulsory licence decision made by the Commission.<sup>109</sup>

On the one hand, some scholars have recognised that the compulsory licensing of patents is necessary for protection against abusive practices, but only under specific and exceptional circumstances.<sup>110</sup> This is because a patent is considered a property right<sup>111</sup> which was initially granted the patent status with the aim of fostering innovation whereby it can be limited by governmental authority when necessary due

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<sup>107</sup> J. Tudor, 'Compulsory licensing in the European Union' [2008] 4(2) Geo Mason J Int'l Com Law 222-258; Frank Fine, 'European Community Compulsory Licensing Policy: Hersey Versus Common Sense' (2004) 24 NW.J.INT'L L.&BUS, at 629

<sup>108</sup> J. Tudor, 'Compulsory licensing in the European Union' [2008] 4(2) Geo Mason J Int'l Com Law 222-258; F. Fine, 'European Community Compulsory Licensing Policy: Hersey Versus Common Sense' (2004) 24 NW.J.INT'L L.&BUS, at 629

<sup>109</sup> J. Tudor, 'Compulsory licensing in the European Union' [2008] 4(2) Geo Mason J Int'l Com Law 222-258; G. Tritton, *Intellectual Property in Europe* (3rd edn, Sweet & Maxwell 2008), at 1110

<sup>110</sup> N. Reitz, 'Compulsory Licensing in the Industrial and Commercial Arena: A Compromise' [1966] 54(3) California Law Review 1364-1381; G. Stocking and M. Watkins, *Monopoly and Free Enterprise* (1st edn, Greenwood Press, London, 1951) at p. 454-468

<sup>111</sup> N. Reitz, 'Compulsory Licensing in the Industrial and Commercial Arena: A Compromise' [1966] 54(3) California Law Review 1364-1381; *United States v. Dubilier Condenser Corp.*, (1933) 289 U.S. 178, [187]; *Seymour v. Osborne* (1870) 78 U.S. 516, [533]; *Brown v. Duchesne* (1856) 60 U.S. 183, [195].

to it being ultimately a property.<sup>112</sup> Some scholars have even further suggested that the mere right given to the holder to use and benefit from the patent has obstructed the establishment of a comprehensive compulsory licensing system.<sup>113</sup>

On the other hand, some critics have emphasised that they are against the notion of the compulsory licensing system as a whole due to the high risk of weakening IPR.<sup>114</sup> Fine, for example, has argued that businesses withdraw their interests in becoming innovative with the increased use of compulsory licences.<sup>115</sup> Fine has even called for early notifications to be given to the innovators, rather than determining a compulsory licence on a case-by-case basis.<sup>116</sup> It has also been further insinuated that the mandatory licensing system can have an adverse effect on incentives to innovate in new areas as it can discourage patent holders from making additional investments towards a better technology and, in return, this would lead to a negative impact not only on IPR but also on public interest as well.<sup>117</sup> It has been further stipulated by Monti that there is always an assumption that the economy is benefited from a refusal to license.<sup>118</sup> In other words, Monti argued here that patent holders should not be forced to license their inventions because it could harm the economy and consumer welfare, as it

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<sup>112</sup> N. Reitz, 'Compulsory Licensing in the Industrial and Commercial Arena: A Compromise' [1966] 54(3) California Law Review 1364-1381; *Crozier v. Fried Krupp* (1912) 224 U.S. 290, [305]

<sup>113</sup> N. Reitz, 'Compulsory Licensing in the Industrial and Commercial Arena: A Compromise' [1966] 54(3) California Law Review 1364-1381; G. Riesenfeld, 'Compulsory Licenses and United States Industrial and Artistic Property Law' [1964] 83(33) California Law Review 51, 94-98

<sup>114</sup> F. Fine, 'European Community Compulsory Licensing Policy: Hersey Versus Common Sense' (2004) 24 NW.J.INT'L L.&BUS, at 622

<sup>115</sup> J. Tudor, 'Compulsory licensing in the European Union' [2008] 4(2) Geo Mason J Int'l Com Law 222-258; F. Fine, 'European Community Compulsory Licensing Policy: Hersey Versus Common Sense' (2004) 24 NW.J.INT'L L.&BUS, at 622

<sup>116</sup> F. Fine, 'European Community Compulsory Licensing Policy: Hersey Versus Common Sense' (2004) 24 NW.J.INT'L L.&BUS, at 645-46

<sup>117</sup> J. Tudor, 'Compulsory licensing in the European Union' [2008] 4(2) Geo Mason J Int'l Com Law 222-258. See also K. Czapracka, 'Where Antitrust Ends and IP Begins-On The Roots of the Transatlantic Clashes' (2007) 9 Yale Journal of Law and Technology 44, at 47-48 and 72-77

<sup>118</sup> G. Monti, *EC Competition Law* (Cambridge University Press, 2007) 228

undermines the essence of IPR and the creation of incentives to innovate to further the economy.<sup>119</sup>

Such extreme concerns mainly stem from the arguably unclear substantive and procedural tests used by EU competition authorities and courts in determining abusive conduct of right-holders. A less intense view to competition law intervention is the argument constructed on the need for the courts and relevant competition bodies to encourage innovation with a competition law intervention that is carefully measured.<sup>120</sup>

It was indicated that this could be achieved by giving the licence seeker the high burden of proof in disproving the assumption of otherwise legal conduct of the right holder's refusal to license.<sup>121</sup> It must be mentioned here that the EU has made a recent development in that regard as it has introduced a new directive which states that the party claiming that abusive conduct of an undertaking has resulted in its injury must provide proof of the alleged harm and the degree of harm to obtain an award for damages.<sup>122</sup> This development in EU competition law is indeed significant.

Regardless, it can be noted from the above that some commentators are entirely against the idea of a compulsory licence. This attitude could be because the law and the means used by the EU courts and competition authorities in determining abusive conduct are unclear and unpredictable which can weaken IPR and the essence of IPR.

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<sup>119</sup> G. Monti, *EC Competition Law* (Cambridge University Press, 2007) 228

<sup>120</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) *European Competition Law Review* 351-364

<sup>121</sup> D. Kanter, 'IP and compulsory licensing on both sides of the Atlantic - an appropriate antitrust remedy or a cutback on innovation?' [2006] 27(7) *European Competition Law Review* 351-364

<sup>122</sup> Directive 2014/104/EU of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union Text with EEA relevance OJL 359, 5.12.2014, Art. 3(a)

The following sub-section examines the perspective of the compulsory licensing system as an antitrust remedy.

#### B. Compulsory Licensing as an Antitrust Remedy

Some scholars have adopted the theory of compulsory licensing as an antitrust remedy as Articles 101 and 102 have developed the 'antitrust'<sup>123</sup> policy to deal with anti-competitive practices and abuse of dominant market positions. For example, Venegas has suggested that three different types of approaches should be adopted to tackle matters that fall within IP and competition law.<sup>124</sup> The first approach is the 'patent scope' perspective, in which exploitation of the right is subject to antitrust control if it exceeds the scope of the patent or the value obtained from its normal use. The second approach is the 'economic balancing' approach, which weighs the detriments of reduced competition and static allocative efficiency against the benefits of inducing new inventions and dynamic efficiency. The third approach is 'dynamic efficiency' approach in which all conduct reasonably necessary to obtain dynamic efficiency is permitted. Venegas then concludes that the Commission should incorporate some form of 'economic balancing' test while still emphasising the protection of product market competition and static allocative efficiency.<sup>125</sup>

Nonetheless, it has been argued that the doctrine of antitrust remedy interferes with the values of the market economy and the freedom of selecting trading partners by a

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<sup>123</sup> European Commission, 'Antitrust: Overview' (*Competition*, 21 April 2014)

<[http://ec.europa.eu/competition/antitrust/overview\\_en.html](http://ec.europa.eu/competition/antitrust/overview_en.html)> accessed 17 May 2018

<sup>124</sup> V. Venegas, 'Promoting Innovation: A Legal and Economic Analysis Of The Application Of Article 101 TFEU To Patent Technology Transfer Agreement' (PhD, Stockholm University 2011), p 3

<sup>125</sup> V. Venegas, 'Promoting Innovation: A Legal and Economic Analysis Of The Application Of Article 101 TFEU To Patent Technology Transfer Agreement' (PhD, Stockholm University 2011), p 3

market participant.<sup>126</sup> It has been suggested that this contradiction can be mainly seen in EU competition law due to the unclear guidelines.<sup>127</sup>

Therefore, some have called for clearly defining the circumstances of justifiable competition law intervention.<sup>128</sup> It has been further indicated that it is essential to create a clear structure for implementing competition law with a minimum negative impact on innovation.<sup>129</sup> It has then been suggested that antitrust law could only be justified when a dominant undertaking harms or intends to harm competition with its refusal to license essential resources.<sup>130</sup> In other words, there must be potential consumer harm for a justified competition law intervention.

The following section assesses the recommendations delivered by scholars and commentators as to how competition law intervention can be improved, and examine the perspectives and methodologies used to reach their conclusions.

#### IV. SOCIAL OBLIGATIONS AND PUBLIC INTEREST

Kohler has adopted the perspective of social obligation regarding competition law intervention. Generally, he has identified that the exercise of an IPR is a social obligation. Kohler has also reminded us that the legal principle of competition law intervention is relevant when the non-exercise of an IPR has a negative impact on the public interest. He has further discussed that the social obligation principle also applies

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<sup>126</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>127</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>128</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>129</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>130</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

to businesses that are in a dominant position because neither the general public nor competitors should be denied of the entire 'legal regime'.<sup>131</sup>

Kohler's observation is exciting as social obligation can be a primary principle of the rule of law doctrine. It has been described, for example, by Rachel Belton that the rule of law definitions can be categorised into the following:

*'[T]hose that emphasise the ends that the rule of law is intended to serve within society...' also, 'those that [focus on the elements] believed necessary to actuate the rule of law (such as comprehensive laws, well-functioning courts, and trained law enforcement agencies).'*<sup>132</sup>

Thus, it can be argued that Kohler's perspective on the competition law intervention fits with the former rule of law's definition as described by Belton. However, it is to be argued that to ensure public interest there must be potential consumer harm, otherwise competition law intervention is unjustified. Therefore, one of the aims of chapter five is to examine whether EU courts and competition authorities have assessed consumer harm when determining abuse of dominance. The following sector of this chapter discusses the theoretical analysis of a competition-oriented compulsory licensing system.

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<sup>131</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; J. Kohler, 'Handbuch des deutschen Patentrechts in rechtsvergleichender Darstellung' 613 (Mannheim 1900).

<sup>132</sup> R. K. Belton, 'Competing Definitions of the Rule of Law: Implications for Practitioners' (2005)

Carneigie Endowment for Int'l Peace, Research Paper No.52005, at 55

<https://carnegieendowment.org/files/CP55.Belton.FINAL.pdf> accessed 14 June 2018

## V. THE COMPETITION-ORIENTED THEORY

This theory adopts a dominant complementarity theory which incorporated economic perspective on IP-related matters. This section looks into the justifications, substantive and procedural tests that fall within the context of such an approach.

### A. Justification

The dominant complementarity theory has been argued to have become a relevant matter due to the economic perspective on IP-related matters.<sup>133</sup> This theory stipulates that competition law and IP complement each other because both of these areas of law aim to promote vigorous competition<sup>134</sup> and improve consumer welfare and practical resources' allocation.<sup>135</sup> It has been suggested that competition law intervention within IP law is essential when dynamic competition is destructed or dismissed by either the conduct of right holders or any other market elements such as standards and network effects.<sup>136</sup>

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<sup>133</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; It has been suggested by Liu that the complementarity theory can be further replaced by an integrated innovation-economic concept of IP protection and competition; Liu referred to R. Podzun, 'Lizenzverweigerung - Ernstfall im Verhältnis von Kartell- und Immaterialgüterrecht,' in: P. MATOUSEK, E. MÜLLER & T. THANNER (eds.), 'Jahrbuch Kartell- und Wettbewerbsrecht' 75 (NWV, 2010) available at <[https://www.tax.mpg.de/fileadmin/templatesnew/pdf/Zwischenbericht\\_2010\\_print\\_DE.pdf](https://www.tax.mpg.de/fileadmin/templatesnew/pdf/Zwischenbericht_2010_print_DE.pdf)> last accessed 14 June 2018

<sup>134</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; J. Drex, 'Is there a 'more economic approach' to intellectual property and competition law?' in: J. Drexl (ed.), *Research Handbook on Intellectual Property and Competition Law* 44 (Edward Elgar, 2009).

<sup>135</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699

<sup>136</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; J. Drex, 'Is there a 'more economic approach' to intellectual property and competition law?' in: J. Drexl (ed.), *Research Handbook on Intellectual Property and Competition Law* 44 (Edward Elgar, 2009); P. MATOUSEK, E. MÜLLER & T. THANNER (eds.), 'Jahrbuch Kartell- und Wettbewerbsrecht' 74 (NWV, 2010).

## B. Substantive Test

Under the competition-oriented theory, it has been suggested that the substantive test in IP-internal compulsory licences should be that of the functioning and preservation of market competition.<sup>137</sup> The functioning and preservation test falls under competition policy. Thus, it has been argued that a dominant business's refusal to license an IPR that is 'essential' for consumers could harm competition and public interest, mainly when the IPR cannot be used or replicated by competitors. Interestingly, international IP conventions and some countries have also adopted this perspective as their reasoning test for competition law intervention.<sup>138</sup>

## C. Procedural Test

The theory of competition-oriented proposed that the procedural test of competition law intervention should first identify whether infringement of an IPR has taken place by a licence-seeker. Negotiations between an IP holder and a licence-seeker must take place before any application for a compulsory licence, and when negotiations are unsuccessful should a licence-seeker then pursue the court. Negotiations must be sincere as seen in the German case, examined later in this research, of the *Orange-Book-Standard*. Generally, this case has established that the infringer should secure sufficient amount of royalty for the use of a SEP, and an unconditional offer must have been made to a right holder prior to any competition law claim.<sup>139</sup> Nevertheless, the

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<sup>137</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; R. Hilty, 'Renaissance der Zwangslizenzen im Urheberrecht,' [2009] GRUR 643.

<sup>138</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699

<sup>139</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; German Federal Supreme Court, KZR 39/06, 2009 GRUR 694. English translation of the decision is available in 41 IIC 369-374 (2010).

procedural test of negotiations before a request for a compulsory licence is, arguably, irrelevant; infringement is highly likely to occur due to a large number of IP users that are possibly unaware of the presence of an IPR altogether.<sup>140</sup>

Indeed, some economists see patents as a tool to provide a patent owner with market power in a given market.<sup>141</sup> This perspective, for instance, can be seen in the study conducted by Arrow on cost-reducing innovations,<sup>142</sup> as well as, the study conducted by Demsetz.<sup>143</sup> Arrow adopted the monopoly doctrine of patents in his research,<sup>144</sup> and his perspective has also been presented and developed further by other commentators such as Demsetz,<sup>145</sup> Scherer and Ross,<sup>146</sup> as well as, Maskus.<sup>147</sup> However, it has been argued that the doctrine of monopoly is inappropriate within the context of a genuine competition law perspective,<sup>148</sup> and yet the principle of 'patent-equals-monopoly' appears to dictate this field. This mainstream theory has been questioned by various

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<sup>140</sup> KC Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) *International Review of Intellectual Property and Competition Law* 679-699

<sup>141</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; E. W. Kitch, 'Patents: Monopolies or Property Rights?' *Research in Law and Economics* 31-41 (Vol. 8, 1986)

<sup>142</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; K. J. Arrow, *Economic Welfare and the Allocation of Resources for Invention* (1<sup>st</sup> edn, Princeton University Press 1962) p. 609-626

<sup>143</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; H. Demsetz, 'Information and Efficiency: Another Viewpoint' [1969] 12 *Journal of Law and Economics* 1-22

<sup>144</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906

<sup>145</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906

<sup>146</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; F. M. Scherer & D. Ross, *Industrial Market Structure and Economic Performance* (Houghton Mifflin Company, Boston 1990), at 622

<sup>147</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; K. E. Maskus, *Intellectual Property Rights in the Global Economy* (Washington: Library of Congress Cataloguing in Publication data, 2000), at 29

<sup>148</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; M. Waterson, 'The Economics of Product Patents' [1990] 8(4) *The American Economic Review*, 860-869

commentators,<sup>149</sup> following empirical evidence which suggests that patents are not generally contemplated as monopolies.<sup>150</sup> This is because, in most circumstances, hundreds or even thousands of similar patents can be found for one particular product which makes it near impossible for one patent to be an actual monopoly.<sup>151</sup> Interestingly, this theory can indicate that we do not need competition law intervention in cases of refusal to license, given that competition law comes to play once a 'dominant undertaking' abused its powers with its refusal to license. However, according to this theory, it is near, if not, impossible for an undertaking to be a monopoly and thus, competition law intervention, in this case, is unjustified.

Additionally, Professor Anderman observed that the function of competition law must be applied as a secondary system to IP law or an external regulatory order of abusive conduct.<sup>152</sup> It has even been indicated that the functions of IP falls under the promotion of competition and innovation and thus, it should include the issue of balancing different forms of competition.<sup>153</sup> The scope of a patent is restricted by competition law

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<sup>149</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; E. W. Kitch, 'Patents: Monopolies or Property Rights? Research in Law and Economics' [1986] 8 *Research in Law and Economics*, 31-41

<sup>150</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; E. Mansfield & others, 'Imitation Costs and Patents: An Empirical Study,' 91 [1981] *Economic Journal* 907-918; R. C. Levin & others, 'Appropriating the Returns from Industrial Research and Development' 3 [1987] *Brooking Papers on Economic Activity* 783-831; I. Cockburn and R. Henderson, 'Racing to Invest? The Dynamics of Competition in Ethical Drug Discovery' [1994] 3(3) *Journal of Economics and Management Strategy* 481-519

<sup>151</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; E. Mansfield & others 'Limitations Costs and Patents: An Empirical Study' [1981] 91(364) *The Economic Journal*, 907-918; R. C. Levin, 'Appropriating the Returns from Industrial Research and Development' (Brookings Paper on Economic Activity No. 3, 1987); I. Cockburn and R. Henderson, 'Racing to Invest? The Dynamics of Competition in Ethical Drug Discovery' [1994] 3(3) *Journal of Economics and Management Strategy*, 481-519

<sup>152</sup> S. Anderman and A. Ezrachi., *Intellectual Property and Competition Law: New Frontiers* (1st edn, OUP Oxford 2011)

<sup>153</sup> S. Anderman and A. Ezrachi., *Intellectual Property and Competition Law: New Frontiers* (1st edn, OUP Oxford 2011)

and its misuse doctrine under Article 102 TFEU,<sup>154</sup> yet competition law expert Ullrich has firmly believed that competition law should not be set out to fix failures of the patent law system.<sup>155</sup> This is because the patent law is ought to effectively regulate patents to encourage incentives to innovate as competition law would come too late and can only scrutinise the circumstances on a case-by-case basis.<sup>156</sup>

The following section examines the compulsory licensing system as an antitrust remedy, given that some scholars have adopted such a theory following the development of the EU's antitrust policy to deal with anti-competitive and abusive conduct.

## VI. THE ESSENTIAL FACILITIES DOCTRINE UNDER THE EXCEPTIONAL CIRCUMSTANCES TEST

This section explores the contributions of scholars and commentators in this field of law as to how effective has been the doctrine of essential facilities under the exceptional circumstances test to tackle the concerns accompanied by competition law intervention

### A. Competition Law Intervention as an Application of the Essential Facilities Doctrine

The essential facilities doctrine can be applied to assess a competition law intervention as an antitrust remedy. The essential facilities doctrine identifies that owner of an

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<sup>154</sup> C. Godt 'Technology, patents and markets: the implied lessons of the EU Commission's intervention in the Broccoli/Tomatoes case of 2016 for modern (plant) genome editing' [2018] 49(5) International Review of Intellectual Property and Competition Law 512-535; Case C-170/13 *Huawei Technologies Co Ltd v ZTE Corp, ZTE Duetschland GmbH (Re Smartphone Standard Essential Patents)* [2015] C.M.L.R 14

<sup>155</sup> C. Godt 'Technology, patents and markets: the implied lessons of the EU Commission's intervention in the Broccoli/Tomatoes case of 2016 for modern (plant) genome editing' [2018] 49(5) International Review of Intellectual Property and Competition Law ,512-535; H. Ullrich. 'TRIPS: adequate protection, inadequate trade, adequate competition policy' [1995] 4(1) Pacific Rim Law & Policy Journal 153-210

<sup>156</sup> C. Godt 'Technology, patents and markets: the implied lessons of the EU Commission's intervention in the Broccoli/Tomatoes case of 2016 for modern (plant) genome editing' [2018] 49(5) International Review of Intellectual Property and Competition Law ,512-535; A. Léonard, 'Abuse of rights' in French and Belgian patent law--a case law analysis' [2016] 7 JIPITEC, 30-49; H Ullrich 'Strategic patenting by pharmaceutical industry--towards a concept of abusive practices of protection' in J Drexel and N Lee (eds) *Pharmaceutical innovation, competition and patent law: a trilateral perspective*. (Elgar: Cheltenham, 2013) p. 241-272

essential facility must provide access. Generally, legal scholars and economists disagree with the principle of essential facilities as it can create tension in IP laws, given that under the general IP law an IPR holder does not have to license its right to others. Therefore, the essential facilities doctrine should only be adopted under specific circumstances.<sup>157</sup>

The business that controls the essential facility must ensure that the facility is available to other competitors. The essential facilities doctrine<sup>158</sup> under the exceptional circumstances test provides the availability of such a facility through the competition law interventions. A facility has been contemplated as essential by the ECJ via a cumulative circumstances test<sup>159</sup> as the following:

1. The refusal must prevent competition in the market.
2. The access to the facility must be essential<sup>160</sup>
3. There are no objective justifications for the refusal.

The facility is considered essential if it has an impact on effective competition within the relevant market.<sup>161</sup> Therefore, the exercise of IPR must be limited, under the essential facilities doctrine, to their subject matter.<sup>162</sup> It must be mentioned that this doctrine is only applicable when competitors cannot offer their products due to the proprietor's product being an essential facility and thus, the theory cannot be applied when there are other available solutions to bringing new products to the market.<sup>163</sup> The

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<sup>157</sup> J, P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>158</sup> See R. Aoki and J. Small 'Compulsory Licensing of Technology and the Essential Facilities Doctrine' (2004) *Information Economics and Policy* 16, 13-29.

<sup>159</sup> C-7/97 *Bronner v Mediaprint* [1998] ECLI:EU: 1998:569

<sup>160</sup> C-7/97, *Bronner v. Mediaprint* [1998] ECLI:EU:C:1998:569, [47]

<sup>161</sup> C-7/97, *Bronner v. Mediaprint* [1998] ECLI:EU:C:1998:569, [47]

<sup>162</sup> C-192/73 *Van Zulen Freres v Hag AG* [1974] ECLI:EU:C: 1974:72

<sup>163</sup> C-192/73, *Van Zuylen frères v Hag AG* [1974] ECLI:EU:C:1974:72, [43]

essential facilities doctrine has been employed in the case of *Magill* and further outlined in *IMS Health*, both examined in the following chapters.

#### B. Economic rationales for the essential facilities doctrine

Even though the theory of essential facilities has been controversial, it has still been rationalised under specific circumstances. For example, when competition could benefit from the removal of any other possible negative impacts on competition and the market. Some of the economic recommendations for the essential facilities doctrine are as the following:

##### 1) The Infant Industry Type Argument

The international trade literature provides one of the economic arguments relevant to the essential facilities doctrine which suggests that national and small businesses can be provided with temporary protection to protect them from international competition in order to give them room to grow and develop in the global market. This economic argument is relevant to the essential facilities doctrine because compulsory licensing provides access to competitors which gives them room to participate in a relevant market to ultimately grow and develop their facilities and thus, achieving dynamic efficiency from an economic perspective.<sup>164</sup>

##### 2) Second-best Variety Arguments

Another economic argument pertinent to the essential facilities doctrine is for the variations of the second-best argument. The economic theory of the second-best indicates the possibility of adding further distortion to the initial state of a somewhat distorted economy to enhance the situation. This approach can be relevant to the

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<sup>164</sup> J. Pi. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

essential facilities doctrine because an essential facility is initially regulated due to the different type of distortions in the economy. Therefore, the additional inefficiency might not be needed while promoting competition with the addition of constraints in the compulsory sharing of a facility with others via means of a compulsory licence.<sup>165</sup>

### C. Adverse Impacts on Investment Incentives

One of the main challenges with the essential facilities doctrine is its negative impact on investment incentives for both dominant undertakings and competitors when it obliges right holders who are in a dominant position to share their IPR. Therefore, it has been claimed that the essential facilities theory can harm the economy and innovative markets. It has been further argued that incentives to invest would be negatively impacted by the fact that competitors can free-ride and use the advantages of such an investment.<sup>166</sup>

Therefore, it was argued by Robert Solow that incentives to innovate must be prioritised as the primary objective for antitrust policy.<sup>167</sup> However, it has been suggested by Arrow that *'any information obtained, say a new method of production, should, from the welfare point of view, be available free of charge', which '[e]nsures optimal utilisation of the information.'*<sup>168</sup> It was argued that Arrow's welfare perspective does not take into account the fact that incentives to innovate would not be available when no compensation is paid to the inventor of the new information.<sup>169</sup> Besides, it has also been argued that exclusive IPRs provide the society with long-term benefits as they can

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<sup>165</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>166</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>167</sup> R. M. Solow 'Technical Change and the Aggregate Production Function' [1957] 39(3) The Review of Economics and Statistics 312-320

<sup>168</sup> K. J. Arrow, *Economic Welfare and The Allocation of Resources For Invention* (1<sup>st</sup>, Princeton University Press 1962), at 616 available at < <http://www.nber.org/chapters/c2144.pdf>> accessed on 14 June 2018

<sup>169</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

access and utilise future facilities when the interest of creators and their incentives to innovate or invest are maintained.<sup>170</sup> It has been further argued that the society can be deprived of new innovative products with the essential facilities doctrine due to its impacts on innovation incentives.<sup>171</sup>

As mentioned earlier the essential facilities doctrine can have a negative impact on incentives to innovate as well as relevant competitors. This negative impact can be seen when competitors are enabled to free ride a dominant undertaking's incentive or investment whereby competitors might be discouraged from creating and establishing their innovations.<sup>172</sup>

#### D. The Need for the Supervision by Antitrust Agencies

The application of the essential facilities theory is faced with another critical challenge as it needs constant supervision regarding public utility regulation. It has been suggested that the use of the essential facilities doctrine might not necessarily improve competition within a given market.<sup>173</sup> This concern stems from the fact that the essential facilities doctrine requires supervision of antitrust authorities to plan or regulate an appropriate access fee when such a role has been supported by existing theoretical and empirical findings to be problematic on incentives.<sup>174</sup> The determination of a proper access fee is complicated and must be assessed by experts of the cost structure in a given market. It has been argued that antitrust agencies do not have sufficient expertise to make such decisions, particularly in our rapidly evolving world with constant innovations and developments.<sup>175</sup> Arguably, it would make no

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<sup>170</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>171</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>172</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>173</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>174</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>175</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

sense for an antitrust authority to prepare a licensing contract that shields all future aspects that might have an impact on such an agreement.<sup>176</sup>

Moreover, it has been seen in the *Microsoft* case that the Commission has fined Microsoft for its excessive licensing fees and its lack of licensing. Nonetheless, it was indicated that the Commission's antitrust intervention undermines the original objectives of compulsory licensing.<sup>177</sup> This argument has been based on fears of influencing the licensees to hold out until they obtain better-licensing conditions while they seek antitrust agencies.<sup>178</sup>

Furthermore, the determination of access fee in our rapidly evolving environment leads to extra costs of supervisory uncertainty. Economic literature highlights the fact that uncertainty reduces investments.<sup>179</sup> Therefore, it has been argued that the increase of regulatory uncertainty would result in a decrease in incentives to invest. This argument can also be supported by a survey conducted by the Economist Intelligence Unit and Ernst and Young which deliberated the fact that undertakings see the regulatory threat as the most significant risk to their business.<sup>180</sup>

As can be seen from the above, the essential facilities doctrine has not received much welcome by economists as it undermines incentives to invest where it can have a negative impact on an economy of a given market. It is, thus, why the research now glances at the legal perspective of such a doctrine.

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<sup>176</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>177</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>178</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>179</sup> J. V. Leahy and T. M. Whited 'The Effect of Uncertainty on Investment: Some Stylized Facts' [1996] 28(1) Journal of Money, Credit and Banking 64-83

<sup>180</sup> Surveys available at <<http://eiu.com>> and <<http://www.ey.com>>; See also DLA Piper 'EU Regulatory Risk Awareness Survey 2007' <<http://www.dlapiper.com>> accessed 2 March 2016

#### E. FRAND Commitment and its link with the Essential Facilities Doctrine

As mentioned in the introductory chapter, SEP patents become essential once they had been declared as essential to an SSO. Competition authorities came up with FRAND commitment to prevent SEP owners from abusing their dominant position.<sup>181</sup> Violations of FRAND commitments can be mainly seen when the proprietor refuses to license an essential patent.<sup>182</sup> The proprietor automatically enjoys a significant advantage in comparison to other market participants due to the indispensability of a SEP. Similarly, a breach of the essential doctrine covers abusive refusal to license a 'regular' IPR by a dominant undertaking that is indispensable to other competitors.<sup>183</sup> Although violations of FRAND commitments can be distinguished from violations of the essential facilities doctrine, the indispensability element is crucial for both the standardisation process of SEPs and the maintenance or growth of competition in refusal to license indispensable IPR.<sup>184</sup>

#### F. Legal Precedents for the Essential Facilities Doctrine

It appears that legal precedents also agree with the risks mentioned earlier concerning essential facilities doctrine. The case of *Bronner* highlights the following:

*[T]he incentive for a dominant undertaking to invest in efficient facilities would be reduced if its competitors were, upon request, able to share the benefits. Thus, the mere*

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<sup>181</sup> M. Angelov, 'The 'Exceptional Circumstances' Test: Implications for FRAND Commitments from the Essential Facilities under Article 102 TFEU' [2015] 10(1) European Competition Journal, 37-67

<sup>182</sup> M. Angelov, 'The 'Exceptional Circumstances' Test: Implications for FRAND Commitments from the Essential Facilities under Article 102 TFEU' [2015] 10(1) European Competition Journal, 37-67; J Turner, *Intellectual Property and EU Competition Law* (Oxford University Press, 2<sup>nd</sup> edn, 2010)

<sup>183</sup> M. Angelov, 'The 'Exceptional Circumstances' Test: Implications for FRAND Commitments from the Essential Facilities under Article 102 TFEU' [2015] 10(1) European Competition Journal, 37-67

<sup>184</sup> M. Angelov, 'The 'Exceptional Circumstances' Test: Implications for FRAND Commitments from the Essential Facilities under Article 102 TFEU' [2015] 10(1) European Competition Journal, 37-67

*fact that by retaining a facility for its own use a dominant undertaking retains an advantage over a competitor cannot justify requiring access to it.*<sup>185</sup>

Nonetheless, it can be seen in EU case law that this can be justifiable under the exceptional circumstances test. For example, in *Magill*<sup>186</sup> it was highlighted that competition authorities should intervene in extraordinary circumstances. The exceptional circumstances were also confirmed in following judgements, such as *IMS Health*.<sup>187</sup> The list exceptional circumstances signify that the information must be critical for competition, refusal to access would block the development of a new product that has potential consumer demand and is not delivered by the dominant business in that market, and there are no reasonable justifications for the refusal to license. The judgements of *Magill* and *IMS Health* have stressed that a 'new product' is one of the primary conditions in order to consider refusal to license as abusive. It was highlighted that:

*Only where the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand.*<sup>188</sup>

It has been stipulated that the essential facilities doctrine provides legal uncertainty. It was also stressed that both legal precedents and economic theory appear to agree with

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<sup>185</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81; *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co KG* (C7/97) [1998] E.C.R. I-7791; [1999] 4 C.M.L.R. 112 at [57].

<sup>186</sup> C-241/91 P *Radio Telefis Eireann v Commission of the European Communities* [1995] E.C.R. I-743; [1995] 4 C.M.L.R. 718.

<sup>187</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] E.C.R. I-5039; [2004] 4 C.M.L.R. 28

<sup>188</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] E.C.R. I-5039; [2004] 4 C.M.L.R. 28 at [49].

the fact that the application of the essential facilities doctrine must be under exceptional and specific circumstances.<sup>189</sup> It was highlighted that the doctrine should only be applied when the practice of a dominant undertaking is unjustifiable, and there are no efficiency motives for it, yet whilst taking into account the adverse impacts of such a doctrine. Other than that, the doctrine undermines incentives to invest and leads to regulatory uncertainty with excessive supervision costs. The tremendous adverse effects associated with such a theory have even led commentators such as Areeda and Hovenkamp to argue that the essential facilities doctrine brings unnecessary harm and thus, the doctrine must be completely disregarded as a whole.<sup>190</sup>

While some have supported the essential facilities doctrine, others have disapproved of it as can be noted from above. The following section examines the incentives balance test to explore what has been contemplated regarding the adoption of such a doctrine and the reasons as to why it has, or it has not been supported by academics, as well as legal or economic scholars.

## VII. THE INCENTIVES BALANCE TEST UNDER THE EXCEPTIONAL CIRCUMSTANCES TEST

The EU competition law, as indicated earlier, does not have a list of detailed provisions on the compulsory licensing system as it is mainly founded on case law. The Commission introduced its incentive balance test in the case of *Microsoft*. The Commission can decide a compulsory licence under this test. It measures the negative impact of a compulsory licence on the incentive to innovate by a dominant business and whether

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<sup>189</sup> J. P. Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81

<sup>190</sup> J. P.I Choi, 'Compulsory licensing as an antitrust remedy' [2010] 2(1) WIPO Journal 74-81; P. E. Areeda and H. Hovenkamp, *Antitrust Law: An Analysis of Antitrust Principles and Their Application* (3<sup>rd</sup> edn, New York: Aspen Publishers, 2006) p.196

it outweighs the positive effect on innovation within the relevant market.<sup>191</sup> This balancing test is sometimes used because competition law intervention can have an impact on the incentives to innovation due to its complexity.

#### A. The Incentives Balance test: An Economic Approach

The incentives balance test has sparked debate from both economic and legal perspectives. For example, it has been argued that the economic theory does not specify if innovation is driven by competition in itself or by dominant undertakings that enjoy market power.<sup>192</sup> There is even an economic theory that argues that IPRs are not tools for innovation and that the presence of strong IPR can discourage innovation.<sup>193</sup> Moreover, it has been confirmed by findings conducted on the incentives balance test that it is problematic and complicated to apply; different efficiencies must be balanced via means of a case-by-case assessment.<sup>194</sup> It was further argued that the evaluation of a compulsory license under this test leads to legal uncertainty.<sup>195</sup>

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<sup>191</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>192</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>193</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>194</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>195</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

The Commission in the *Microsoft* case has described the balancing test as an assessment of ‘*whether Microsoft’s arguments regarding its incentives to innovate outweigh these exceptional circumstances*’.<sup>196</sup> Nonetheless, the Commission has demonstrated that a compulsory licence can be granted when its negative impact on Microsoft’s incentives to innovate is overshadowed by the positive effect on the industry’s innovation as a whole.<sup>197</sup> It can be seen here that there are two steps for the assessment of the incentive balance test. The first step is determining the negative impact on the incentives to innovate with a compulsory licence. The second step is assessing whether the positive impact outweighs the adverse effect of a compulsory licence on the industry as a whole.

Some commentators such as Geradin have criticised the incentives balance test<sup>198</sup> as he has suggested that the balancing tests are unpredictable and unreliable. Geradin further argued that economists might think of the balancing test not as valueless but more as a complicated method of balancing ex-ante against ex-post efficiencies. Additionally, Assistant Professor Mariateresa Maggolino has deliberated different economic theories of competition and economic policy as part of her survey. The survey concluded that a final and unanimous microeconomic theory that clarifies change

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<sup>196</sup>M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018; Case COMP/C-3/37.792 *Microsoft*, para. 712

<sup>197</sup>M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> accessed 6<sup>th</sup> June 2018; Case COMP/C-3/37.792 *Microsoft*, para. 783

<sup>198</sup>M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018. See also D. Geradin ‘Limiting the scope of Article 82: what can the EU learn from the U.S. Supreme Court’s Judgement in *Trinko* in the wake of *Microsoft*, *IMS*, and *Deutsche Telekom*?’ [2004] 41(6) CML Rev. 1519-1553

economic growth and the interface between competition and innovation does not exist.<sup>199</sup> Indeed, the economic perspective in the patent system is increasingly growing.

However, a 'new system for intellectual property rights' has been called out by Thurow as he suggested that the economic perspective is insufficient without a new system.<sup>200</sup>

It was also argued that the mainstream economic theory is not persuasive and is for a matter of fact disappointing due to its vagueness on this matter.<sup>201</sup> For example, it was stipulated by Killick<sup>202</sup> that the balancing test brings legal uncertainty as the Commission did not provide guidance on the assessment of a compulsory licence via means of balancing incentives to innovate against the positive impact on a relevant market. Killick further argued that it is tough for expert economists to identify an appropriate balancing test; it is challenging for the test to predict the balancing of IP incentives to innovate within the short and long term.<sup>203</sup> Therefore, Killick argued that the Commission's balancing test appears not to take into consideration the main aim of IPR which is to safeguard the moral rights for the protected right and to guarantee reward to the right-holder for the creative efforts made to obtain such a right.<sup>204</sup>

Professor Lévêque conducted a comparative economic study<sup>205</sup> on the incentives to innovate test with the new product test based on the ECJ's decisions in *Magill* and *IMS*

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<sup>199</sup> S. Anderman and A. Ezrachi, *Intellectual Property and Competition Law: New Frontiers* (1st edn, OUP Oxford 2011)

<sup>200</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; L. Thurow, *Creating Wealth*, (Nicholas Bailey Publishing, London 1999), p 125

<sup>201</sup> P. Bojan, 'The economic perspective of patents in a knowledge-based market economy' [2003] 34(8) *International Review of Intellectual Property and Competition Law*, 887-906; L. Thurow, *Creating Wealth*, (Nicholas Bailey Publishing, London 1999), p 125

<sup>202</sup> J. Killick, 'IMS and Microsoft Judged in the Cold Light of IMS' [2004] 1(2) *CompL Rev.* p. 44

<sup>203</sup> J. Killick, 'IMS and Microsoft Judged in the Cold Light of IMS' [2004] 1(2) *CompL Rev.* p. 23-47

<sup>204</sup> J. Killick, 'IMS and Microsoft Judged in the Cold Light of IMS' [2004] 1(2) *CompL Rev.* p. 23-47; *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 711

<sup>205</sup> F. Lévêque 'Innovation, Leveraging and Essential Facilities: Interoperability Licensing in the EU Microsoft Case' [2005] 28(1) *World Competition* 71-91

and the incentives balance test that was initiated by the Commission in the *Microsoft* case. It was suggested that it is challenging to apply the new product test<sup>206</sup> which was set out to establish if a refusal to license would harm consumers and deprive them of a new product. The application of the new product test has been considered challenging because there is no legal or economic definition of the 'newness' test. It was further argued that the newness test leads to uncertainty because the demand of the consumers is impossible to test as this new product is only in its initial stages of the innovative process. Therefore, it was suggested that the courts should avoid evaluating a compulsory licence with the newness and the loss of consumers tests in the case of the refusal to license a product.<sup>207</sup>

On the other hand, Lévêque argued that the incentives balance test is a much better method for determining the benefits to consumers. It was suggested that the theory of economics highlights that consumers benefit from valued developments by businesses when incentives to innovate are present. Usually, businesses aim to expand their profit with R&D investments when an opportunity arises. It was further argued that courts are not as aware as businesses of how essential new products are to consumers. Accordingly, companies would hesitate to develop an existing product if they are uncertain whether there would be consumer demand for it.<sup>208</sup> The economic theory has seen IPR as an effective mechanism that provides incentives to innovate. Nevertheless, recent economic views suggest that IPRs can hinder innovation. Therefore, it was

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<sup>206</sup> C- 418/01 *IMS Health v NDC Health* [2004] EU:C:2004:257; [2004] 4 C.M.L.R 28, [49]; the new product test is meant to identify if a business has an intention to produce new products that are not delivered by the right-holder when there is consumer demand for such products.

<sup>207</sup> F. Lévêque 'Innovation, Leveraging and Essential Facilities: Interoperability Licensing in the EU Microsoft Case' [2005] 28(1) *World Competition* 71-91

<sup>208</sup> J. Killick, 'IMS and Microsoft Judged in the Cold Light of IMS' [2004] 1(2) *CompL Rev.* p. 23-47

argued that the incentives balance test is essential from an economic perspective to examine whether or not an IPR is, in fact, hindering innovation.<sup>209</sup>

#### B. The Incentives Balance: A Legal Outlook

The relation between competition and IP law focuses on innovation, and thus, the incentives balance test has been suggested to be relevant from a legal perspective. This relevancy is because the two legal systems aim to encourage innovation and technological development, as well as to enhance consumer welfare. It has been suggested that the Lisbon Strategy and the Commission acknowledge the significance of promoting innovation and maintaining the incentives to invest in the relevant market via means of granting exclusive IPRs.<sup>210</sup>

The incentives balance test adopted by the Commission appears to focus on examining the best mechanism to encourage innovation as well as to enhance consumer welfare. Nonetheless, it was highlighted that it is tough to establish a coherent and predictable structure that is used to decide the circumstances of which right-holder can be found in abuse of its dominant position. Therefore, commentators examined the incentives balance test from a legal perspective to establish whether or not it provides an adequate framework to determine such circumstances.<sup>211</sup>

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<sup>209</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>210</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>211</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

It was highlighted that the Commission in its *Microsoft's* judgement has diverted from the ECJ's previous decisions. The ECJ had used the 'exceptional circumstances' test in previous case law, whereas the Commission shifted towards an 'entirety of the circumstances' test and undertook an incentives balance test. It has been argued that the 'exceptional circumstances' test makes better sense than the 'entirety of circumstances' test, and thus, the Commission's decision must be based on an assessment of all aspects and circumstances of the case.<sup>212</sup> Moreover, the Commission did not provide any guidelines for dominant businesses so that they can test whether or not their conduct is indeed abusive and identify when they are under an obligation to license their IPR. It was even suggested that the Commission's legal analysis made the situation even more unclear due to shifting its investigation from the conditions seen in previous case law such as *Magill* and *IMS*.<sup>213</sup>

Either way, it is clear that there is inconsistency in EU case law which can make the outcome of planned conduct unpredictable for businesses. The Commission's judgement was unpredictable as its approach to the matter was relaxed. However, it was still claimed that the Commissions' lenient approach does not suggest that the ECJ's criteria in previous case laws were either any clearer or more precise.<sup>214</sup> Indeed, innovation has also been considered as a vital element especially in the new product's

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<sup>212</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>213</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>214</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

requirement as seen in both *Magill* and *IMS*. The court adopted a new product test to examine the balance between the owner's right to exclusive IPR and the advantages of a new product where there is possible consumer demand. Nonetheless, as mentioned earlier and as argued by professor Lévêque, it is not easy to define what is exactly a 'new product'. It is important to highlight here that it has been considered problematic that the incentives balance test set in the *Microsoft* case is a predominant criterion that outweighs the standards set in previous case law as the Commission still ordered a compulsory licence without fulfilling the standards set in *Magill*.<sup>215</sup>

Certainly, the ECJ has acknowledged the significance of innovation as seen in previous case law and before the incentives test was adopted by the Commission. The concept of innovation and its importance makes the incentives balancing test indeed valuable, primarily due to directing most of its attention on the examination of innovation. As mentioned earlier, Lévêque has compared both of the new product test and incentives balancing test and has reached to the conclusion that the incentives balancing test is a suitable way of examining the advantages to the consumers whilst appreciating IPRs. He then compared this to the fact that the newness element in the new product test is challenging and most certainly hard to define or even to evaluate consumer loss with the deprivation of a 'new' product. Nonetheless, as mentioned above, this does not mean that the incentives balance test is a better method that provides clearer or more consistent evaluation of incentives to innovation, because such a test is mainly based on economic theory making it contradictory, as well as challenging.

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<sup>215</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

Moreover, it has been suggested by Kallaugher disagrees with the economic approach used to determine the boundary between core intellectual property rights, whose existence is not, impacted by competition law and the non-core exercise of IPR, which is subject to competition law. Kallaugher argued that an economic appraisal of core IPR is undesirable given their function of promoting dynamic rather than static efficiencies and their operation by generalised incentives rather than case-specific economic analysis; and that it is also inconsistent with the concepts of existence, specific subject-matter and essential function developed in the case laws of the EU Courts. On Kallaugher's analysis, cases of abusive refusal to license have been concerned with exceptional circumstances where IPRs restrict dynamic efficiencies.<sup>216</sup>

In addition to the above, empirical evidence regarding identifying the exclusionary practices that are harmful is essential for the sake of legal certainty. It was indicated here that economic theory would be useful when there is no empirical evidence.<sup>217</sup> It was further argued that both economic theory and empirical evidence on the incentives balance test are essential for the sake of legal certainty.<sup>218</sup> However, it is not easy to gather such evidence as it is a complicated matter with an inconsistent set of theories and analysis. The fact that the Commission did not provide any guidance makes it even more difficult to interpret the test transparently.

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<sup>216</sup> S. Anderman and A. Ezrachi, *Intellectual Property and Competition Law: New Frontiers* (1st edn, OUP Oxford 2011)

<sup>217</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>218</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

Moreover, Ezrachi covered matters related to market power and abuse. The developments of case laws of the EU Courts on refusal to licence were summarised, and a study was conducted on the Commission's Guidance on enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct. The article identified some requirements, like consumer harm and anti-competitive foreclosure, to be used to help determine the outcome when examining the priorities. However, it has been argued that this approach is irrelevant as these requirements do not create criteria of infringement to the substantive prohibition. Further, the remark that a refusal to license will only be abusive in exceptional circumstances is a *consequence* of the requirements applied to determine infringement rather than an independent criterion of infringement. Although, it is true that the ECJ's decision in *IMS Health* said that a refusal to license was only abusive if it prevented the emergence of a new product not supplied by a dominant undertaking, a less restrictive approach was adopted in *Microsoft* and followed in the Commission's Guidance.<sup>219</sup>

Further, antitrust intervention here can be applied as per legal precedent or economic justifications. The ECJ has used a 'checklist' flexible approach to help identify some of the conditions that have to be available in a particular case. This approach, arguably, has provided legal certainty to some degree for businesses in identifying the circumstances for antitrust intervention. Nonetheless, the incentives balancing test used by the Commission in the *Microsoft* case had a negative impact on antitrust intervention approach. The case-by-case examination of the positive and negative implications of antitrust intervention and the balancing of advantages to competition with incentives to innovate can be seen as a challenging task. In the practical sense, it

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<sup>219</sup> S. Anderman. and A. Ezrachi, *Intellectual Property and Competition Law: New Frontiers* (1st edn, OUP Oxford 2011)

could be feared that such an assessment can shift the attention from the prohibition of abusive practices towards an examination of the markets. Such a shift can lead to the court finding a business in abuse of its dominant position whenever a market can be more competitive even when there is no visible abusive conduct.

Even though the case-by-case evaluation of the positive and negative impacts on incentives to innovate by antitrust intervention is not attractive in the practical sense due to the unpredictability and uncertainty of such an assessment as it can lead to inconsistent findings, it still appears to be appealing in theory.<sup>220</sup> The following section searches whether the right to grant a voluntary right has now become an obligation, especially following all the new tests introduced to determine abuse of dominance, such as the incentives to innovate and the essential facilities doctrine which both fall under the exceptional circumstances test.

#### VIII. THE RIGHT TO GRANT VOLUNTARY LICENCES- A RIGHT OR OBLIGATION?

A compulsory licence is meant to operate as a last resort as its mere existence encourages the patent holder to work and voluntary licence its patent. It was suggested that the existing compulsory licensing system had accelerated voluntary licences,<sup>221</sup> such as those that fall under FRAND terms. Right holders appear to be more willing to sign a licence agreement so that they escape the risk of a compulsory licence. Some may favour the compulsory licensing system as it adds pressure on the right holder to

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<sup>220</sup> M. Kanevid, 'Compulsory Licensing Of Intellectual Property Rights: With Emphasis On The Incentives Balance Test' (Masters, University of Lund 2007) available at <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1559020&fileId=1564848> last accessed on 6<sup>th</sup> June 2018

<sup>221</sup> K. C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699

voluntary licence. Although such a pressure deters any delays and costs of prolonged negotiations,<sup>222</sup> it is critical for the law to be clear on the determination of compulsory licences in order not to unnecessarily force and pressurise a patent holder into voluntary licensing.

Moreover, it has been suggested by Minn<sup>223</sup> that the balance between competition law and the patent law is challenging as seen, for example, in *IMS Health*<sup>224</sup> when it assessed whether a dominant patent holder must grant a voluntary licence to its competitor following Article 102 TFEU. It has been highlighted that Article 28 of the TRIPS Agreement identifies rights to conclude voluntary licence agreements, and, as a general rule, it does not oblige dominant undertakings to grant voluntary licences.

The essential facilities doctrine<sup>225</sup> obliges a business that is in control of the essential facility to make the facility available to competitors via means of a compulsory licence. It was stipulated that the essential facilities doctrine is essential for a valid patent system that balances private and public interests.<sup>226</sup> It has been further suggested that it is important for the compulsory licensing system of the TRIPS to include the

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<sup>222</sup> K.C. Liu, 'The need and justification for a general competition-oriented compulsory licensing regime' [2012] 43(6) International Review of Intellectual Property and Competition Law 679-699; R.L.D. Wang, 'Biomedical Upstream Patenting and Scientific Research: The Case for Compulsory Licenses Bearing Reach-Through Royalties,' 10 [2008] Yale J.L. & Tech 322

<sup>223</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112

<sup>224</sup> C- 418/01 *IMS Health v NDC Health* [2004] EU:C: 2004:257; [2004] 4 C.M.L.R 28

<sup>225</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112 has stated that '*the Essential Facilities Doctrine, within the context of competition law, specifies the conditions when the patent owner should be mandated to provide access to the patented subject-matter. In the broadest sense, an input is regarded essential when it is under the control of a monopolist who denies access to a downstream competitor, in a context characterised by the absence of economically viable alternatives, and the market at issue is important for social welfare.*'; R. Aoki and J. Small, 'Compulsory Licensing of Technology and the Essential Facilities Doctrine' [2004] 16 Information Economics and Policy 13.

<sup>226</sup> K.C. Lui, 'Rationalising the regime of compulsory patent licensing by the essential facilities doctrine' [2008] 39(7) International Review of Intellectual Property and Competition Law, 757-774

consideration of public policy.<sup>227</sup> Lui reasoned that competition and IP authorities should enforce the compulsory licensing system under a well-defined essential facilities doctrine, so that market competition is maintained by preventing a dominant undertaking from extending its dominance to other markets when it refuses to license on reasonable terms.<sup>228</sup>

On the other hand, Minn argued that the essential facilities doctrine should be limitedly applied in cases of compulsory licences. The limited scope of its applicability is because compulsory licensing under this doctrine is only relevant when a 'new' product is provided by the competitor in a secondary market whereby the patent could be measured as an essential facility. In other words, it would be challenging for the competitor to bring a patented product in a market without the infringement of the patent holder's exclusive rights.<sup>229</sup>

It has been highlighted that the *IMS Health* led to questioning whether Article 102 TFEU benefits or undermines the IP system.<sup>230</sup> Minn argued that the compulsory licensing system had been seen to serve as an alternative remedy to the challenges of the patent system. Nevertheless, the judgement of the case has also resulted in questioning whether it is necessary or even desirable for Article 102 TFEU to be a built-in remedy for the IP system.<sup>231</sup>

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<sup>227</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112

<sup>228</sup> K.C. Lui, 'Rationalising the regime of compulsory patent licensing by the essential facilities doctrine' [2008] 39(7) International Review of Intellectual Property and Competition Law, 757-774

<sup>229</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112

<sup>230</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112; I. Govaere, *The Use and Abuse of Intellectual Property Rights in EC Law* (London/Toronto: Sweet & Maxwell, 1996), pp.149–150.

<sup>231</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112; P.I. Colomo, 'Article 82 EC as a 'Built-in' Remedy in the System of Intellectual Property: The Example of Supplementary Protection for

Ultimately, competition law intervention is essential when the conduct of right holders lead to adverse effects on competition. However, it has been debated by Minn that it is essential to establish what is unlawful conduct through differentiating between competition on merits<sup>232</sup> and anti-competitive practice that destructs competition. Accordingly, it was argued that the court could only enforce liability and grant a compulsory licence when the harmful effect on the competition process has been underlined.<sup>233</sup>

In the following section of the literature review, a business community perspective has been explored to address the discouragement of the over the top competition law intervention.

## IX. A BUSINESS COMMUNITY PERSPECTIVE

This section examines the business perspective on matters related to innovation, patents and competition. It first covers IP corporate management perspective and, second, it examines BIAC's perspective which is followed by an exploration of potential prospects for patent and competition officials to work together at the early stages and then to underline the need for a predictable legal system. This section finally raises the question of harmonisation as a potential remedy.

### A) IP Corporate Management Perspective

Denoncourt has called for the incorporation of IP corporate perspective utilising IP rights in business management in order to understand and better manage them. This

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Pharmaceuticals in Italy' in I. Govaer and H. Ullrich (eds), *Intellectual Property, Market Power and the Public Interest* (Brussels/Bern/Berlin/Frankfurt/New York/Oxford/Wien: P.I.E. Peter Lang, 2007), p.122.

<sup>232</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112; C-209/10 *Post Danmark A/S v Konkurrenceradet* [2012] 4 C.M.L.R 23

<sup>233</sup> M. Minn, 'Patent settlement agreements and the refusal to license in the light of competition law' [2018] 40(2) European Competition Law Review 109-112

utilisation would require IP owners to embed an IP corporate management system that helps determine existing IPRs, prevent duplications and infringements, identity market movements, keep a record of potential competitors and spot possible collaborators.<sup>234</sup>

#### B) BIAC's Perspective

The Business and Industry Advisory Committee (BIAC) to the OECD usually provides a business community perspective on matters related to innovation, patents and competition. It has been previously noted that one of the main concerns of competition is ensuring that competition law does not negatively affect IPR and innovation.<sup>235</sup> It has been highlighted that patent laws should protect businesses and allow them to innovate and invent freely. Moreover, such rights must not be weakened by excessive restriction of competition laws. The following has been conveyed, for instance, in communication by Thomas O. Barnett, an Assistant Attorney General from the Antitrust Division Department of Justice:

*[S]trong intellectual property protection is not separate from competition principles, but rather, is an integral part of antitrust policy as a whole. Intellectual property rights should not be viewed as protecting their owners from competition; rather, IP rights should be seen as encouraging firms to engage in competition, particularly competition that involves risk and long-term investment. Properly applied, strong intellectual property protection creates the competitive environment necessary to permit firms to*

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<sup>234</sup> J. Denoncourt, *Intellectual Property, Finance and Corporate Governance*, (first published 2018, Routledge), p 10

<sup>235</sup> BIAC, 'Summary of Discussion Points Presented by BIAC to the OECD at the OECD Competition Committee Roundtable on Competition on the Merits, (biac.org, 1<sup>st</sup> June 2005), paras 17-20 [http://biac.org/wp-content/uploads/2014/05/FINAL\\_BIAC\\_Discussion\\_Points\\_for\\_Competition\\_on\\_Merits2005-05-30.pdf](http://biac.org/wp-content/uploads/2014/05/FINAL_BIAC_Discussion_Points_for_Competition_on_Merits2005-05-30.pdf) accessed on 07th March 2018

*profit from their inventions, which encourages innovation effort and improves dynamic efficiency.*<sup>236</sup>

The abovementioned discourages extreme intervention and overregulation to tackle market imbalances. Thereby, restrictions on patents and innovation must be carefully applied with particular attention on issues related to compulsory licencing as well as the intervention with licencing terms that are based on FRAND conditions.

It has been suggested that competition law authorities must tackle such concerns in a policy perspective and should deal with this matter with great caution and eliminate any uncertainties in this area of law. Without a doubt, clarity in the law would boost the confidence of investors to invest in innovation.<sup>237</sup> Accordingly, it was argued that the notion of private property rights allows the right to exclude others from enjoying the property and thus, IPRs fall in the category of private rights and should be treated similarly to any other property. It was claimed that competition laws must, to some extent, deal with IPRs the same way they would deal with other types of property. It was argued that this approach would provide businesses with some level of predictability and certainty, as well as ensuring consistency with IP laws in this matter.

For instance, the US Licensing Guidelines also states that IPRs are regarded as any other form of property.<sup>238</sup> Likewise, the Canadian IPEGs claims the following:

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<sup>236</sup> T. O. Barnett, Assistant Attorney General, 'Interoperability between antitrust and intellectual property' (George Mason University School of Law Symposium Managing Antitrust Issues in a Global Marketplace Washington, DC, 2006) available at < <https://www.justice.gov/atr/speech/interoperability-between-antitrust-and-intellectual-property>> accessed on 15 June 2018

<sup>237</sup> T. O. Barnett, Assistant Attorney General, 'Interoperability between antitrust and intellectual property' (George Mason University School of Law Symposium Managing Antitrust Issues in a Global Marketplace Washington, DC, 2006) available at < <https://www.justice.gov/atr/speech/interoperability-between-antitrust-and-intellectual-property>> accessed on 15 June 2018

<sup>238</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018.; US Licensing Guidelines, Para 2.0 238

*[T]he analytical framework that the Bureau uses to determine the presence of anti-competitive effects stemming from the exercise of rights to other forms of property is sufficiently flexible to apply to conduct involving IP, even though IP has important characteristics that distinguish it from other forms of property.*<sup>239</sup>

Such a standard that deals with IPRs as other types of property is titled as the 'bedrock principle' of competition enforcement policy,<sup>240</sup> which suggests that IPRs are not protected from competition examination and neither should they be exceptionally questioned by competition laws.<sup>241</sup>

### C) Prospects for Patent and Competition Officials to Work Together at the Early Stages

Numerous experts, some of which mentioned in this chapter, have provided different possible remedies to improve the correlation of patent and competition law. Improvements to the patent 'quality' have been the main focus of some experts, as suggestions were made to ensure that patents meet the legislative standards for patentability via means of a thorough examination at the early stages of patents' applications.<sup>242</sup>

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<sup>239</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; Canadian IPEGs, para 1

<sup>240</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 239 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; US Licensing Guidelines, para 2.0 and Canadian IPEGs, para 4.1

<sup>241</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 239 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018

<sup>242</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; Competition Committee, Patents, Innovation and Economic Performance, OECD Conference Proceedings (DAF/COMP 2004) 24; S. DeSanti & others, 'To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy', (US Federal Trade Commission 2003); S. Merrill, 'Improving Patent Quality: Connecting Economic Research and Policy' (OECD, Patents, Innovation and Economic Performance, Conference Proceedings, 2004); C. Shapiro, 'Patent System Reform: Economic Analysis and Critique' [2004] 19(3) Berkeley Technology Law Journal 1017-1046; B. Hall, D. Harboff, S. Graham and D.

In addition to the above, suggestions relevant to the patent system have been made in a 2004 roundtable, which highlighted the lack of resources and technical expertise. It was also advised that competition authorities must have some authority in IP granting and helping IP offices in improving such a process. It has been further suggested that it is imperative to assign experts to study the patenting system of a specific country, as well as holding hearings with academics, industry participants, and practitioners. It was suggested this could provide a greater understanding of both fields of law and thus, improve IP policies.<sup>243</sup> Supplementary, it has also been proposed that officials in the fields of both patents and competition law should meet regularly to share their ideas on patents, and discuss how patent policies could be further improved.<sup>244</sup>

However, it has been argued that competition agencies do not have the required expertise to plan or apply patent policy, yet their participation and comments could be helpful.<sup>245</sup> It has been further argued that this approach will also benefit society as a whole, because patent organisations are usually attentive to their clients' interests, whereas competition organisations aim at improving the economy.<sup>246</sup> Additionally,

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Mowery, 'Prospects for Improving US Patent Quality via Post-Grant Opposition' (2003) Competition Policy Centre Research Paper CPC03038  
 <<https://escholarship.org/content/qt4wq4g70r/qt4wq4g70r.pdf>> accessed 15 June 2018; A. Jaffe & J. Lerner 'Innovation and its Discontents' in Adam Jaffe, Josh Lerner & Scott Stern (eds.) *Innovation Policy and the Economy* (NBER 2006)

<sup>243</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238  
 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; Competition Committee 'Competition Policy Roundtables' (The OECD 2004), p. 7 available at <  
[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP\(2004\)24&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP(2004)24&docLanguage=En)> accessed on 15 June 2018

<sup>244</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238  
 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; J. Langenfeld, 'Intellectual Property and Antitrust: Steps Toward Striking a Balance' [2001] 52(1) W. Res. L. Rev. 91-110

<sup>245</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238  
 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; J. Langenfeld, 'Intellectual Property and Antitrust: Steps Toward Striking a Balance' [2001] 52(1) W. Res. L. Rev. 91-110

<sup>246</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238  
 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; C Shapiro, 'Patent

various competition agencies have attempted to portray how they contribute to developing the patent policy further. For instance, joint hearings on patent policy and competition were held by the US Federal Trade Commission and Department for Justice. It was followed by a report directed to the courts, Congress, and Patent and Trademark Office. This report contained proposals on how competition authorities can progress patents' quality and how to decrease the effects of competition law on the patent system.

Indeed, the early intervention of competition laws in the patent system has been argued by some to be the best method to reduce or eliminate market power enjoyed by patent holders in a relevant market. The reason for this direct intervention approach is because there are numerous instances where businesses have been compelled to licence their IP due to infringing competition law. Nonetheless, Shapiro argued that compulsory licence might not be the ideal method of dealing with this issue, especially if a right holder does not want to licence its patent;

*When a private party is granted a patent . . . giving the owner exclusive rights over certain intellectual property, and then antitrust rules are interpreted to require that these rights be licensed to others, public policy and the law are confused and contradictory. Apart from undermining precisely the exclusive rights that were granted, compulsory licensing raises the thorny issue of the terms and conditions on which such licences must be granted.<sup>247</sup>*

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System Reform: Economic Analysis and Critique' [2004] 19(3) Berkeley Technology Law Journal 1017-1046, at p.1022

<sup>247</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; C Shapiro, 'Patent System Reform: Economic Analysis and Critique' [2004] 19(3) Berkeley Technology Law Journal 1017-1046, at p. 1025

It has been argued that granting compulsory licences of patents that have critical economic roles does not make sense. In other words, imposing compulsory licences on patent holders who acquire market power would weaken inventors' rights when their innovations are the most valuable. It has been further suggested that patents and competition are best supported by cautiously outlining the property rights conferred by the patent system, in order to ensure patent rights are just provided for real innovations.<sup>248</sup>

Thus, Shapiro concluded that it best to remedy the issues such concerns by revisiting the patent system, contrary to using competition laws to solve such matters. The Competition Committee has also supported this point of view.<sup>249</sup>

#### D) A Predictable Legal System is Necessary for Investments in Innovation

We have been reminded by Denoncourt that individuals have been facing challenges in predicting, controlling, managing and even understanding the future.<sup>250</sup> The urgent need for a transparent and predictable IPRs system is mainly because the market possesses many innovations that create dynamic competition and technological advances.<sup>251</sup> Thus, the protection of IPRs has rapidly increased within the past twenty

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<sup>248</sup>BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; C Shapiro, 'Patent System Reform: Economic Analysis and Critique' [2004] 19(3) Berkeley Technology Law Journal 1017-1046, at p. 1025-1026

<sup>249</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; OECD, Patents, Innovation and Economic Performance, OECD Conference Proceedings (DAF/COMP 2004) 24, at p. 7

<sup>250</sup> J. Denoncourt, *Intellectual Property, Finance and Corporate Governance*, (first published 2018, Routledge), p 3

<sup>251</sup>L. C. Thurow, 'Needed: A new system of intellectual property rights' (*Harvard Business Review*, 1997) <[http://business.kingston.ac.uk/sites/all/themes/kingston\\_business/retake/bs6701innovation1.pdf](http://business.kingston.ac.uk/sites/all/themes/kingston_business/retake/bs6701innovation1.pdf)> accessed 27 February 2018

years.<sup>252</sup> Usually, patent owners enjoy the freedom of deciding if and how they want to licence their patents. This freedom can be restricted with the controversial use of competition laws on patents and various experts agree on the fact that the use of competition laws must not be broadly applied as it can have an adverse effect on innovation.<sup>253</sup>

Accordingly, competition law intervention must be carefully measured following an extensive review of the specifics of a case, and only with the presence of explicit abusive conduct of significant market power.<sup>254</sup> Nevertheless, specialists and scholars disagree on the means that should be used by the courts for evaluating abuses of innovation and competition by dominant undertakings. Such varying opinions are mainly due to the challenging task of anticipating when patents would possess an abuse to innovation and completion.<sup>255</sup> Few commentators stressed that it is best if the intervention of competition laws on competitive harm is based on facts, instead of relying on mere predictions of competitive harm, yet others have disagreed with this approach as intervention would come too late leading to long-term damage to the market. Therefore, conservative measures must be adopted, especially in regards to the effectiveness of interventions to eliminate competitive harm.

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<sup>252</sup>L. C. Branstetter and others, 'Do Stronger Intellectual Property Rights Increase International Technology Transfer? Empirical Evidence from U S Firm-Level Panel Data' [2006] 121(11) *The Quarterly Journal of Economics* 321-349

<sup>253</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 8 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018

<sup>254</sup> J. A. Yosick, 'Compulsory Patent Licensing for Efficient Use of Inventions.' (2001) 2001(5) *University of Illinois Law Review* 1275

<sup>255</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 8 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018

### E) Is There a Need to Encourage Harmonisation?

Not only has it been encouraged to harmonise competition law at an EU level, but also an international level. The potential need for international harmonisation is mainly due to businesses increasingly operating on an international level. Therefore, the harmonisation of competition laws is deemed necessary.<sup>256</sup> The international harmonisation in the context of competition law and patents is challenging and possibly impossible.<sup>257</sup> For example, different approaches are adopted by the EU and US competition authorities, and this can be seen in claims brought against Microsoft for its abusive behaviour. It has been argued that the Commission has interfered with the sharing of IP rights more than the courts in the United States would have interfered<sup>258</sup>. Nonetheless, it has been debated that it is essential for businesses to have consistency in the decisions of authorities worldwide. Efforts to arrive at some level of harmonisation of competition law principles and their interpretation are needed to encourage businesses to invest and adequately protect patent rights.

At an EU level, the common law Member States such as the UK and Ireland,<sup>259</sup> have not been enthusiastic about the harmonisation of competition laws, particularly in the

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<sup>256</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018

<sup>257</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; The US authorities approved the GE/Honeywell merger but the EU authorities rejected it; United States Department of Justice, 'Justice Department Requires Divestitures in Merger Between General Electric and Honeywell' (2001); Case COMP/M.2220 *General Electric v Honeywell* [2001] ECR available at <[http://ec.europa.eu/competition/mergers/cases/decisions/m2220\\_en.pdf](http://ec.europa.eu/competition/mergers/cases/decisions/m2220_en.pdf)> accessed on 16 June 2018

<sup>258</sup> BIAC, 'Policy Roundtable: Competition, Patents and Innovation' (The OECD 2007) p. 238 <<https://www.oecd.org/daf/competition/39888509.pdf>> accessed 15 June 2018; Case COMP/C-3/37.792 *Microsoft v. Commission* [2004] 900 Final; *United States v. Microsoft* [2002] F. Supp. 2d 144; C. S. Goldman, Q.C., R. F.D. Corley and C. L. Witterrick, 'A Canadian Perspective on Intellectual Property Rights and Competition Policy: Striving for Balance and Related Comity Consideration' (31<sup>st</sup> Annual Conference on International Antitrust Law & Policy 2004).

<sup>259</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005), p. 25

context of anti-competitive practices.<sup>260</sup> In addition to the statutory objectives, the harmonisation of competition law is not accepted also due to political reasons as it is believed to have a negative impact on competition as well as the economy. For instance, governments, businesses, trade unions and consumer organisations took advantage of their political authority to prevent or put an end to the harmonisation process that had started in the 1960s. It has been argued that *'in a way the world is divided over how far it is legitimate to extent civil obligations which inevitably inhibit the freedom of traders to compete in the course of competition.'*<sup>261</sup> It has been even further stipulated that competition law signify *'an area in which pitfalls, obstacles, snares and traps abound.'*<sup>262</sup>

In another study conducted by Kamperman Sanders, it was deliberated that *'despite these different legal views there are clear indications that the desire of a system of minimum intervention on the field of competition law features high on the policy agenda.'*<sup>263</sup> It was added by Schricker that *'many have doubted whether legal harmonisation is necessary at all.'*<sup>264</sup> Nevertheless, it was still argued that it is *'in no way appears to be a lost, but a real chance to consolidate the internal market.'*<sup>265</sup>

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<sup>260</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005), p. 25

<sup>261</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005) p.26; W.R. Cornish, 'Genevan Bootstraps', Opinion: [1997] 7 EIPR, p 336

<sup>262</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005)

<sup>263</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005, p. 26; A. Kamperman Sanders, *Unfair Competition Law: The Protection of Intellectual Property and Industrial Creativity*, (1<sup>st</sup> edn., oxford: Clarendon Press 1997), p.1

<sup>264</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005), p. 26; G. Schricker, 'European harmonisation of unfair competition law- futile venture?' [1991] 22(6) International Review of Industrial Property, 788-801, at p. 789

<sup>265</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005), p. 26; G. Schricker, 'European harmonisation of unfair competition law- futile venture?' [1991] 22(6) International Review of Industrial Property, 788-801, at p. 801

According to the arguments above, it appears that the developments that recently took place in the EU Market are also in favour of harmonising the laws of competition particularly in the context of anti-competitive conduct of dominant undertakings. This new attitude is mainly due to the growing exchange of goods and services between the Member States. Therefore, the harmonisation of the law has been indicated to aid in addressing the matter of compulsory licensing.<sup>266</sup> On the other hand, it has been highlighted by Hickman<sup>267</sup> that the harmonisation of IPRs in the EU would be highly challenging for successful dominant businesses. The interface of broad EU competition law with domestic IPRs could lead to patent holders having limited power over how they wish to license or use their IPRs.<sup>268</sup>

#### X. RATIONALISING THE RULE OF LAW APPROACH

This section aims to rationalise the rule of law approach as a means of assessing the degree of predictability, legal certainty and consistency that is being offered to patent holders during an or a potential competition law intervention.

As addressed in this chapter, the evaluation of IPRs is not easily identified under Article 102 TFEU. It was, thus, argued by Hull that relation between competition law and IP is 'hazardous'<sup>269</sup> as competition law appears to take a holistic approach concerning abuse

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<sup>266</sup> R. W. de Vrey, *Towards A European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers and VSP 2005), p. 26; G. Alpa, 'Rules on Competition and Fair Trading' in Hugh Collins (eds), *The Forthcoming Directive on Unfair Competition Practices- Contrast, Consumer and Competition Law Implications* (Kluwer Law International 2004), p. 105

<sup>267</sup> D. Hickman, 'Patents: competition law a defence to patent infringement claims?' [2003] 25(7) European Intellectual Property Review 114-117

<sup>268</sup> D. Hickman, 'Patents: competition law a defence to patent infringement claims?' [2003] 25(7) European Intellectual Property Review 114-117

<sup>269</sup> A. J. Barnes 'Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?' [2018] 39(2) European Competition Law Review, 49-63; D. W. Hull, 'The Application of EU Competition Law in the Pharmaceutical Sector' [2010] 1 J.E.C.L. & Pract. 429, 437.

of dominance. This approach could be due to the lack of particular laws set to deal with the different types of IPRs or their relevant market.<sup>270</sup>

The determination of abusive conduct has been outlined under the ‘exceptional circumstances’ approach.<sup>271</sup> Nonetheless, the competition law intervention has been expanded over the years as can be seen in the Commission’s 2005 decision where it found that *AstraZeneca (AB) and AstraZeneca Plc (AZ)* had infringed Article 102 TFEU.<sup>272</sup> AZ decided to appeal the judgement before the GC, and the fine has been successfully reduced to €52,500 million. The GC found that Commission was unsuccessful in demonstrating how AZ’s conduct impacted parallel imports to both Norway and Denmark.<sup>273</sup> AZ decided to appeal further to the ECJ in 2012, but the appeal was dismissed.<sup>274</sup>

The abovementioned case is important for various reasons. The assessment of dominance, for instance, was set against a narrow market.<sup>275</sup> However, market dominance is more easily established in a narrow market definition. Moreover, it was

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<sup>270</sup> A. J. Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; J. Faull and A. Nikpay, *The EU Law of Competition*, (3rd edn Oxford University Press 2014), p.1872.

<sup>271</sup> A. J. Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review 49-63; Case C-97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlaa GmbH & Co KG* [1998] E.C.R I-7791, AT [40]

<sup>272</sup> Arianne Jane Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; *AstraZeneca (COMP/A.37.507/F3) Commission Decision 2006/857 [2005] OJ L332/24*

<sup>273</sup> A. J. Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; T-321/05 *AstraZeneca AB v European Commission* [2010] EU:T:2010:266

<sup>274</sup> Arianne Jane Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; C- 457-10 *AstraZeneca AB v European Commission* [2012] EU:C:2012:770

<sup>275</sup> A. J. Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; *AstraZeneca AB (COMP/A.37.507/F3) [2005] OJ L332/24* at [113].

suggested that the earlier cases of ‘exceptional circumstances’ was not applied and instead the court had resorted to the ‘essential facilities doctrine’. <sup>276</sup> Hull suggested that broad language was used in that case will probably have a negative impact on the innovation purpose of patents.<sup>277</sup>

The doctrine of the rule of law and legal certainty and consistency in the decision-making is essential for dominant undertakings as it provides them with the necessary degree of clarity and predictability to make well-informed decisions as to whether or not their practices are abusive.

Indeed, competition law appreciates the fact that predictability is essential. The ability to run a successful business and make the informed decisions concerning investments require the ability to predict its outcomes. Increased uncertainty would not only lead to extra costs, but it can also affect the survival of a business in a relevant market, and it can have a negative impact on the economy. Thus, it is of great importance to have clear guidelines, guidance and standards that provide predictability and legal certainty.

Given the fact that, businesses must assess its incentives to innovate against the possible positive effect of a compulsory licence in a relevant market. A business must, therefore, examine whether or not a compulsory licence has a negative impact on the business itself regarding its incentives to innovate. If it has a negative impact, the

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<sup>276</sup> A. J. Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; J. Westin, ‘Product Switching in the Pharmaceutical Sector—An Abuse of Legitimate Commercial Consideration?’ [2011] 32 E.C.L.R. 595

<sup>277</sup> A. J. Barnes ‘Abuse of dominance causing congestion in the pharmaceutical industry: what is the cure in light of the Reckitt Benckiser (Case CE/8931/08) Decision?’ [2018] 39(2) European Competition Law Review, 49-63; D.W. Hull, ‘The Application of EU Competition Law in the Pharmaceutical Sector’ [2011] J.E.C.L. & Practice 480, 483

business must then compare the negative impact on its incentives to innovate with the negative impact on the market as a whole to determine which outweighs the other.

However, the Commission did not provide clear guidelines for businesses to evaluate the outcomes of a compulsory licence in its balancing test.<sup>278</sup> This is worrying as the Commission have left the matter open for broader interpretations leading to legal uncertainty and unpredictability for businesses to foresee its outcome. Commentators have highlighted the need for the Commission and the ECJ to provide further legal certainty, predictability and consistency in their decision making concerning the determination of a compulsory licence.

## XI. CONCLUSION

All in all, it can be noted that there are a variety of views on the difficult issues which arise in the application of competition law to IP. As arguments and references are available to support different propositions, nonetheless, it there is no single, systematic exposition or a grand, unifying theory.

The following chapter examines the rule of law doctrine and explores the main contributions delivered by different scholars in order to help shape the elements of the rule of law doctrine that are to be adopted throughout this research. Accordingly, this research examines the legal system and the effectiveness of competition law intervention from a rule of law perspective. The rule of law approach is used to highlight and assess the extent of uncertainty and unpredictability in available case law and how effective has been competition law in achieving its aims and objectives without jeopardising and undermining the essence of IPRs.

## CHAPTER THREE

### THE RULE OF LAW DOCTRINE

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#### I. INTRODUCTION

Dominant undertakings can find it hard to predict the outcome of their planned conduct when there are existing inconsistencies in EU case law. Arguably, the uncertainties in this area of law could be due to the existing differences between the economic and legal understandings of IPRs.<sup>279</sup> However, innovation is encouraged by a high level of IPRs protection, as well as a compelling mix of freedom and competition.<sup>280</sup> Undoubtedly, legal certainty, predictability and consistency compromise some of the elements of the rule of law doctrine. Therefore, the research stresses that undertakings must enjoy the right to predict and anticipate when their practices could be unlawful.

Regulatory uncertainties make it extremely difficult for successful businesses to make plans for investments and predict the outcome of their decision making. Moreover, regulatory certainty, predictability and consistency could be beneficial not only to patent holders but also to the economy as a whole. Although EU competition intervention can sometimes be necessary, it should still aim to provide a high level of IP protection for IP holders by facilitating a higher degree of legal certainty and

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<sup>279</sup> C. Godt 'Technology, patents and markets: the implied lessons of the EU Commission's intervention in the Broccoli/Tomatoes case of 2016 for modern (plant) genome editing' [2018] 49(5) International Review of Intellectual Property and Competition Law 512-535; O. G. Van, 'The impact of emerging market patent systems on Europe: awaiting "The Rape of Europa"?' In: F.M. Abbott, C.M. Correa, P. Drahos (eds) *Emerging markets and the world patent order*. (Cheltenham: Edward Elgar Publishing Ltd, 2015), pp 355-368, p. 361.

<sup>280</sup> C. Godt 'Technology, patents and markets: the implied lessons of the EU Commission's intervention in the Broccoli/Tomatoes case of 2016 for modern (plant) genome editing' [2018] 49(5) International Review of Intellectual Property and Competition Law 512-535

predictability. This approach would avoid potential and unnecessary adverse impacts on economic development.

The rule of law is a broad topic as it can, in itself, form a part of an extensive study. This chapter mainly focuses on some of the most prominent definitions, formulations and principles of the rule of law that respond to the concerns of this thesis regarding legal uncertainty with competition law's retroactive intervention. The overall research aim is to identify whether competition law intervention achieves its desired outcomes in coherence with the concept of the rule of law. To do so, it would be relevant to address some of the most prominent definitions and principles of the rule of law, incorporating its formal and substantive perspectives, as well as its application in a legal system that follows the doctrine. The contributions to the definitions and values of the rule of law are used throughout the thesis, in particular, the concluding chapter, to assess the compliance with the doctrine in circumstances of competition law intervention.

## II. DEFINITIONS AND SOME THEORIES ON THE DOCTRINE

There is no definite or uniform description of the rule of law and its principles, yet the doctrine features a vital role in both modern law and politics as it has been considered as ‘the most important political ideal today.’<sup>281</sup> Some scholars have included elements of predictability and legality in their formal perspective, and others have included elements of human rights and democracy in their substantive perspective.

Generally speaking, the rule of law ensures that the law is supreme.<sup>282</sup> The supremacy of law has been linked with both formal and substantive formulations of the doctrine. Some commentators have indicated that institutional structures must follow formal procedures to the rule of law in order to safeguard that the law is supreme. The rule of law’s formal principle covers matters related to how society should be administered, such as generality, predictability, consistency, clarity and prospective law. The procedural characteristics of the rule of law include the functioning of the norms and independent judicial system.<sup>283</sup> Others have determined that the doctrine must also comprise different substantive elements that ensure such a supremacy.<sup>284</sup> The doctrine’s substantive approach has been controversial, particularly concerning liberty and private property rights.<sup>285</sup> It has been debated, for instance, that the rule of law concept should remain formal and separated from democracy and human rights.<sup>286</sup> This

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<sup>281</sup> B. Tamanaha, *On the Rule of Law: History, Politics, Theory*. (Cambridge, Cambridge University Press, 2004), book synopsis

<sup>282</sup> H. Andersen, ‘China and WTO Appellate Body’s Rule of Law’ [2016] *Global Journal of Comparative Law* 146-182

<sup>283</sup> J. Waldron, ‘The Rule of Law’, *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>284</sup> P. Craig, ‘Theory, ‘formal and substantive conceptions of the rule of law: an analytical framework’ [1997] *PL* 467-487

<sup>285</sup> J. Waldron, ‘The Rule of Law’, *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>286</sup> B. Tamanaha, ‘The History and Elements of the Rule of Law’ [2012] *Singapore Journal of Legal Studies* 232-247 <https://law.nus.edu.sg/sjls/articles/SJLS-Dec-12-232.pdf> accessed on 16 July 2018

viewpoint is because a nation might adhere to the rule of law as one element of the social-political complex, but still have flaws regarding poverty, public health and more.

<sup>287</sup> The formal interpretation of the doctrine does not include any obligations as to the content of the law.<sup>288</sup> It does, nevertheless, stress on the importance of having clear, well-known, specific, prospective, general and equal law.

The rule of law has been described in the Oxford English Dictionary as the following:

*The authority and influence of law in society, esp. when viewed as a constraint on individual and institutional behaviour; (hence) the principle whereby all members of society (including those in government) are considered equally subject to publicly disclosed legal codes and processes.*<sup>289</sup>

Similarly, Tamanaha has expressed that the rule of law ensures '*government officials and citizens are bound by and abide by the law. I repeat: government officials and citizens are bound by and abide by the law.*'<sup>290</sup> Tamanaha has suggested that this definition provides the 'minimum content of the rule of law' and some might insert further aspects to this definition, yet no one will disagree with a rule of law that does not consist of any less than this basic definition.<sup>291</sup> Similarly, Raz defined the rule of law as the following:

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<sup>287</sup> B. Z. Tamanaha, 'The History and Elements of the Rule of Law' [2012] Singapore Journal of Legal Studies 232-247 <https://law.nus.edu.sg/sjls/articles/SJLS-Dec-12-232.pdf> accessed on 16 July 2018

<sup>288</sup> B. Tamanaha, 'The Rule of Law for Everyone?' [2002] 55(1) Current Legal Problems 97-122

<sup>289</sup> Oxford English Dictionary, 'Rule of Law', *The Oxford English Dictionary* (3<sup>rd</sup> edn, OED Online 2018) <[www.oed.com/view/Entry/277614](http://www.oed.com/view/Entry/277614)> accessed 17 July 2018.

<sup>290</sup> B. Tamanaha, 'The History and Elements of the Rule of Law' [2012] Singapore Journal of Legal Studies 232-247 <https://law.nus.edu.sg/sjls/articles/SJLS-Dec-12-232.pdf> accessed on 16 July 2018

<sup>291</sup> B. Tamanaha, 'The History and Elements of the Rule of Law' [2012] Singapore Journal of Legal Studies 232-247 <https://law.nus.edu.sg/sjls/articles/SJLS-Dec-12-232.pdf> accessed on 16 July 2018

*'The rule of law means literally what it says: the rule of law. Taken in its broadest sense this means that people should obey the law and be ruled by it.'*<sup>292</sup>

Another central input to the formal formulation of the doctrine has been made by Dicey's<sup>293</sup> which indicates the following:

*No man is punishable or can be lawfully made to suffer in body or goods except for a distinct breach of law established in the ordinary legal manner before the ordinary courts of the land. In this sense [...] the rule of law is contrasted with every system of government based on the exercise by persons in authority of wide, arbitrary, or discretionary powers of constraint.*<sup>294</sup>

Some have not welcomed Dicey's definition of the rule of law. It has been argued by Craig, for example, that Dicey had underestimated the impact of discretionary power,<sup>295</sup> even though discretionary power existed during the writing of his study as it was considered essential for the development of governmental power.<sup>296</sup> Craig also indicated that Dicey's viewpoint on the rule of law could be seen as a substantive one due to his use of the word 'arbitrary' which has substantive content.<sup>297</sup> However, the word arbitrary could have a substantive element only if Dicey had intended to use it to reflect on a law that infringes fundamental rights. Regardless, Dicey's approach is

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<sup>292</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The Authority of Law: Essays on Law and Morality* (Clarendon Press, 1977), pp. 210-232.

<sup>293</sup> A. Dicey, *The Law of the Constitution* (10<sup>th</sup> ed, Palgrave Macmillan, 1959) p. 110 < [http://files.libertyfund.org/files/1714/0125\\_Bk.pdf](http://files.libertyfund.org/files/1714/0125_Bk.pdf) > accessed 15 October 2016

<sup>294</sup> A. V. Dicey, *The Law of the Constitution* (10<sup>th</sup> ed, Palgrave Macmillan, 1959) p. 110 < [http://files.libertyfund.org/files/1714/0125\\_Bk.pdf](http://files.libertyfund.org/files/1714/0125_Bk.pdf) > accessed 15 October 2016

<sup>295</sup> P. Craig, 'Theory, formal and substantive conceptions of the rule of law: an analytical framework' [1997] Public Law 467-478

<sup>296</sup> P. Craig, 'Theory, formal and substantive conceptions of the rule of law: an analytical framework' [1997] Public Law 467-478

<sup>297</sup> P. Craig, 'Theory, formal and substantive conceptions of the rule of law: an analytical framework' [1997] Public Law 467-478; T. Allan, *Law, Liberty and Justice, The Legal Foundations of British Constitutionalism* (Clarendon Press, 1994) p.46

formal as the use of the word arbitrary was not meant to examine whether the content of law is just or not.<sup>298</sup> This argument can be further supported by the fact that Dicey has expressed the following:

*We mean... when we speak of the 'rule of law' as characteristic of our country, not only that with us no man is above the law, but (what is different thing) that here every man, whatever be his rank or condition, is subject to the ordinary law of the realm and amenable to the jurisdiction of the ordinary tribunals.*<sup>299</sup>

The content of the law itself is not a matter of concern to the formal formulation of the rule of law as it is more attentive on fulfilling the formal principles.<sup>300</sup> It is, thus, clear from the above that Dicey did not include elements of substantive equality as he mainly tackled the means of passing the law and the clear subsequent norms.

Other notable contributions have been made by many economists that have identified that the rule of law mainly signifies 'the protection of property rights'.<sup>301</sup> For example, F. A. Hayek recognised the doctrine as the following:

*Stripped of all technicalities this means that government in all its actions is bound by rules fixed and announced beforehand-rules which make it possible to foresee with fair*

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<sup>298</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487

<sup>299</sup> A. V. Dicey, *The Law of the Constitution* (10<sup>th</sup> ed, Palgrave Macmillan, 1959) p. 110 <  
[http://files.libertyfund.org/files/1714/0125\\_Bk.pdf](http://files.libertyfund.org/files/1714/0125_Bk.pdf)>

<sup>300</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487

<sup>301</sup> A. N. Licht, C. Goldschmidt and S. H. Schwartz, 'Culture rules: The foundations of the rule of law and other norms of governance' [2007] 35(4) *Journal of Comparative Economics* 659-68  
<http://www.faculty.idc.ac.uk/licht/CR.pdf> accessed 16 July 2018

*certainty how the authority will use its coercive powers in given circumstances, and to plan one's individual affairs on the basis of this knowledge.*<sup>302</sup>

As can be seen from the above, Hayek's substantive viewpoint of the rule of law calls for economic freedom as it adds restrictions on governmental interference and discretion.<sup>303</sup> Hayek considers that the rule of law should guarantee certainty so that individuals can plan their future and make contracts in a free market.<sup>304</sup> Hayek stressed the importance for individuals to have the confidence and trust in the legal system when making plans and investment decisions. Hayek further suggested that:

*Under the Rule of Law [,] the government is prevented from stultifying the individual efforts by ad hoc action. Within the known rules of the game [,] the individual is free to pursue personal ends and desires, certain that the powers of the government will not be used deliberately to frustrate his efforts.*<sup>305</sup>

It can be argued that Hayek's formulation of the rule of law is well supported; investments are discouraged when the rule of law is fragile and when there is a rise in discretionary regulatory enforcement. An empirical study has showcased that US firms left international investments due to an increase in discretionary regulatory enforcement.<sup>306</sup>

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<sup>302</sup> F. A. Hayek, *The Road to Serfdom*, (2<sup>nd</sup> ed., Routledge Classis 2001) p.54

<sup>303</sup> H. Andersen, 'China and WTO Appellate Body's rule of law', [2016] *Global Journal of Comparative Law* 146-182; F. Hayek, *The Road to Serfdom*, (2<sup>nd</sup> ed., Routledge Classis 2001) p.54

<sup>304</sup> H. Anderson, 'China and WTO Appellate Body's rule of law' [2016] *Global Journal of Comparative Law* 146-182; J. Locke, *Two Treatises of Government*, Student Edition, P. Laslett (eds) (Cambridge: Cambridge University Press) at p.81

<sup>305</sup> F. Hayek, *The Road to Serfdom*. (Chicago: The University of Chicago Press, 1994) p. 81.

<sup>306</sup> B. Graham and C. Stroup, 'Does anti-bribery enforcement deter foreign investment?' [2016] 23(1) *Applied Economics Letters* 63-67

Other definitions of the rule of law have included elements of human rights and democracy, such as the definition provided by the UN as the following:

*'A principle of governance' in which everyone is 'accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, and which are consistent with **international human rights norms and standard.**' Moreover, the legal system must ensure 'supremacy of law, equality before the law, accountability to the law, fairness in the application of the law, separation of powers, participation in decision-making, legal certainty, avoidance of arbitrariness and procedural and legal transparency.'*<sup>307</sup>

The abovementioned definition includes a substantive approach to the doctrine as it incorporated the protection of individual rights. There are also substantive approaches to the rule of law that compromise elements of democracy in its interpretations.<sup>308</sup>

Martin Krygier and Philip Selznick<sup>309</sup> have quite similar perspectives on the rule of law.<sup>310</sup> According to Selznick *'only the analysis of particular institutions or social spheres will tell us what rules and procedures are appropriate, and only then can we take into account special needs and circumstances without perverting more standards of legality and morality.'*<sup>311</sup> Mutually Selznick and Krygier maintain that the doctrine is a distinctive 'master ideal' for the practice of law.<sup>312</sup> Further, Selznick identified that the rule of law

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<sup>307</sup> United Nation Security Council, 'The rule of law and transitional justice on conflict and post-conflict societies: Report of the Secretary-General' (UN Doc. S/2004/616) p. 4

<sup>308</sup> M. Stephenson, 'Rule of Law as a Goal of Development Policy' (World Bank Research, 2008) < <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

<sup>309</sup> P. Selznick, *Law, Society and Industrial Justice* (New York: Russel Sage Foundation, 1969)

<sup>310</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>311</sup> P. Selznick, 'Law in Context' [2003] 30(2) *Journal of Law and Society* 177-186, at p. 181

<sup>312</sup> P. Selznick, 'Sociology and Natural Law' [1961] 6 (1) *The American Journal of Jurisprudence* 84-108, 94; P. Selznick, *Law, Society and Industrial Justice* (New York: Russel Sage Foundation, 1969) p.11

should reduce arbitrariness in positive law.<sup>313</sup> Selznick emphasises that this perspective link the positive and negative notions of the rule of law.<sup>314</sup> Although Selznick connects other values to the rule of law, Krygier had outlined the values that are derived from the rule of law.<sup>315</sup> Krygier highlights that there some values are a vital part of the rule of law, while others can be eminent from it. All in all, both of these legal theories cover moral and legal value.<sup>316</sup>

Furthermore, there are functional definitions to the rule of law which can be comparable to the substantive deliberations.<sup>317</sup> The functional approach usually focuses on the performance of the legal system, the predictability of decision-making and limitations to administrative discretion. The functional attitude suggests that the rule of law could be stronger in countries where governmental authorities are given little discretion.<sup>318</sup>

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<sup>313</sup> P. Selznick, 'Sociology and Natural Law' [1961] 6 (1) *The American Journal of Jurisprudence* 84-108. Also see Philip Selznick, *Law, Society and Industrial Justice* (New York: Russel Sage Foundation, 1969) p.12. See also P. Selznick, 'Legal cultures and the rule of law' in M Krygier and A Czarnota (eds) *The rule of law after communism* (Dartmouth: Ashgate)

<sup>314</sup> P. Selznick, 'Legal cultures and the rule of law' in M Krygier and A Czarnota (eds) *The rule of law after communism* (Dartmouth: Ashgate) p 21. See also M. Krygier, 'Selznick's Hobbesian Idealism: Its Nature and its Origins (2012) Sociology of Organisations UNSW Law Research Paper No. 2012-55, 38 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2184113](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2184113)> accessed on 16 July 2018, Selznick (1999) p.24

<sup>315</sup> M. Krygier, 'Selznick's Hobbesian Idealism: Its Nature and its Origins (2012) Sociology of Organisations UNSW Law Research Paper No. 2012-55, 38 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2184113](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2184113)> accessed on 16 July 2018, at p. 35. See also M. Krygier 'Four puzzles about the rule of law: why, what, where? And who cares?' in J Fleming (eds) *Getting to the Rule of Law* (New York: New York University Press) at p.75

<sup>316</sup> This view is similar to Fuller's internal morality of law which is discussed further below. M. Krygier 'Four puzzles about the rule of law: why, what, where? And who cares?' in J Fleming (eds) *Getting to the Rule of Law* (New York: New York University Press) at p. 76-77; P. Selznick, *Law, Society and Industrial Justice* (New York: Russel Sage Foundation, 1969) at p. 8-11

<sup>317</sup> M. Stephenson, 'Rule of Law as a Goal of Development Policy' (World Bank Research, 2008) < <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

<sup>318</sup> M. Stephenson, 'Rule of Law as a Goal of Development Policy' (World Bank Research, 2008) < <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

Hayek, for example, has adopted a definition that combines both substantive and functional definitions to the doctrine.<sup>319</sup> It has been contended, nevertheless, that this approach is flawed mainly since government discretion is sometimes necessary.<sup>320</sup> In some circumstances, maintaining the rule of law might mean that government officials might need to resort to natural law to prosecute individuals who committed offences that are not covered in statutory law.<sup>321</sup> Consequently, it was suggested that non-arbitrary flexibility is sometimes needed to uphold the rule of law.<sup>322</sup> It has even been stipulated that although the doctrine and flexibility are at odds with one another, sometimes flexibility is preferred.<sup>323</sup>

Nonetheless, Li Shuguang has distinguished ‘rule by law’ and ‘rule of law’ in his definition as the following:

*‘The difference... is that, under the rule of law, the law is preeminent and can serve as check against the abuse of power. Under the rule by law, the law is a mere tool for government, that suppresses in a legalistic fashion.’<sup>324</sup>*

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<sup>319</sup> M. Stephenson, ‘Rule of Law as a Goal of Development Policy’ (World Bank Research, 2008) <<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

<sup>320</sup> M. Stephenson, ‘Rule of Law as a Goal of Development Policy’ (World Bank Research, 2008) <<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

<sup>321</sup> H. M. Hurd, ‘Justifiably Punishing the Justified’ [1992] 90(8) Michigan Law Review 2203–2324

<sup>322</sup> M. Stephenson, ‘Rule of Law as a Goal of Development Policy’ (World Bank Research, 2008) <<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

<sup>323</sup> M. Stephenson, ‘Rule of Law as a Goal of Development Policy’ (World Bank Research, 2008) <<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTINST/0,,contentMDK:20763583~menuPK:1989584~pagePK:210058~piPK:210062~theSitePK:1974062,00.html>> accessed 16 July 2018

<sup>324</sup> B. Tamanaha, *On the Rule of Law: History, Politics, Theory*. (Cambridge, Cambridge University Press, 2004), at p. 3

As can be noted from above, there are different formulations to the rule of law with no uniform definition to the doctrine.<sup>325</sup> The rule of law is not easy to define as many scholars endeavoured to identify the meaning of the doctrine and its central values.<sup>326</sup> The two main formulations of the rule of law known as 'thick' and 'thin', and are also referred to as the 'formal' and 'substantive' are discussed further below.

### III. FORMAL, PROCEDURAL AND SUBSTANTIVE ASPECTS

Many theorists have stipulated the principles of the rule of law. As mentioned above, these principles can be divided into formal, procedural and substantive principles.<sup>327</sup>

#### A. Formal Aspects

The eight formal elements of the rule of law as highlighted by Fuller can be summarised as the following<sup>328</sup>:

1. Generality
2. Congruence
3. Consistency
4. No retroactive law
5. Promulgation
6. Intelligibility
7. Predictability

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<sup>325</sup> B. Tamanaha, *On the Rule of Law: History, Politics, Theory*. (Cambridge, Cambridge University Press, 2004)

<sup>326</sup> R. Peerenboom, 'Varieties of Rule of Law: An Introduction and Provisional Conclusion' in R. Peerenboom (eds), *Asian Discourses of Rule of Law: Theories and Implementation of Law in Twelve Asian Countries, France and the U.S.*, (Routledge Curzon, 2004) at p. 1, B. Tamanaha, *On the Rule of Law: History, Politics, Theory*. (Cambridge, Cambridge University Press, 2004), at p. 3-4. See also R. Belton, 'Competing Definitions of the Rule of Law', in Th. Carothers (eds), *Promoting the Rule of Law Abroad: In Search of Knowledge*, (Carnegie Endowment, 2006)

<sup>327</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>328</sup> L. Fuller, *The Morality of Law* (revised edn, Yale University Press 1969)

## 8. Stability

The abovementioned principles are considered as formal ones to the rule of law because they have to be incorporated into any system of rules that governs the conduct of its individuals.<sup>329</sup>

It has also been highlighted that officials must not settle all matters on a case-by-case basis as it is inadequate from a rule of law approach.<sup>330</sup> Bentham has even criticised customary and common law since judges were the ones to make many of rules as they were presented with a new matter<sup>331</sup> which makes the source of law unclear.<sup>332</sup> This point is interesting as it appears, following the case study conducted in later chapters, that the courts introduce new competition law intervention tests as they go along which could be concerning from a rule of law perspective.

Inevitably, the rule of law suggests that the law has to be general, stable and available to the public. The law must not only be public, but it must also be publicised before making it necessary for individuals to adhere by them. They must also be accessible and intelligible to provide a reasonable degree of clarity. Any system of law that governs the conduct of its individuals must be consistent, realistic and straightforward as highlighted in Fuller's formal features of the doctrine. Fuller has indicated that

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<sup>329</sup> F. Lovett 'Lon Fuller, The Mortality of Law' (2015) *The Oxford Handbook of Classics in Contemporary Political Theory*: Oxford University Press available at <https://cpb-us-w2.wpmucdn.com/sites.wustl.edu/dist/1/627/files/2017/02/2015.-Lon-Fuller-The-Mortality-of-Law-2k5gb7c.pdf> accessed on 12 July 2017

<sup>330</sup> F. Lovett 'Lon Fuller, The Mortality of Law' (2015) *The Oxford Handbook of Classics in Contemporary Political Theory*: Oxford University Press available at <https://cpb-us-w2.wpmucdn.com/sites.wustl.edu/dist/1/627/files/2017/02/2015.-Lon-Fuller-The-Mortality-of-Law-2k5gb7c.pdf> accessed on 12 July 2017

<sup>331</sup> J. Bentham, 'Of Laws in General' in J.H. Burns and H.L. A Hart (eds) *The Collected Works of Jeremy Bentham: An Introduction to the Principles of Morals and Legislation* (Oxford University Press, 1970); Jeremy Bentham, *Truth versus Ashhurst; or Law as it is, Contrasted with what it is Said to be* (1792), ch 15 available at < <https://www.ucl.ac.uk/bentham-project/truth-versus-ashhurst> > accessed on 12 July 2018 and 1792

<sup>332</sup> L. Fuller, *The Morality of Law* (revised edn, Yale University Press 1969).

sometimes not all of these elements can be met due to moral, ethical or economic reasons. However, Fuller suggested that the need to resort to corrective retroactive legislation should be reduced to the minimum in order to safeguard clarity and publicity of the law and to provide sufficient guidance to the public in respect of their obligations and rights.<sup>333</sup>

Fuller has also suggested that a whole legal order is achieved once all eight formal elements of the rule of law are, at least, reasonably met. If this is not achieved, it *'does not simply result in a bad system of law'*, but it *actually 'results in something that is not properly called a legal system at all'*.<sup>334</sup> Bentham has also highlighted that rules that are retroactive or secret fail to provide sufficient guidance unless officials are provided with a clear set of instructions as to how to operate in case of noncompliance.<sup>335</sup>

Retroactive legislation connects new legal obligations to past conduct. The retroactive statute has received criticism because individuals may find it challenging to plan or predict the consequences of their conduct within a reasonable degree of certainty.<sup>336</sup> The legislation has been considered by Craies as retrospective when it is enacted following a matter that was there before its enactment.<sup>337</sup> Similarly, a retrospective law has been defined by Sampford as the law that has legal consequences on the future of

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<sup>333</sup> L. Fuller 'The Forms and Limits of Adjudication' [1978] 92 Harvard Law Review, 354-409 <https://people.rit.edu/wlrgsh/Fuller.pdf> accessed on 12 July 2018

<sup>334</sup> L. Fuller 'The Forms and Limits of Adjudication' [1978] 92 Harvard Law Review, 354-409 <https://people.rit.edu/wlrgsh/Fuller.pdf> accessed on 12 July 2018

<sup>335</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>336</sup> K. N. Chaturvedi, 'Legislative Retrospectivity and Rule of Law' [2013] 34(3) Statute Law Review, 207-220; C. B. Hochman 'The Supreme Court and Constitutionality of Retroactive Legislation' [1960] 73 Harvard L Rev 692

<sup>337</sup> K. N. Chaturvedi, 'Legislative Retrospectivity and Rule of Law' [2013] 34(3) Statute Law Review, 207-220; D. Greenberg (ed) *Craies on Legislation: A Practitioner's Guide to the Nature, Process, Effect and Interpretation of Legislation, Tenth Edition* (10th edn, Sweet and Maxwell 2012) 491

past events.<sup>338</sup> The retroactive penal legislation is prohibited in some nations.<sup>339</sup> Other constitutions prohibit any retroactive legislation.<sup>340</sup> Whereas, some countries do not provide any limitations on legislative power in enacting retroactive legislation.<sup>341</sup>

For this research, it must be noted that competition law intervention is retroactive in nature. In other words, patent holders that have already protected their inventions as patents lose the exclusive right conferred under patent law with a competition law intervention.<sup>342</sup> The private investments have already been made on the patent prior to a competition law intervention, and such investments cannot be returned.<sup>343</sup> The attitude of the courts towards retroactive legislation and its implications must be considered, specifically in the light of the retroactive effect of competition law intervention. The main issue here is the fact that future incentives to invest are reduced with aggressive competition law interventions. It has, thus, been discussed that the reduction in future investments could have a significant impact on the market economy due to the retroactive force of a competition law intervention.<sup>344</sup>

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<sup>338</sup> K.N. Chaturvedi, 'Legislative Retrospectivity and Rule of Law' [2013] 34(3) Statute Law Review, 207-220; C. Sampford *Retrospectivity and Rule of Law* (OUP 2006) 22

<sup>339</sup> J.W. Bridge 'Retrospective Legislation and the Rule of Law in Britain' [1967] 35(1) U Mo Kan City L Rev 132; The Constitution of Japan, Article 39 and the Constitution of India, Article 20 (1)

<sup>340</sup> J.W. Bridge 'Retrospective Legislation and the Rule of Law in Britain' [1967] 35(1) U Mo Kan City L Rev 132; Article 97 of the Constitution of Norway and Article 2 of the French Civil Code and Article 4 of the Penal Code

<sup>341</sup> J.W. Bridge 'Retrospective Legislation and the Rule of Law in Britain' [1967] 35(1) U Mo Kan City L Rev 132; such as the UK.

<sup>342</sup> J. Matthews 'Renewing Healthy Competition: Compulsory Licenses and Why Abuses of the TRIPS Agreement Article 31 Standards are most damaging to the United States Healthcare Industry' [2010] 4(1) Journal of Business, Entrepreneurship & the Law, 119-149

<sup>343</sup> J. Matthews 'Renewing Healthy Competition: Compulsory Licenses and Why Abuses of the TRIPS Agreement Article 31 Standards are most damaging to the United States Healthcare Industry' [2010] 4(1) Journal of Business, Entrepreneurship & the Law, 119-149

<sup>344</sup> J. Matthews 'Renewing Healthy Competition: Compulsory Licenses and Why Abuses of the TRIPS Agreement Article 31 Standards are most damaging to the United States Healthcare Industry' [2010] 4(1) Journal of Business, Entrepreneurship & the Law, 119-149

## B. Procedural Aspects

The formal features of the rule of law do compliment the procedural aspects to the doctrine. Raz's theory on the doctrine covered the fundamental principles and procedural formulation of the rule of law.<sup>345</sup> Tashima had also prepared a list of minimum standards of procedural justice as the following:

1. Impartial and independent judges in hearings.
2. Hearings must provide:
  - a) Right to counsel and representation.
  - b) Right to be present in all important stages of the hearing.
  - c) Right to provide evidence.
  - d) Evidence must be reliable to be considered admissible in court.
3. The right to appeal to an impartial tribunal in accordance to pre-established rules.<sup>346</sup>
4. Hearings should be subject to judicial review.<sup>347</sup>
5. The guarantee that courts and judges to be independent of other sectors of the government. In other words, separation of powers is another procedural requirement for the rule of law.<sup>348</sup> The separation of powers was achieved in

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<sup>345</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The Authority of Law: Essays on Law and Morality* (Clarendon Press, 1977). Raz has also provided a list of the key principles of the rule of law. Some of these include that all laws should be open, clear and publicized. First, the law or its interpretations must not be vague or misleading the public. Second, that laws should be consistent and stable. Third, the rule of law must guarantee judiciary independence. Fourth, the review of powers over the implementation of other principles. Fifth, the courts should be accessed without any difficulty and without excessive delays and costs. Lastly, the principles of natural justice should provide open and fair hearings as unbiased judgement are important elements for the correct application of law.

<sup>346</sup> L. Fuller, *The Morality of Law* (revised edn, Yale University Press 1969).

<sup>347</sup> T. A. Wallace 'The War of Terror and the Rule of Law' [2008] 15(9) Asian American Law Journal 245-266 <https://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1149&context=aalj> accessed on 12 July 2017

<sup>348</sup> J. Waldron 'Separation of Powers in Thought and Practice' [2013] 54(2) Boston College Law Review 433-468 <<https://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?article=3289&context=bclr>> accessed on 12 July 2018

England and Wales in 2009 as judiciary departed from the House of Lords and thus, now judges of the Supreme Court are separated from the House of Lords.<sup>349</sup>

The procedural elements above aim to achieve fair and impartial hearings without the presence of rules that are vague, constantly changing or that are kept secret.<sup>350</sup> It has been argued that ever since 2002 there has been a 'black hole'<sup>351</sup> regarding the legality of the American detention facility in Guantanamo Bay, mainly due to the lack of procedural rights. The detainees claimed that the rule of law procedural principles have to be fulfilled by allowing them to appear before a legal tribunal to present their side in order to respond to evidence that had been presented against their favour.<sup>352</sup> Certainly, procedural elements of the doctrine deserve as much attention as the formal principles.

### C. Substantive Theories

Some theorists add substantive elements to the rule of law. It is believed by some that political ideals cannot be as sharply separated as Raz's perspective.<sup>353</sup> Clear, stable,

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<sup>349</sup> Parliament, 'From House of Lords to Supreme Court' (parliament.uk, 23 July 2009)

<http://www.parliament.uk/business/news/2009/07/from-house-of-lords-to-supreme-court/>

<sup>350</sup> hrw, 'Q&A: Guantanamo Bay, US Detentions, and the Trump Administration' (hrw.org 27 June 2018) <https://www.hrw.org/news/2018/06/27/qa-guantanamo-bay-us-detentions-and-trump-administration> accessed on 13 July 2018

<sup>351</sup> Attorney Shelby Sullivan-Bennis representative of Guantanamo detainees have mentioned that '*It's shameful that 16 years after the opening of Guantánamo, we are still holding people without charge or trial on the basis of faulty 'intelligence' extracted through torture. Guantánamo is a violation of America's strongest-held principles concerning the rule of law. If our current President really wants to make America great again, he should make 2018 the year that we close this legal black hole. It is the responsibility of the courts and Congress to hold him to account in doing so.*' See Reprieve, '16 years on, US continues detention without charge at Guantanamo' (Reprieve.org 1 January 2018) <https://reprieve.org.uk/press/16-years-us-continues-detention-without-charge-guantanamo/> accessed on 13 July 2018

<sup>352</sup> S. I. Vladeck, 'Will the Rule of Law Apply Along the Border' (nytimes, 12 June 2018)

[https://www.nytimes.com/2018/06/12/opinion/boumediene-rule-of-law-border.html?rref=collection%2Ftimestopic%2FGuantanamo%20Bay%20Naval%20Base%20\(Cuba\)&action=click&contentCollection=us&region=stream&module=stream\\_unit&version=latest&contentPlacemen t=1&pgtype=collection](https://www.nytimes.com/2018/06/12/opinion/boumediene-rule-of-law-border.html?rref=collection%2Ftimestopic%2FGuantanamo%20Bay%20Naval%20Base%20(Cuba)&action=click&contentCollection=us&region=stream&module=stream_unit&version=latest&contentPlacemen t=1&pgtype=collection) accessed on 13 July 2018

<sup>353</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

general, prospective and public rules link the doctrine with the conditions of liberty, yet the substantive features of the rule of law are to be distinguished from those specifications that provoke the formal and procedural conceptions of the doctrine.<sup>354</sup>

Rawls has formulated four simple substantive elements. These principles first include that individuals should be capable of following the laws that are made by good faith. Second, situations that are similar should be similarly handled. Third, for an offence to exist, it must be previously outlined by the law and finally, principles of the independent and impartial judiciary.<sup>355</sup> Rawls has also highlighted that designated and accessible institutions must manage equality and liberty, as well as economic and social matters.<sup>356</sup>

Laws has also identified the content of constitutional rights,<sup>357</sup> as well as the substance and meaning of fundamental rights. He has expressed that the courts have a crucial part in protecting fundamental rights.<sup>358</sup> Laws' formulation of the rule of law had included features of certainty, freedom and fairness. The freedom aspect of his formulation is a

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<sup>354</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>355</sup> H Andersen, 'China and WTO Appellate Body's rule of law', [2016] *Global Journal of Comparative Law* 146-182; J. Rawls, *A Theory of Justice*, Revised ed. (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1999), at 53

<sup>356</sup> Rawls has adopted elements of equality and liberty in his rule of law as the following: '*one legal order is more justly administered than another if it more perfectly fulfils the percepts of the rule of law. It will provide a more secure basis for liberty and a more effective means for organizing cooperative schemes*' found in J Rawls, *A Theory of Justice*, Revised ed. (Cambridge, Massachusetts: The Belknap Press of Harvard Press, 1999) at 208

<sup>357</sup> P. Craig, 'Theory, formal and substantive conceptions of the rule of law: an analytical framework' [1997] *PL* 467-487; S. J. Laws, 'The Constitution: Morals and Rights' [1996] *P.L* 622

<sup>358</sup> P. Craig, 'Theory, formal and substantive conceptions of the rule of law: an analytical framework' [1997] *PL* 467-487; S. J. Laws, 'Is the High Court the Guardian of Fundamental Constitutional Rights' [1997] *P.L.* 56; S. J. Laws, 'Law and Democracy' [1995] *P.L.* 72; S. J. Laws, 'The Constitution: Morals and Rights' [1996] *P.L.* 622

substantive one, whereas certainty and fairness are associated with the formal principles of the doctrine.<sup>359</sup>

Other substantive perspectives to the doctrine have stipulated that the protection of private property and clear legal policies for property rights constitute an essential aspect of the doctrine, such as Cass.<sup>360</sup> Cass has also mentioned that *'[a] critical aspect of the commitment to the rule of law is the definition and protection of property rights.'*<sup>361</sup> However, it has been stipulated by Epstein that *'the rule of law is ... a separate conception from private property.'*<sup>362</sup> It was also indicated that the connection of the doctrine and private property could be recognised via fundamental human rights and not the doctrine, in itself, yet the rule of law severely prohibits conduct that fails to respect fundamental human rights.<sup>363</sup>

The connection of the rule of law and fundamental human rights has been highlighted by in the World Justice Project of 2011. It has been suggested that a substantive aspect of the doctrine is absent. It has also been argued that due to this absence, fundamental rights are not adequately protected with the vast discretionary power and

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<sup>359</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487

<sup>360</sup> R. Cass, 'Property Rights Systems and the Rule of Law' (2004) Boston University School of Law Working Paper No. 03-06  
<<https://poseidon01.ssrn.com/delivery.php?ID=902066029110124002086026119105093072065006058033028058068073004094006091043041119061053046003098091089092019106109091004038061114118003005096120117122067127000065022089019003023012094113107022117094095098112107123080099115088075009006116110114&EXT=pdf>> accessed on 13 July 2018

<sup>361</sup> R. Cass, 'Property Rights Systems and the Rule of Law' (2004) Boston University School of Law Working Paper No. 03-06  
<<https://poseidon01.ssrn.com/delivery.php?ID=902066029110124002086026119105093072065006058033028058068073004094006091043041119061053046003098091089092019106109091004038061114118003005096120117122067127000065022089019003023012094113107022117094095098112107123080099115088075009006116110114&EXT=pdf>> accessed on 13 July 2018

<sup>362</sup> R. Epstein, *Design for Liberty: Private Property, Public Administration, and The Rule of Law* (Harvard University Press 2011)

<sup>363</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

institutionalised discrimination. Thus, it was identified that a substantive view to the doctrine could respond to the criticism of ‘an empty vessel into which any law could be poured’ that the rule of law has received.<sup>364</sup>

Moreover, it was stipulated again in the World Justice Project of 2017-2018 that efforts must be made to

*[S]trike a balance between what scholars call a “thin” or minimalist conception of the rule of law that focuses on formal, procedural rules, and a “thick” conception that includes substantive characteristics, such as self-governance and various fundamental rights and freedoms.*<sup>365</sup>

It has been even further stipulated the following:

*A balance between “thin” and “thick” conceptions of the rule of law’ enables the application of the doctrine to ‘different types of social and political systems, including those that lack many of the features that characterize democratic nations, while including sufficient substantive characteristics to render the rule of law as more than a system of rules.*<sup>366</sup>

The substantive formations of the doctrine aim to ensure the protection of core human rights. Without such protection, the rule of law would not be present whereby that

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<sup>364</sup> M. A. J. Botero and A. Ponce, ‘Rule of Law Index Report’ (2011) World Justice Project Index Report, p. 9 < <https://worldjusticeproject.org/our-work/publications/rule-law-index-reports/wjp-rule-law-index-2011-report> > accessed on 13 July 2018

<sup>365</sup> World Justice Project’s research team, ‘Rule of Law Index Report’ (2017-2018) World Justice Project Index Report, part 1 < <https://worldjusticeproject.org/our-work/publications/rule-law-index-reports/wjp-rule-law-index-2011-report> > accessed on 13 July 2018

<sup>366</sup> World Justice Project’s research team, ‘Rule of Law Index Report’ (2017-2018) World Justice Project Index Report, part 1 < <https://worldjusticeproject.org/our-work/publications/rule-law-index-reports/wjp-rule-law-index-2011-report> > accessed on 13 July 2018

system of law can only be referred to as a 'rule by law' system.<sup>367</sup> The following section of this chapter examines some of the challenges faced between the thick and thin theories of the doctrine.

#### IV. SOME CHALLENGES WITHIN THE FORMAL AND SUBSTANTIVE ELEMENTS

On the one hand, the 'thin' theory on the rule of law is adopted by Raz as he firmly believes that *'the rule of law is just one of the virtues which a legal system may possess and by which it is to be judged.'*<sup>368</sup> Although Raz has stressed that the objectives of the doctrine can be integrated into any political system, he has maintained that considerations of human rights, democracy and social justice should be separated from the formulation of the rule of law.<sup>369</sup> Raz's perspective aims to detach the idea of the rule of law from substantive elements that have already been established in the various literature.<sup>370</sup> It has even been further argued that the incorporation of substantive principles would deprive the independence of the rule of law from political theories.<sup>371</sup>

On the other hand, this viewpoint on the rule of law has received some criticism. It has been implied that the doctrine and supremacy of law can only be maintained when other fundamental standards, besides political objectives, are incorporated into the rule of law.<sup>372</sup> Bingham, for instance, has embraced human rights as an integral element

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<sup>367</sup> World Justice Project's research team, 'Rule of Law Index Report' (2017-2018) World Justice Project Index Report, part 1 < <https://worldjusticeproject.org/our-work/publications/rule-law-index-reports/wjp-rule-law-index-2011-report> > accessed on 13 July 2018

<sup>368</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977), at p 211

<sup>369</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977), at p 211

<sup>370</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487

<sup>371</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487

<sup>372</sup> H. Andersen, 'China and WTO Appellate Body's rule of law' [2016] *Global Journal of Comparative Law* 146-182; R. Peerenboom, 'Varieties of Rule of Law' in R. Peerenboom (eds) *Asian Discourses of*

of the rule of law and has disagreed with Raz's 'thin' definition. Bingham has argued that a country that oppresses human rights cannot be seen as a country that adheres to the doctrine.<sup>373</sup> Bingham indicated that he would like to see human right aspects linked with both formal and procedural conceptions of the doctrine.

The above mentioned does not mean that the substantive approach to the doctrine has not been subject to criticisms.<sup>374</sup> For instance, it has also been maintained that the association of the rule of law with a substantive element of democracy as stipulated by Chaskalson is problematic.<sup>375</sup> The incorporation of democracy is seen as an issue as it leaves a door open for favoured political opinions that can be integrated as substantive elements to the rule of law, such as favoured property rights, economic standards, human rights, democratic participation, social justice and civil liberties. The integration of political opinions could lead to a decline in political coherence.<sup>376</sup>

Indeed, the rule of law ensures equality<sup>377</sup> and predictability in order to make the procedures concerning rule-making transparent and its content adhere to the rule of law basic principles.<sup>378</sup> It must also guarantee the right to access justice, the right to challenge a judgement made by public authorities and the right to challenge actions

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*Rule of Law- Theories and implementations rule of law in twelve Asian countries, France and the U.S.* (London, New York: Routledge Curzon, 2004) 1

<sup>373</sup> T. Bingham, *The Rule of Law* (London: Allen Lane 2010), p. 67

<sup>374</sup> H. Andersen, 'China and WTO Appellate Body's rule of law', [2016] *Global Journal of Comparative Law* 146-182

<sup>375</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>376</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>377</sup> H. Andersen, 'China and WTO Appellate Body's rule of law', [2016] *Global Journal of Comparative Law* 146-182

<sup>378</sup> H. Andersen, 'China and WTO Appellate Body's rule of law', [2016] *Global Journal of Comparative Law* 146-182; H. L. A. Hart, *The Concept of Law*, 2. ed. (Oxford, New York: Oxford University Press, 1994) at 79-99

made by private parties.<sup>379</sup> An impartial institution or court must always administer the law-making and enforcement. These institutions will develop methodologies used in their decision making, but they must still comply with the elements of the rule of law.<sup>380</sup> The question that could be raised here is whether such institutions can diverge from its existing interpretations within its methodology in certain situations.

Although specific values are central principles of the doctrine, the rule of law can still be comprehended into a broader standpoint. Undoubtedly, different shapes of the rule of law cannot be formulated appropriately unless the basics are included. Therefore, there could be room to inherent standards of the rule of law that include economic, social, political and cultural preferences. The following section of this chapter addresses why the rule of law should not be separated from the substantive values.

## V. THE VALUES UNDERLYING THE RULE OF LAW

The formal approach to the rule of law does not suggest that the doctrine is formal in its value. The primary underlying values to the rule of law is that it guarantees more predictability and less arbitrary power while the law rules individuals.<sup>381</sup> It is important to mention here that Raz has acknowledged that a negative value is linked with the rule of law; the law provides governments with a significant amount of power to mandate all sort of matters, and the rule of law aims at reducing the risks that have already been

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<sup>379</sup> H. Andersen, 'China and WTO Appellate Body's rule of law', [2016] Global Journal of Comparative Law 146-182

<sup>380</sup> H. Andersen, 'China and WTO Appellate Body's rule of law', [2016] Global Journal of Comparative Law 146-182; R. J. Rawls, 'The Idea of Public Reason Revisited' in J. Rawls, *Political Liberalism - Expanded Edition* (New York: Columbia University Press, 2005) at 440.

<sup>381</sup> L. Fuller, *The Morality of Law* (revised edn, Yale University Press 1969), at p. 39-40

created by the law.<sup>382</sup> The reduction of such risks has been covered by the formal conceptions of the rule of law. The formal principles of the doctrine have a positive value even when the content of the law is morally unacceptable. Such a positive value can be seen when adherence with the rule of law mandates individuals to fulfil their obligations as set by the law.<sup>383</sup>

Moreover, the substantive theory on the doctrine encourages liberty. An example of this can be seen in Hayek's argument that predictability that is advanced with clear and prospective rules make contributions to an individual's freedom.<sup>384</sup> Bingham has also expressed that predictability is essential so that individuals can plan their lives and businesses. Bingham has also highlighted no one would want to invest in a country where the rights and obligations of individuals are uncertain.<sup>385</sup> The consequences of legal uncertainty will thus have an impact on businesses and the economy.

Further, legal certainty is essential for the freedom of individuals. Freedom in that sense is achievable only if individuals are aware of how the law functions and identify how they can act to evade breaches of the law. It is vital for individuals to be aware of the possible consequences of their conduct so that they can make fitting plans as to the obligations that can be derived, in advance, from the law.<sup>386</sup>

Bentham has expressed the importance of legitimate expectations. Bentham has mentioned that legitimate expectations connect the existence of both our present and

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<sup>382</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487; Joseph Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977)

<sup>383</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487; Joseph Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977)

<sup>384</sup> F. Hayek, *The Constitution of Liberty*, (Routledge, 1960)

<sup>385</sup> T. Bingham, *The Rule of Law* (London: Allen Lane 2010), at p.38

<sup>386</sup> F. Hayek, *The Constitution of Liberty*, (Routledge, 1960), at p. 153 and 156-7

future as it enables us to formulate our plan of conduct.<sup>387</sup> Individuals need to be assured that they can count on the legal certainty of law concerning the protection offered to both property and personal rights so that individuals can plan their transactions. The rule of law could be hindered when authorities do not adhere to established norms or when they use their discretion, rather than the existing norms. The economic activity of people will decrease if they cannot form expectations to depend on as they do their planning or even when their expectations are not met.<sup>388</sup>

The above mentioned appears to be similar to Raz and Fuller's perspectives on the rule of law. For instance, it has been indicated by Raz that freedom is an element of dignity as '*respecting human dignity entails treating humans as persons capable of planning and plotting their future.*'<sup>389</sup> Additionally, Fuller has stipulated that the dignity must be respected through the principles of the inner morality of law. Fuller expressed that the dignity of people is insulted without the availability of public and prospective law.<sup>390</sup> This outlook stipulates that the law should govern individuals, but it must also treat them in a way that would fulfil their expectations via the application of the norms.

The rule of law doctrine disagrees with many forms of arbitrary power, such as general rules that are established to serve self-interest. A government that embraces the rule of law doctrine does not alter the law for when it is best suited for them to do so as the doctrine values the ability to depend on stable law. The rule of law also aims to eliminate arbitrary power within the judiciary system so that individuals can trust the

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<sup>387</sup> J. Bentham, *Principles of the Civil Code*, (W. Tait, 1843), p. 111

<sup>388</sup> J. Bentham, *Principles of the Civil Code*, (W. Tait, 1843), p. 111

<sup>389</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977), at p.221

<sup>390</sup> L. Fuller, *The Morality of Law* (revised edn, Yale University Press 1969) at p.162

law that is being applied by the relevant authorities.<sup>391</sup> Furthermore, the importance of the rule of law has been outlined by Hayek as an umbrella to the freedom of individuals. Hayek's standpoint on the doctrine values the importance of respecting human dignity, as well as, their right to control their life.<sup>392</sup>

It can be noted from the above that the doctrine in the substantive sense is significant as it allows individuals to have a stable, consistent, non-arbitrary law that must respect human rights and human dignity. Nevertheless, full adherence to the rule of law doctrine could be highly challenging. Whole conformity could be impossible due to some degree of inevitable vagueness in the law. Consequently, it has been indicated that general compliance with the rule of law is more feasible and more realistic than full conformity.<sup>393</sup> The research, thus, does not argue the need for total compliance with the doctrine. Instead, the research assesses the areas where general conformity with the rule of law can be improved to achieve more legal certainty and predictability in EU competition law intervention.

## VI. CRITICISMS OF THE RULE OF LAW

Unavoidably, the doctrine has received some criticism. Horwitz has been suggested that the law can be manipulated through the system of the rule of law. Horwitz highlighted that the promotion of procedural justice through the rule of law makes it possible for some to manipulate the law to their benefit.<sup>394</sup> He argued that the law could not

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<sup>391</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977)

<sup>392</sup> F. Hayek, *The Road to Serfdom* (2<sup>nd</sup> edn., Routledge Classics, 2001)

<sup>393</sup> J. Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977)

<sup>394</sup> H. Yu and A. Guernsey, 'What is the Rule of Law?' (University of Iowa, 2005)

<https://iuristebi.files.wordpress.com/2012/12/what-is-the-rule-of-law.pdf> accessed 13 July 2018

prevent abuse of government's power, as the structure of society provides such power and not the law.<sup>395</sup>

Other concerns have also been highlighted by Plato in regards to the fact that people are different from one another, and their circumstances also change with time.<sup>396</sup>

Therefore, sometimes the change in the circumstances might lead individuals having no other possible way but to breach some of these established rules.<sup>397</sup> Posner has also highlighted such concerns, yet he has placed more trust in the capability of the legal systems to apply established rules and ancient precedents.<sup>398</sup> We have also been reminded that the emphasis put on the rule of law can be problematic. It is feared that such emphasis can have an impact on the independence of the legal system and its moral judgement.<sup>399</sup> The legal system may become focused and worried about the impact of their judgement on legal certainty and the criticism it might receive.<sup>400</sup>

Additionally, the rule of law ideal could, arguably, lead to over-formalising matters that are best kept informal. For instance, it has been highlighted by Simon that it can be harmful if informal rules are replaced with rigid ones.<sup>401</sup> This point of view can be understood, particularly, in the context of this research as innovation and technology is evolving day after day, and thus, it is becoming more challenging for the law to keep up with these changes. Arguably, rigid rules might not allow the law to develop and grow

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<sup>395</sup> H. Yu and A. Guernsey, 'What is the Rule of Law?' (University of Iowa, 2005)

<https://iuristebi.files.wordpress.com/2012/12/what-is-the-rule-of-law.pdf> accessed 13 July 2018

<sup>396</sup> 'Plato Statesman: Cambridge Texts in the History of Political Thought' in Julie Annas and Robin Waterfield (eds) (Cambridge University Press, 2010), at 294-C and B

<sup>397</sup> 'Plato Statesman Cambridge Texts in the History of Political Thought' in Julie Annas and Robin Waterfield (eds) (Cambridge University Press, 2010) at 294-C and B

<sup>398</sup> R. Posner, *Overcoming Law* (Harvard University Press, 1996)

<sup>399</sup> R. M. Cover, *Justice Accused: Antislavery and the Judicial Process* [1976] (New Ed eds, Yale University Press, 1984)

<sup>400</sup> L. Henderson, 'Authoritarianism and the Rule of Law' [1991] 66(2) Indiana Law Journal 379-456

<sup>401</sup> W. Simon, 'Legality, Bureaucracy, and Class in the Welfare System' [1983] 92(7) Yale Law Journal 1198-1269

as innovation develops and grows progressively. Nevertheless, case law, at least, must remain as consistent as possible in order to eradicate legal uncertainty as much as possible in order to remain consistent with the rule of law. Further, it is argued in this research that it is best to clearly highlight and state in case law why deviations have taken place if it was indeed necessary to deviate in order for the law to keep up with the changes introduced by the development of innovation and so on.

## VII. DEBATES AROUND THE APPLICATION OF THE DOCTRINE

The application of the doctrine and what it requires have also received criticism. Some of which are mentioned below:

### A) Discretion

On the one hand, both Dicey<sup>402</sup> and Hayek<sup>403</sup> argue, to some extent, that discretion by authority does not conform with the doctrine. On the other hand, it has been argued by Davis<sup>404</sup> that discretion is unavoidable in modern administrative authority. It has been further indicated that the model of the rule of law does not exclude discretion, but it guarantees that such discretion is adequately regulated and outlined.<sup>405</sup>

Raz has also voiced that the doctrine is only one aspect of the whole legal structure and thus, it could be waived when other projected goals outweigh the rule of law. For instance, Raz highlighted that, in some circumstances, more discretionary power is the

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<sup>402</sup> A. V. Dicey, 'Introduction to the Study of the Law of the Constitution' eds in Roder E. Michener *Introduction to the Study of the Law of the Consitution (LF ed.)* (8<sup>th</sup> ed., Indianapolis: Liberty Fund 1915) < <http://oll.libertyfund.org/titles/dicey-introduction-to-the-study-of-the-law-of-the-constitution-lf-ed> > accessed on 13 July 2018

<sup>403</sup> F. Hayek, *The Road to Serfdom*, (2<sup>nd</sup> ed., Routledge Classis 2001)

<sup>404</sup> C. Davis, *Discretionary Justice: A Preliminary Inquiry* (Louisiana State University Press, 1969)

<sup>405</sup> C. Davis, *Discretionary Justice: A Preliminary Inquiry* (Louisiana State University Press, 1969)

better or the only available method of achieving specific aims.<sup>406</sup> Thus, according to Raz, sacrificing or making alterations to the doctrine and its principles, in such circumstances, are not indeed outlawed or prohibited.<sup>407</sup>

#### B) Rules and Standards

There are concerns about the use of norms that are more of a standard than a set of rules.<sup>408</sup> Both types of norms are used within most legal systems.<sup>409</sup> For example, outcomes may differ in some cases due to the context of a particular case. Thus, some rules are not laid down in advance. Instead, standards are used to decide on cases on a case-by-case basis. Indeed, it makes it hard for the concerned individual who is trying to adhere with the norms and predict the outcome of a conduct that it undertakes if it was brought before a court or an authority. Therefore, the use of standards can sometimes lead to legal uncertainty. Hayek has also conveyed that it is problematic that vague formulas are introduced into legislation as well as jurisdiction. Hayek has, thus, questioned the connection of the rule of law and predictability.<sup>410</sup>

It must be mentioned here that EU competition law intervention is usually determined on a case-by-case basis which gives room for new formulas to be introduced in these cases. Indeed, the case-by-case assessment can be necessary for the discretion of authorities to conclude when a business had abused its market position depending on

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<sup>406</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487; Joseph Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977)

<sup>407</sup> P. Craig, 'Theory, 'formal and substantive conceptions of the rule of law: an analytical framework' [1997] PL 467-487; Joseph Raz, 'The Rule of Law and its Virtue' (1979) in *The authority of law: Essays on law and morality* (Clarendon Press, 1977)

<sup>408</sup> For example, a rule that established to set a specific speed limit, whereas a standard is to require people to drive at 'reasonable' speed.

<sup>409</sup> C. R. Sunstein 'Rules and Rulelessness' (1994) University of Chicago Law School Coase-Sandor Institute for Law and Economics Working Paper No. 27 <  
[https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1434&context=law\\_and\\_economics](https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1434&context=law_and_economics)> accessed on 13 July 2018

<sup>410</sup> F. Hayek, *The Road to Serfdom*, (2<sup>nd</sup> ed., Routledge Classis 2001)

the circumstances of the case at hand. Nevertheless, this can sometimes lead to legal uncertainty and questions that arise regarding a judgement's connection with the rule of law and its elements of legal certainty, predictability and uniformity.

### C) Law and Social Norms

In some circumstances, matters can be resolved via means of informal social norms and without having to resort to positive law.<sup>411</sup>

On the one hand, there have been some debates as to whether this is acceptable from a rule of law perspective. For example, it has been argued that the application of informal social norms is acceptable from a rule of law standpoint.<sup>412</sup> It has been even further implied that the enforcement of norms, fairness and common-sense fits perfectly with the rule of law.<sup>413</sup> It has been further insinuated that the careful enforcement of informal social norms can provide further guidance to existing legal knowledge.<sup>414</sup>

On the other hand, it has been stipulated that modern law is unavoidably technical and thus, it exceeds the potentials of spontaneous understanding.<sup>415</sup> It has been further argued that the enforcement of informal social norms can lead to an increase in unpredictability which is inconsistent with the conception of the rule of law.<sup>416</sup>

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<sup>411</sup> R. Ellickson, *Order without Law: How Neighbors Settle Disputes* (Cambridge: Harvard University Press, 1994)

<sup>412</sup> F. Hayek, *Rules and Order* (1<sup>st</sup> ed. Chicago: University of Chicago Press, 1973)

<sup>413</sup> R. Cooter, 'The Rule of State Law and the Rule-of-Law State: Economic Analysis of the Legal Foundations of Development' (Annual World Bank Conference on Development Economics, Washington: World Bank 1997)  
<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.877.2128&rep=rep1&type=pdf> accessed on 13 July 2018

<sup>414</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>415</sup> M. Webber, 'Economy and Society' in G. Roth and C. Wittich eds (Volume 2, 1<sup>st</sup> edn, *Economy and Society* Berkeley: University of California Press 2013) at p. 882-95

<sup>416</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

#### D) The Case of Emergencies

Another matter of concern is the method used by a society to tackle matters of emergencies. In case of an emergency, it is usually believed that it is necessary to take immediate and more flexible procedures than those used in regular periods.<sup>417</sup>

Indeed, legal rules must be laid down in advance that tackle matters of emergencies- for example, rules that hold usual guarantees of civil liberties or rules that highlight the discretion given to officials to commence actions that are usually overseen by general rules of law.<sup>418</sup> However, it has been argued that this approach may provide more predictability, yet it can weaken the ideal of the doctrine into a thin one called the rule of law elite.<sup>419</sup>

#### E) International Law

The international rule of law has also been subject to some criticism. Chesterman has implied that various studies on the international rule of law adopt similar national elements of the doctrine such as predictability and clarity.<sup>420</sup> It has been argued that the liberty of an individual is far more vital in comparison to the liberty of a state. Nonetheless, the principles that concern individuals can be undermined as opposed to the context of states in international law.<sup>421</sup>

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<sup>417</sup> W. Scheuerman, 'Emergency Powers and the Rule of Law after 9/11' [2006] 14(1) *Journal of Political Philosophy* 61-84

<sup>418</sup> N. Machiavelli, 'Discourses on Livy' in H. Mansfield and N. Tarcov eds. *Discourses on Livy* (New ed., University of Chicago Press, 1998)

<sup>419</sup> M. Krygier 'Rule of Law and Rechtsstaat' *International Encyclopaedia of the Social & Behavioural Sciences* (2<sup>nd</sup> edn., Volume 20, Elsevier Ltd 2015)  
[https://www.researchgate.net/publication/278412328\\_Rule\\_of\\_Law\\_and\\_Rechtsstaat](https://www.researchgate.net/publication/278412328_Rule_of_Law_and_Rechtsstaat) accessed on 13 July 2018

<sup>420</sup> S. Chesterman, 'An international Rule of Law?' (2008) *American Journal of Comparative Law* Public Volume 56 Law Research Paper No. 08-11, at p. 331-61  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1081738](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1081738) accessed on 13 July 2018

<sup>421</sup> J. Waldron, 'Are Sovereigns Entitled to the Benefit of the Rule of Law' [2011] 22(2) *European Journal of International Law* 315-343

It appears to be unclear whether countries require protection from international law more than the protection offered to individuals against political power in a society.<sup>422</sup>

It has also been argued that there can be a disadvantageous impact on the liberty of an individual when the rule of law is used to the advantage of the liberty of states, for example, in fields of international human rights. Therefore, it was highlighted that the adoption of the international rule of law must not weaken the values and principles of the national rule of law.<sup>423</sup>

#### F) Contributions of National Courts in International Law

Indeed, international law is enhanced when domestic courts interpreted it. It is a common practice for national courts to contribute to the development of international obligations.<sup>424</sup> National courts can make significant inputs to advance the fulfilment of the rule of law doctrine, even at an international level.<sup>425</sup> It must be mentioned here that some EU countries have administered and interpreted the application of Article 102 differently from one another.<sup>426</sup> Such interpretations can help develop and enhance legal certainty at an EU level. The least it can be argued if national interpretations provide further legal certainty to the subject matter, then the European Commission should circulate an updated Guidance Paper on the application of Article 102 TFEU in order to help advance the EU legal system.

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<sup>422</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) available at <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>423</sup> J. Waldron, 'The Rule of Law', *The Stanford Encyclopaedia of Philosophy* (Stanford University 2016) <https://plato.stanford.edu/entries/rule-of-law/> accessed on 12 July 2018

<sup>424</sup> L. Erades, *Interactions between International and Municipal law- a comparative case law study* (T.M.C Asser Instituut, 1993) ch. 12

<sup>425</sup> M. Shapiro, *Courts: A comparative and political analysis* (University of Chicago Press, Chicago, 1983)

<sup>426</sup> See chapter six of this research

However, it has been argued that the function of national courts in the international legal system should be limited only to the enforcement of the law.<sup>427</sup> Regardless, it has been well recognised that national courts play a vital role in settling international claims between private parties.<sup>428</sup> National courts, for example, can decide international claims that are in whole or in part based on a rule of international law.<sup>429</sup> Thus, there is also always a possibility for international disputes to be settled with a decision made by national courts.<sup>430</sup> Moreover, the legality of national acts is reviewed against international obligations by national courts in order to guarantee conformity. The function of legality review is broad, but constitutional review allows national authorities to review the validity of legislation in comparison to international law outside specific claims or disputes.<sup>431</sup>

#### G) Development of Democracies and Nations

The importance of developing democracies and nations is regularly stressed under the doctrine of the rule of law. An example on this can be seen by Barro, as he suggested that the rule of law helps stress the importance of developing operative courts and commercial rules that provide better protection to property rights.<sup>432</sup> It has been stipulated that confidence and stability in the legal system to further investments cannot be achieved in a nation that is governed by legislative action without democracy

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<sup>427</sup> R. Howse and R. teitel, 'Beyond Compliance: Rethinking why international law really matters' (2010) 1 Global Policy 127

<sup>428</sup> A. Nolikaemper, *National Courts and the International Courts* (Oxford University Press, 2011)

<sup>429</sup> Usually, the tem 'international claim' is used for a claim that is brought at an international level; JP Grant and JC Barker, *Encyclopedic Dictionary of International Law* (2<sup>nd</sup> edn, Oceana publishing, New York, 2004) 83

<sup>430</sup> *ibid*

<sup>431</sup> W. Sadurski, 'Judicial review in central and eastern Europe: rationales or rationalizations?' [2010] 42 Israel Law Review 500-527, at 502

<sup>432</sup> R. Barro 'Democracy and the Rule of Law' in B. de Mesquita and H. Root (eds) *Governing for Prosperity* (New Haven: Yale University Press 2000)

as an integral aspect of the doctrine.<sup>433</sup>

Following the exploration of the formal, substantive and procedural features of the doctrine, the subsequent section of this chapter now examines property rights under the substantive approach to the rule of law.

## VIII. THE RULE OF LAW, COMPETITION AND PROPERTY PROTECTION

This section examines the substantive aspect of the doctrine in ensuring a high level of property protection and effective competition.

### A. Tangible and Intangible Property

IPRs generally provide the holders with an exclusive right as to exclude others from the use of their protected rights.<sup>434</sup> IPRs are different from those tangible property rights. Tangible rights provide an owner possession of the good and the right to exclude others from possessing it.<sup>435</sup> Accordingly, tangible rights are mainly described as rights to exploit and use. Usually, the law does not have to mention such exclusivity of tangible rights as it comes as a natural outcome of such a possession.<sup>436</sup>

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<sup>433</sup> T. Carothers, 'The Rule of Law Revivals' (Foreign Affairs, 1998) < <https://www.foreignaffairs.com/articles/1998-03-01/rule-law-revival> > accessed on 13 July 2018. See also T. Carothers, 'Rule of Law Temptations' (The Fletcher Forum of World Affairs, 2009) < [https://carnegieendowment.org/files/Rule\\_of\\_Law\\_Temptations.pdf](https://carnegieendowment.org/files/Rule_of_Law_Temptations.pdf) > accessed on 13 July 2018

<sup>434</sup> World Trade Organisation (WIPO), the Secretariat, 'Refusal to License IP Rights- A Comparative Note on Possible Approaches' (wipo.net, August 2013) < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed 15 August 2018

<sup>435</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib, 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 15 August 2018. See also World Trade Organisation (WIPO), the Secretariat, 'Refusal to License IP Rights- A Comparative Note on Possible Approaches' (wipo.net, August 2013) < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed 15 August 2018

<sup>436</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib, 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 15 August 2018. See also World Trade Organisation (WIPO), the Secretariat, 'Refusal to License IP Rights- A Comparative Note on Possible Approaches' (wipo.net, August 2013) < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed 15 August 2018

Whereas, IPRs are considered intangible goods. The possession of intangible goods does not particularly stop others from possessing the good.<sup>437</sup> The essence of intangible goods is the owner's right to exclude others from using the IPR. Nonetheless, different approaches can be seen between the various WIPO Member States within their national statutes, decisions of the courts as well as relevant authorities.<sup>438</sup>

## B. Property Rights and Rule of Law

The reduction of uncertainties regarding how patent law is enforced, and its implications would not only allow undertakings to plan their future in the market better, but it will also encourage investment and economic growth. The rule of law will be strengthened when the legal consequences of any conduct can be predicted.<sup>439</sup>

It has been suggested that IPRs should be given similar protection and security as any other property right as can be seen by the following argument:

*Holders of valid letters-patents enjoy... the exclusive right and liberty of making and using the invention therein secured, and of vending the same to others to be used...: and the rule of law is well settled, that an invention so secured is property in the holder of*

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<sup>437</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib, 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 15 August 2018. See also World Trade Organisation (WIPO), the Secretariat, 'Refusal to License IP Rights- A Comparative Note on Possible Approaches' (wipo.net, August 2013) < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed 15 August 2018; The provisions of the TRIPS Agreement provide the owner with the right to prevent others from using or copying the IPR.

<sup>438</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib, 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 15 August 2018. See also World Trade Organisation (WIPO), the Secretariat, 'Refusal to License IP Rights- A Comparative Note on Possible Approaches' (wipo.net, August 2013), at p. 9 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed 15 August 2018,

<sup>439</sup> A. Ayal and Y. Rotem, 'Anti-competitive patents: An Incorporation Solution' (en-law,tau) [https://en-law.tau.ac.il/sites/law-english.tau.ac.il/files/Anticompetitive\\_patents-an\\_incorporation\\_solution.pdf](https://en-law.tau.ac.il/sites/law-english.tau.ac.il/files/Anticompetitive_patents-an_incorporation_solution.pdf) accessed 15 November 2018

*the patent, and that as such the right of the holder is as much entitled to protection as any other property, during the term for which the franchise or the exclusive right or privilege is granted.*<sup>440</sup>

Hayek has emphasised that private rights make up one of the elements of freedom.<sup>441</sup>

The protection of property rights and its value safeguards the value of civilisation.<sup>442</sup>

Hayek has also quoted Malinowski's definition of modern anthropology as the following

*The roots of property as a legal principle which determines the physical relationship between man and his environmental setting, natural or artificial, are the very prerequisite of any ordered action in the cultural sense.*<sup>443</sup>

Nonetheless, Hayek has highlighted that the definition of liberty is achieved once the meaning of coercion is defined, and in particular arbitrary and general rules.<sup>444</sup> Indeed, the government may need to delimit the private spheres of some individuals, but conditions must be created so that an individual can rely on them to decide the scope of the designated private sphere and to expect the outcome of its conduct.<sup>445</sup>

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<sup>440</sup> *Cammeyer v. Newton* (1876) 94 U.S. 225, at [226]

<sup>441</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) p. 6; B. Acton, 'Nationality, History of Freedom' in J. N. Figgis and R. v. Laurence (eds) *Liberty Fund edition, Essays in the History of Liberty* (London: Macmillan 1907), p. 297 < <http://oll.libertyfund.org/titles/acton-the-history-of-freedom-and-other-essays> > accessed on 13 July 2018

<sup>442</sup> F. A. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) p. 6; Sir Henry Maine, *Village Communities*, (London: J. Murray 1871) p.230

<sup>443</sup> F. A. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) p. 6; Bronislaw Malinowski, *Freedom and Civilisation* (New York: Roy Publishers, 1944) pp. 132-33

<sup>444</sup> Hayek defined 'coercion' as '*such control of the environment or circumstances of a person by another that, in order to avoid greater evil, he is forced to act not according to a coherent plan of his own but to serve the ends of another. Except in the sense of choosing the lesser evil in a situation forced on him by another, he is unable to either to use his own intelligence or knowledge or to follow his own aims and beliefs.*' Found in F. A. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) p. 71

<sup>445</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) at p. 71

Moreover, coercion rules must be general and must be reduced to the minimum and applied to those individuals who had placed themselves in the position to be coerced.<sup>446</sup> Additionally, the freedom can also be enjoyed by an individual without any owned property so long as the care of the property is adequately dispersed so that a person is not dependent on a specific individual for such needs. Hayek has mentioned that this can be avoided through the enforceability of contracts.<sup>447</sup> Hayek mentioned the following:

*The decisive condition for mutually advantageous collaboration between people, based on voluntary consent rather than coercion, is that there be many people who can serve one's needs so that nobody has to be dependent on specific persons for the essential conditions of life or the possibility of development in some direction. It is competition made possible by the dispersion of property that deprives the individual owners of particular things of all coercive powers.*<sup>448</sup>

Hayek has emphasised that the view on the famous maxim has been commonly misunderstood.<sup>449</sup> The providers of services are not usually concerned with how we make use of what they provide. Therefore, we must remain independent in the sense that we are the ones who approve of their services as per our needs, regardless of their

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<sup>446</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) at p. 71

<sup>447</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) at p. 208

<sup>448</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) at p. 208

<sup>449</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) at p. 208. Famous maxim is usually understood that coercion must be avoided as seen in I. Kant, 'Foundations of the Metaphysics of Morals' *Lewis White Beck (eds) Critique of Practical Reason and Other Writings in Moral Philosophy* (Chicago: University of Chicago Press, 1949) p. 87. However, Hayek argues that when the maxim indicates conflict of freedom then coercion is needed as seen in the analysis of J. M. Clark, *The Ethical Basis of Economic Freedom*, (Kazanjan Foundation Lecture; Westport; CT: C.K. Kazanjan Economics Foundation, 1955) p.26

objectives.<sup>450</sup> Accordingly, Hayek has stressed that contracts are essential in order to delimit a person's private scope. Hayek did not intend to include here some services that are provided to the public, such as roads, which must be shared between those who wish to use them. The impact of the threat of coercion is different from the definite and inevitable coercion. Sanctions of the law do not constrain an individual from performing particular actions. Instead, they either prevent an individual from partaking some actions, or they require the implementation of set obligations. A government can force its citizens to perform their obligations through the general rules of unavoidable and predictable coercion, such as compulsory military services and taxation.<sup>451</sup> However, Hayek noted that that unpredictable and unavoidable coercive power of governmental intervention is extraordinarily alarming and does not comply with the doctrine.<sup>452</sup>

The competition law intervention is implemented on any dominant business that participates in anti-competitive or abusive practices. Therefore, the use of competition law is indeed general given that any dominant undertaking that is participating in any anti-competitive or abusive conduct are subject to governmental intervention with the possibility of issuing a compulsory licence. However, patent holders should be able to predict whether their practices are indeed anti-competitive or abusive. They should be

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<sup>450</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) at p. 209; Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, pp. 194 and 430-41 trans. J. Kahane, Foreword by F.A. Hayek (eds) (Liberty Fund 1981), pp. 171 and 388-389 < <http://oll.libertyfund.org/titles/mises-socialism-an-economic-and-sociological-analysis>> accessed on 13 July 2017

<sup>451</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) p.210

<sup>452</sup> F. Hayek, 'The Constitution of Liberty' in B. Caldwell (eds) *The Collected Works of F.A. Hayek* (The University of Chicago Press, 2011) p.211

provided with a clear set of guidelines as to what is considered anti-competitive and abusive so that they can predict a possible competition law intervention.

### C. The EU and the Rule of Law

The doctrine is of great weight to the EU,<sup>453</sup> and the accession of a new country as a Member State requires the independence of the country's legal order, as well as the quality of its law.<sup>454</sup> The rule of law is covered in different EU treaties.<sup>455</sup> For instance, it is mentioned in the preamble of the TEU,<sup>456</sup> Art. 2 of the TEU,<sup>457</sup> and CFREU in its preamble.<sup>458</sup> EU case law must also reflect on the rule of law.<sup>459</sup>

However, it has been indicated that the measures adopted to observe the adherence with the doctrine in the EU Member States are sometimes unclear.<sup>460</sup> The pursuit for the rule of law has set its most ambitious aim for the realisation of the doctrine beyond the nation-state. Although the hunt for an international rule of law has been there for

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<sup>453</sup> TFEU, Article 2

<sup>454</sup> Europa, 'The Rule of Law' (Europa.eu, 6<sup>th</sup> December 2016)

<[http://ec.europa.eu/enlargement/policy/policy-highlights/rule-of-law/index\\_en.htm](http://ec.europa.eu/enlargement/policy/policy-highlights/rule-of-law/index_en.htm)>. Accessed 17 February 2016.

<sup>455</sup> H Andersen, 'Chinas 'one belt one road' – Transitional and multiversal rule of law challenges from a European perspective (2016) <http://clouk.uclan.ac.uk/15289/1/OBOR.%20HAndersen.pdf> accessed 11 November 2018

<sup>456</sup> H Andersen, 'Chinas 'one belt one road' – Transitional and multiversal rule of law challenges from a European perspective (2016) <http://clouk.uclan.ac.uk/15289/1/OBOR.%20HAndersen.pdf> accessed 11 November 2018

<sup>457</sup> H Andersen, 'Chinas 'one belt one road' – Transitional and multiversal rule of law challenges from a European perspective (2016) <http://clouk.uclan.ac.uk/15289/1/OBOR.%20HAndersen.pdf> accessed 11 November 2018

<sup>458</sup> H Andersen, 'Chinas 'one belt one road' – Transitional and multiversal rule of law challenges from a European perspective (2016) <http://clouk.uclan.ac.uk/15289/1/OBOR.%20HAndersen.pdf> accessed 11 November 2018

<sup>459</sup> H Andersen, 'Chinas 'one belt one road' – Transitional and multiversal rule of law challenges from a European perspective (2016) <http://clouk.uclan.ac.uk/15289/1/OBOR.%20HAndersen.pdf> accessed 11 November 2018; A. Chen, 'China's Long March Towards Rule of Law or China's Turn Against Law?' [2016] 4(1) Chinese Journal of Comparative Law 1, at 19

<sup>460</sup> E. Mak and S. Taekema, 'The European Union's Rule of Law Agenda: Identifying Its Core and Contextualizing Its Application' [2016] 8(1) Hague Journal on the Rule of Law 25-50

some time, it has never been expressed by the Member States to the extent it has been stressed in 2005 World Summit and later in the United Nation's General Assembly resolutions.<sup>461</sup> Moreover, international legal scholarship reflects the momentum of the topic.<sup>462</sup>

The rule of law aims to tackle the matter of 'who guards the guardians?' So that power is used in a fair manner. Regarding this research, competition authorities are provided with both power and discretion in determining matters related with abuse of dominant position. Such powers have raised concerns over accountability, independence and fairness. For instance, concerns have been highlighted in regards to the courts' independence and compliance with the concept of the doctrine in their decision-making as competition authorities are provided with a high degree of defence.<sup>463</sup>

Usually, the team of lawyers and economists in the EU's Competition's DG-Competition examine and review case facts in order to ensure that evidence is consistent with one of the theories of harm. The report is then sent for review to the Office of Chief Economist for their analysis on the matter. Meanwhile, oral proceedings are monitored by Hearing Officers to ensure the protection of the rights of defences as well as the process. Draft decisions are then thoroughly examined by the Legal Services as the court might ask them, if necessary, to defend their decision. It must be mentioned that complex decisions are sent to the College of Commissioners for additional examination and review. It must also be taken into account that, there is always the possibility of

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<sup>461</sup> 2005 World Summit Outcome, UNGA Res 60/1 (24 October 2005) UN Doc A/RES/60/1 [143]; UNGA Res 63/128 (15 January 2009) UN Doc A/RES/63/128; UNSC Presidential Statement (22 June 2006) S/PRST/2006/28

<sup>462</sup> J. Crawford, 'International Law and the Rule of Law' (2003) 24 *Adel L Rev* 3; P Allot, *towards the international rule of law: Essay in Integrated Constitutional Theory* (Cameron May, London, 2005)

<sup>463</sup> P. Marsden 'Checks and Balances: European Competition Law and the Rule of Law' [2009] 22(1) *Competition Law International* 24-28 available at [https://www.biicl.org/files/4080\\_checks\\_and\\_balances\\_\(marsden\).pdf](https://www.biicl.org/files/4080_checks_and_balances_(marsden).pdf) accessed on 4<sup>th</sup> July 2018

appeals to the courts, courts of public opinion, in addition to the opinions of the academic community and reporters.<sup>464</sup>

It does initially appear from the above that there is an adequate review process that ensures that decisions are fair and reasonable within the EU competition system, but is it sufficient from a rule of law perspective? To make such an assessment, chapter five examines the development of EU case law.

#### D. Legal Uncertainty in Competition Law Intervention

The courts, policymakers and regulators have been regularly faced with challenges in finding the appropriate legal measures to mediate the intersection of patents and competition law. In particular, the challenge of finding appropriate guidelines that manage abusive refusal to license cases. Ideally, such guiding principles should aim to minimise legal uncertainty and increase economic advantages.<sup>465</sup> Many competition systems, particularly the EU competition regime, aim to balance these challenging aims. The interface of abusive refusal to license with patents highlight such issues to the internal coherence of competition law.<sup>466</sup> It can be argued that the EU competition law intervention lacks, to a certain degree, legal certainty. Therefore, the research attempts to identify how we can apply such rules whilst providing as much legal certainty and predictability possible as per the doctrine.

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<sup>464</sup> P. Marsden 'Checks and Balances: European Competition Law and the Rule of Law' [2009] 22(1) Competition Law International 24-28 available at

[https://www.biicl.org/files/4080\\_checks\\_and\\_balances\\_\(marsden\).pdf](https://www.biicl.org/files/4080_checks_and_balances_(marsden).pdf) accessed on 4<sup>th</sup> July 2018

<sup>465</sup> I. Eagles and L. Longdin, *Refusals to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> Edn., Hart Publishing Ltd, 2011), p10-20

<sup>466</sup> I. Eagles and L. Longdin, *Refusals to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> Edn., Hart Publishing Ltd, 2011), p10-20

As mentioned earlier, the doctrine can be understood in a formal or a substantive form. The formal legal certainty is the customary legal certainty where fairness and predictability are considered vital elements. Concerning legal certainty in the traditional sense, the EU competition law intervention should be predictable and applied in a uniform and systematic order. In other words, competition law must avoid intervening retroactively. On the other hand, substantive legal certainty suggests that the legal order must be ethical and moral.<sup>467</sup> The EU competition law intervention can also be challenged under the substantive legal certainty as depriving right-holders, in certain circumstances, of all economic utility which can harm their business.

The Commission has highlighted its interest in improving the doctrine in its substantive sense.<sup>468</sup> The Commission has described the meaning of the rule of law at an EU level as follows:

*Those principles include legality, which implies a transparent, accountable, democratic and pluralistic process for enacting laws; legal certainty; prohibition of arbitrariness of the executive powers; independent and impartial courts; effective judicial review including respect for fundamental rights and equality before the law...*<sup>469</sup>

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<sup>467</sup> A. Souminen 'What Role for Legal Certainty in Criminal Law within the Area of Freedom, Security and Justice in the EU?' [2014] 2(1) Bergen Journal of Criminal Law and Justice, 1-31 available at <https://www.legal-tools.org/doc/7d0cc5/pdf/> accessed on 24 June 2018; A. Peczenik, *On Law and Reason* (2<sup>nd</sup> Edn. Springer, 2008) p24-27

<sup>468</sup> A. Souminen 'What Role for Legal Certainty in Criminal Law within the Area of Freedom, Security and Justice in the EU?' [2014] 2(1) Bergen Journal of Criminal Law and Justice, 1-31 available at <https://www.legal-tools.org/doc/7d0cc5/pdf/> accessed on 24 June 2018; Communication from the Commission to the European Parliament and the Council A new EU Framework to strengthen the Rule of Law, COM (2014) 158 final 11.3.2014

<sup>469</sup> A. Souminen 'What Role for Legal Certainty in Criminal Law within the Area of Freedom, Security and Justice in the EU?' [2014] 2(1) Bergen Journal of Criminal Law and Justice, 1-31 available at <https://www.legal-tools.org/doc/7d0cc5/pdf/> accessed on 24 June 2018; Communication from the Commission to the European Parliament and the Council A new EU Framework to strengthen the Rule of Law, COM (2014) 158 final 11.3.2014, p.4

The Commission further stated the following:

*[T]his means that respect for the rule of law is intrinsically linked to respect for democracy and for fundamental rights: there can be no democracy and respect for fundamental rights without respect for the rule of law and vice versa. Fundamental rights are effective only if they are justifiable.*<sup>470</sup>

It can be noted from those mentioned above that the Commission had addressed the significance of legal certainty as to the new EU framework for the doctrine.<sup>471</sup> The Commission referred to legal certainty as a fundamental right for freedom, security and justice.<sup>472</sup> Article 17(2) CFREU supports the right to property and protection of IPRs.<sup>473</sup> The Commission's approach to the doctrine is interesting as one of the significant elements of the free market is the freedom of a property owner to select the licensees.

Usually, undertakings should have the right to refuse to license a technological or commercial advantage that the undertaking has established on its own. Nonetheless, a market must be competitive. Competition law can intervene when the market is not effectively competitive. It must be mentioned that the regulatory aim of competition

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<sup>470</sup> A. Souminen 'What Role for Legal Certainty in Criminal Law within the Area of Freedom, Security and Justice in the EU?' [2014] 2(1) Bergen Journal of Criminal Law and Justice, 1-31 available at <https://www.legal-tools.org/doc/7d0cc5/pdf/> accessed on 24 June 2018

<sup>471</sup> A. Souminen 'What Role for Legal Certainty in Criminal Law within the Area of Freedom, Security and Justice in the EU?' [2014] 2(1) Bergen Journal of Criminal Law and Justice, 1-31 available at <https://www.legal-tools.org/doc/7d0cc5/pdf/> accessed on 24 June 2018; these are the infringement procedure in art. 258 TFEU and the preventive and sanctioning mechanisms in art. 7 TEU. See also the Annexes to the Communication from the Commission to the European Parliament and the Council a New EU Framework to Strengthen the Rule of Law, COM (2014) 158 final, annexes 1 and 2 11.3.2014

<sup>472</sup> A. Souminen 'What Role for Legal Certainty in Criminal Law within the Area of Freedom, Security and Justice in the EU?' [2014] 2(1) Bergen Journal of Criminal Law and Justice, 1-31 available at <https://www.legal-tools.org/doc/7d0cc5/pdf/> accessed on 24 June 2018

<sup>473</sup> The Charter of Fundamental Rights of the European Union 2000, Article 17 states the following: 'Intellectual property shall be protected'.

law intervention is limitedly defined and thus, as mentioned earlier, it appears that it deprives the right holders of all economic utility.<sup>474</sup>

Indeed, courts try to minimise the interface with the dominant undertaking's practices. Some have argued that '*under-regulation is always better than over-regulation*', yet it has been indicated that this statement is empirically unsupported.<sup>475</sup>

#### E. The Rule of Law Principles Used to Assess Competition Law Intervention's Compliance with Rule of Law throughout this Research

In the EU system, there is a chance of conflicting decisions between different cases which leads to inconsistency in EU decision-making as addressed later on in this research. It is believed that the Commission has taken a soft approach as its decision-making in this matter is only broadly consistent with EU standards.<sup>476</sup> It has also been questioned whether EU competition law fully adheres to some of the principles of the rule of law. Such questions were raised due to the level of discretion given to competition authorities. Such a level of power given to competition authorities in this area has raised concerns over the actual interpretation and enforceability of law by the courts themselves.<sup>477</sup>

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<sup>474</sup> I. Eagles and L. Longdin, *Refusals to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> Edn., Hart Publishing Ltd, 2011), p.10-20

<sup>475</sup> I. Eagles and L. Longdin, *Refusals to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> Edn., Hart Publishing Ltd, 2011), p10-20

<sup>476</sup> P. Marsden 'Checks and Balances: European Competition Law and the Rule of Law' [2009] 22(1) Competition Law International 24-28 available at [https://www.biicl.org/files/4080\\_checks\\_and\\_balances\\_\(marsden\).pdf](https://www.biicl.org/files/4080_checks_and_balances_(marsden).pdf) accessed on 4<sup>th</sup> July 2018; K Wright, 'European Commission Opinions to National Courts in Antitrust Cases: Consistent Application and the Judicial Administrative Relationship', CCP Working Paper 08-24

<sup>477</sup> P. Marsden 'Checks and Balances: European Competition Law and the Rule of Law' [2009] 22(1) Competition Law International 24-28 available at [https://www.biicl.org/files/4080\\_checks\\_and\\_balances\\_\(marsden\).pdf](https://www.biicl.org/files/4080_checks_and_balances_(marsden).pdf) accessed on 4<sup>th</sup> July 2018

Moreover, some EU countries have different enforcement priorities, functions, resources, economic development and concentration. Therefore, a divergence exists between the Member States in competition law intervention, the definition of the market and the identification of anti-competitive or abusive practices. This sort of variance is expected as each country has a different economy. However, when it comes to the enforcement of Article 102 TFEU, efforts of consistency and transparency are needed also to highlight the divergences between the Member States. Businesses and domestic courts can also indirectly benefit from more substantial amount transparency via publications, public speeches to highlight the reasoning behind each decision in this area of law, rather than a decision made via internal reviews.<sup>478</sup>

The principles of the rule of law that are adopted in this research will include a combination of formal and substantive elements in order to ensure the supremacy of the law a high level of IPRs protection. These principles can be summarised as the following:

1. Respect for fundamental rights and adequate protection of IPRs.
2. Access to courts and justice.
3. Equality before the law; for example, equality of law between patent holders and their competitors.
4. The law must be clearly defined and enforceable by the relevant courts; for example, the interpretations of Article 102 TFEU must be clearly defined so that the Article is not interpreted in a way that goes beyond its scope to cover other areas of established law.

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<sup>478</sup> P. Marsden 'Checks and Balances: European Competition Law and the Rule of Law' [2009] 22(1) Competition Law International 24-28 available at [https://www.biicl.org/files/4080\\_checks\\_and\\_balances\\_\(marsden\).pdf](https://www.biicl.org/files/4080_checks_and_balances_(marsden).pdf) accessed on 4<sup>th</sup> July 2018

5. Legal certainty.
6. Legal predictability.
7. Consistency in law; for example, in the tests used throughout EU case law to determine abuse of dominance and a high level of IPRs protection without undermining the essence of IPRs.
8. Prospective law.

## IX. CONCLUSION

The role of the doctrine is an integral part of this research, particularly given that some commentators have questioned the constitutionality and the fairness of competition law intervention.<sup>479</sup> The compulsory licensing of IP rights is retroactive by nature. Therefore, it is essential to give particular attentiveness on legal certainty and foreseeability to, at least, provide a sufficient degree of predictability.

As indicated earlier, the doctrine has many definitions and conceptions. The EU legal system aims to advance the rule of law with the creation of predictable laws and the use of balancing tests to determine competition law intervention. Indeed, the law integrates economic considerations in its decision-making. However, the rule of law guarantees the fact that the law is supreme and thus, economic considerations must not be prioritised over the law and norms. This research aims to address the scope of the doctrine incorporated by the courts and how the courts respond to the doctrine regarding legal certainty, predictability, consistency and transparency.

The research also takes a substantive approach to the doctrine, given that patents are private properties. Patent holders should enjoy the freedom of utilising their patents

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<sup>479</sup> G. E. Hartman, 'Compulsory Licensing: A Controversial Topic in the Latest Revision of Our Copyright Law' [1964] 33 U. CInC. L. REv. 83, 94-98

and must be given the opportunity to plan their future investments. The doctrine and the use of competition law intervention should aim to fulfil the expectations of undertakings. It is important to have a clear set of guidelines so that businesses can anticipate the consequences of their actions and how to avoid competition law intervention. Therefore, the decision-making process must aim to be as consistent as possible. It must be highlighted that individuals could lose their interest in investing in a market if the rules governing their practices are unclear. Almost all businesses aim to become successful, and with success, a business can become dominant in that market.

All in all, competition law intervention must ensure that rules that govern this matter are clear, consistent, predictable and meets the expectations of successful undertakings in order to respect their rights and freedom to effectively operate in the market without undermining the essence of IPRs. The following chapter examines international obligations and the protection offered for patents at an international level which is followed by an examination of the regional EU legal system.

## CHAPTER FOUR

### INTERNATIONAL AGREEMENTS AND EU COMPETITION LAW

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#### I. INTRODUCTION

The essence of IPRs has been based on the principle that right holders have an exclusive right to use and benefit from their protected rights. However, monopolistic powers provided to right-holders can have a direct effect on competition. Therefore, it is vital that international, regional and domestic law ensures that such exclusivity of the rights conferred to right-holders is not misused.<sup>480</sup> This chapter is set to examine the global responsibilities before an exploration of the substantive and procedural elements adopted by the EU judiciary and competition authorities when dealing with competition and IP-related matters.

Limitations to the patent monopoly exist within the international context so that patents are efficiently exploited. Such barriers include the endorsement of patents to 'license as of right'<sup>481</sup>, the system of compulsory licensing and the revocation of patents.<sup>482</sup> The limitation of the exclusive right under compulsory licensing is meant to ensure that patents are not abused and that they do not hinder social or economic platforms.<sup>483</sup>

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<sup>480</sup> M. Z. Abbas and S. Riaz 'Evolution of the Concept of Compulsory Licensing: A Critical Analysis of Key Developments before and after TRIPS' [2013] 4(2) Academic Research International 482-498

<sup>481</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; J. W. Baxter, *World Patent Law and Practice* (2<sup>nd</sup> edn. Sweet & Maxwell 1968) at 122

<sup>482</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190

<sup>483</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190

This chapter mainly assesses Article 5(A)(2) of the Paris Convention, as well as Articles 7,8, 13, 31 and 40 of the TRIPS Agreement. It then analyses the recommendations of the WIPO in regards to dealing with abusive refusal to license and then assesses the relationship of international treaties and the EU, as well as, the rules governing refusal to license of IPRs within the context of EU competition law.

This chapter fits into the context of this research as it explores the EU's duties under the TRIPS Agreement. This chapter aims to examine the expectations of undertakings that can be derived from international agreements. Microsoft has claimed, for example, in the *Microsoft* case that EU competition law remedies that concern abusive refusal to supply could breach the EU's obligations under the TRIPS Agreement. According to Microsoft, the remedy '*implicates various intellectual property rights protected by the TRIPS Agreement*'.<sup>484</sup> Microsoft here has supported its argument by reference made to Article 13 of the TRIPS Agreement.<sup>485</sup>

The Commission has disregarded Microsoft's claims as it has been found that the TRIPS Agreement permits embracing obligations that prevent abuses of dominance,<sup>486</sup> yet clearly, undertakings have expectations that are derived from the TRIPS Agreement. From a rule of law perspective, it can be argued that it can be essential to examine in the following chapters whether EU competition authorities have met such expectations.

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<sup>484</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 1050

<sup>485</sup> The TRIPS Agreement, Article 13 states '*Members shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.*'

<sup>486</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 1052

## II. INTERNATIONAL RULES ON COMPETITION AND IP-RELATED MATTERS

The correlation between IP and competition law has been seen in the global regulation of these two systems of law.<sup>487</sup> At the early stages of regulating competition law, it was recognised that the protection against abuses of IPRs forms an integral part of industrial property protection.<sup>488</sup> The abusive refusals to license IPRs can be covered under Article 5(A)(2) of the Paris Convention, as well as Articles 8.2, 31 and 40 of the TRIPS Agreement as discussed further below.

### A. The Paris Convention

The UK Statute of Monopolies introduced the ideal of compulsory licences in 1623 to work a patent locally,<sup>489</sup> and this concept was then acknowledged during the 19<sup>th</sup> century by various national patent law.<sup>490</sup> France, for instance, introduced the forfeiture of patents as a remedy to the non-working of patents.<sup>491</sup> The UK has also adopted a system of compulsory licensing in the Patents, Designs, and Trade Marks Act 1883 to

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<sup>487</sup> R. W de very, *Towards a European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers 2006) 17

<sup>488</sup> R. W de very, *Towards a European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers 2006) 17

<sup>489</sup> C. M. Carlos, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at <[https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf)> last accessed on 08/03/2018

<sup>490</sup> C. M. Carlos, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at <[https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf)> last accessed on 08/03/2018

<sup>491</sup> C. M. Carlos, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at <[https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf)> last accessed on 08/03/2018

protect against the non-working of patents.<sup>492</sup> This provision greatly influenced patent law as it aided in the progress of the International Paris Convention.<sup>493</sup>

The system of compulsory licensing has been first established at the Vienna Convention of 1873 to regulate matters related to public interest, but the working obligation was only accepted in the Conference of 1883. Further, the Conference held in The Hague in 1925 had embraced compulsory licensing as the chief method of protection against non-working of patents. The Hague in 1925 had also established that the system of compulsory licensing is set to protect against abuses that can surface following the exclusive practice of the conferred right. The compulsory licensing system has then been integrated into the law of most Member countries as a less drastic measure to the revocation through nullity.<sup>494</sup>

The majority of countries still used revocation of patents when compulsory licensing fails to remedy insufficient working.<sup>495</sup> The compulsory licensing system has developed over time, and the conditions for granting such a licence have extended over the

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<sup>492</sup> Patents, Designs and Trade Marks Act 1883, S. 22 which states the following:

*If on the petition of any person interested it is proved to the Board of Trade that by reason of the default of a patentee to grant licenses on reasonable terms—*

*(a.) The patent is not being worked in the United Kingdom; or*

*(b.) The reasonable requirements of the public with respect to the invention cannot be supplied; or*

*(c.) Any person is prevented from working or using to the best advantage an invention of which he is possessed,*

*the Board may order the patentee to grant licenses on such terms as to the amount of royalties, security for payment, or otherwise, as the Board, having regard to the nature of the invention and the circumstances of the case, may deem just, and any such order may be enforced by mandamus.*

<sup>493</sup> C. M. Carlos, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at [https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf) last accessed on 08/03/2018

<sup>494</sup> C. Gontijo, 'Changing the Patent System from the Paris Convention to the TRIPS Agreement: The Position of Brazil' (2005) Heinrich Boll Stiftung Global Issue Paper No. 26 <https://eprints.qut.edu.au/90061/6/90061.pdf> accessed on 27 August 2018

<sup>495</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; Convention of Paris for the Protection of Industrial Property of March 20, 1883 as revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1924, at London on June 2, 1943, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967, 21 U.S.T No. 6923, Article 5A [Hereinafter cited as The Paris Convention]

years<sup>496</sup> to include matters related to public interest, anti-competitive practices and governmental uses.<sup>497</sup> The compulsory licensing system can, thus, be used by the state to control a patent monopoly. It permits others to use the patent with a remuneration that is decided by the State.

However, an amendment has been made in the Stockholm Revision of 1976 of the Paris Convention which made it more challenging for authorities to grant a compulsory licence.<sup>498</sup> The Revision of 1976 established that a compulsory licence should be non-exclusive and a compulsory licence is inapplicable when the right holder can provide reasonable justifications for the refusal to license.<sup>499</sup> The Revision of 1976 further established in Article 5(A)(3) of the Convention that nullity should only be applied two years following the grant of the first licence which makes nullity more laborious and rarer to apply.

With regards to the non-exclusive requirement mentioned above, it has been argued that a licence seeker that has been granted the requested compulsory licence would be less inclined to invest in the patent if there are doubts as to the exclusivity of a licence in the relevant market.<sup>500</sup> This is because the right holder in a non-exclusive licence can

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<sup>496</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190. For example, the Patent Act of 1883, Section 22 have established that compulsory licenses can be granted when a patent is abused due to various reasons such as not meeting the demands of public or blocking another patent

<sup>497</sup> C. M. Correa, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E  
[http://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](http://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf) accessed on 08/03/2018

<sup>498</sup> C. Gontigo, 'Changing the Patent System from the Paris Convention to the TRIPS Agreement: The Position of Brazil' (2005) Heinrich Boll Stiftung Global Issue Paper No. 26  
<https://eprints.qut.edu.au/90061/6/90061.pdf> accessed on 27 August 2018

<sup>499</sup> C. Gontigo, 'Changing the Patent System from the Paris Convention to the TRIPS Agreement: The Position of Brazil' (2005) Heinrich Boll Stiftung Global Issue Paper No. 26  
<[https://www.boell.de/sites/default/files/assets/boell.de/images/download\\_de/internationalepolitik/GIP26.pdf](https://www.boell.de/sites/default/files/assets/boell.de/images/download_de/internationalepolitik/GIP26.pdf)> accessed on 27 August 2018

<sup>500</sup> C. Gontigo, 'Changing the Patent System from the Paris Convention to the TRIPS Agreement: The Position of Brazil' (2005) Heinrich Boll Stiftung Global Issue Paper No. 26

decide to locally produce or determine a voluntary license to other third parties. It would become more challenging for the licence holder to compete with others within the relevant market. Therefore, a non-exclusive compulsory licence has been argued not be useful in the circumstances of when a compulsory licence is issued to prevent abuses by right holders.<sup>501</sup>

It must be mentioned that the Paris Convention has provided 'failure to work' in Article 5(A)(2) as an example for granting a compulsory licence and thus, other abuses can also be established without breaching this provision.<sup>502</sup> The compulsory licensing system has been adopted by the majority of countries that are signed to the Paris Convention<sup>503</sup> in order to discourage abuses of the exclusive rights conferred to right holders and encourage incentives for licensing on fair and reasonable terms.<sup>504</sup> It has also been indicated that patent rights should maintain competition and protect consumers and thus, dominant undertakings must not engage in anti-competitive practices.<sup>505</sup>

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<[https://www.boell.de/sites/default/files/assets/boell.de/images/download\\_de/internationalepolitik/GIP26.pdf](https://www.boell.de/sites/default/files/assets/boell.de/images/download_de/internationalepolitik/GIP26.pdf)> accessed on 27 August 2018

<sup>501</sup> C. Gontigo, 'Changing the Patent System from the Paris Convention to the TRIPS Agreement: The Position of Brazil' (2005) Heinrich Boll Stiftung Global Issue Paper No. 26

<[https://www.boell.de/sites/default/files/assets/boell.de/images/download\\_de/internationalepolitik/GIP26.pdf](https://www.boell.de/sites/default/files/assets/boell.de/images/download_de/internationalepolitik/GIP26.pdf)> accessed on 27 August 2018

<sup>502</sup> The Paris Convention, Article 5 (A) (2) states that 'Member states may legislate measures providing for the grant of compulsory licenses to prevent abuses of the exclusive rights conferred by the patent, for example for failure to work.'

<sup>503</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; United Nations, *The Role of Patents in the Transfer of Technology to Developing Countries: Report to the Secretary General of the United Nations*. (United Nations 65 UN Report, 1964) at p. 62

<sup>504</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190; United Nations, *The Role of Patents in the Transfer of Technology to Developing Countries: Report to the Secretary General of the United Nations*. (United Nations 65 UN Report, 1964) at 23, 24

<sup>505</sup> S. Cohen, 'Compulsory Licensing of Patents- The Paris Convention Model' [1979] 20(2) Journal of Law and Technology 153-190

The Paris Convention has covered principles and rules that apply to all sorts of industrial property with explicit provisions concerning patents.<sup>506</sup> The incorporation of the Paris Convention's patent-specific provisions into the TRIPS Agreement suggests that elements of the present patent system have become incorporated in the international structure. However, the articles of the Convention are subject to and may be thought to be outdated or partly altered by the new standards that are set by the TRIPS Agreement. An example of this is Article 5 quarter of the Convention<sup>507</sup> which is surpassed by Article 28 of the TRIPS Agreement as it compels extending the protection to products that are directly attained via a protected process.<sup>508</sup>

The following sub-section analyses the chief articles of the TRIPS Agreement that aim to govern the anti-competitive and abusive practices of IPRs.

#### B. TRIPS Agreement

The negotiations of the TRIPS Agreement have been explicitly aimed to supplement the Paris Convention.<sup>509</sup> The approach of the 'Paris-Plus' is set out in Article 2(1) of the Agreement, as it has obligated all WTO members to submit to the Paris Convention's Articles 1 to 12, as well as, Article 19. All WTO members have to apply these provisions even the countries that have not joined the Paris Convention. Moreover, the

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<sup>506</sup> C. Correa and A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 228

<sup>507</sup> The Paris Convention, Art.5 Quarter states the following:

*When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation, on the basis of the process patent, with respect to products manufactured in that country.*

<sup>508</sup> C. Correa and A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 229

<sup>509</sup> C. Correa and A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 228

identification of the Stockholm Act has given a uniform platform of protection while taking into account that various aspects of the Convention are still in force.<sup>510</sup>

The TRIPS Agreement has aimed at offering minimum protection to IPRs and guaranteeing that the means used to impose IPRs do not overlap or become obstacles to trade.<sup>511</sup> The Agreement's primary target is to decrease distortions and obstacles to trade at an international level, whilst taking into consideration the promotion of the efficient protection of IPRs. The TRIPS Preamble has specified that IPRs are private rights and the underlying aim for the protection of IPRs revolves around the 'development and technological' purposes.<sup>512</sup> The TRIPS Agreement was negotiated in the Uruguay Round of GATT, and it is administered by the WTO Agreement.<sup>513</sup> Indeed, one of the three pillars of the WTO is the TRIPS Agreement.<sup>514</sup> The main international agreements on IP law, such as the Paris Convention, are referred to in the TRIPS Agreement.<sup>515</sup> The Agreement has compelled its Members to provide a 'give effect' of TRIPS in their domestic law.<sup>516</sup>

The TRIPS Agreement has made limited reference<sup>517</sup> to the role of competition law on IPR policy.<sup>518</sup> The Agreement's Articles of significance to this research are mainly

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<sup>510</sup> C. Correa and A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 228

<sup>511</sup> Preamble, TRIPS Agreement

<sup>512</sup> Preamble, TRIPS Agreement

<sup>513</sup> R W de Vrey, *Towards a European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers 2006) at 17; The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organisation, signed in Marrakesh, Morocco on 15 April 1994, as a result of the Uruguay Round negotiations of 1986-94

<sup>514</sup> WTO, 'Frequently asked questions about TRIPS [trade-related aspects of intellectual property rights] in the WTO' (wto.org) < [https://www.wto.org/english/tratop\\_e/trips\\_e/tripfq\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm) > accessed 11<sup>th</sup> November 2018

<sup>515</sup> The TRIPS Agreement, Article 2

<sup>516</sup> R W de Vrey, *Towards a European Unfair Competition: A Clash Between Legal Families* (1st edn, Martinus Nijhoff Publishers 2006) at 18

<sup>517</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), at 543-546

<sup>518</sup> S. D. Anderman (ed), *The Interface Between Intellectual Property Rights and Competition Policy* (Cambridge University Press 2007), at p. 7

Articles 7, 8, 13, 31 and 40. Article 40 of the TRIPS Agreement was mainly set to control anti-competitive practices in contractual licences,<sup>519</sup> as well as licensing arrangements which can also include refusal to license.

Generally speaking, the objectives of the TRIPS Agreement are used to achieve competitive balances. The Agreement has established that Members can adopt appropriate measures in their lawmaking order to prevent abuses of IPRs, and limitations to the transfer of technology or trade.<sup>520</sup> Moreover, Members can adopt necessary procedures to prevent abuse of dominance by right holders, as well as anti-competitive licensing arrangements as per Article 40 of the TRIPS which can be read

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<sup>519</sup> The TRIPS Agreement, Article 40 states the following:

*1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.*

*2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grant back conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.*

*3. Each Member shall enter, upon request, into consultations with any other Member which has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultations has been addressed is undertaking practices in violation of the requesting Member's laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislation, without prejudice to any action under the law and to the full freedom of an ultimate decision of either Member. The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall cooperate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member.*

*4. A Member whose nationals or domiciliaries are subject to proceedings in another Member concerning alleged violation of that other Member's laws and regulations on the subject matter of this Section shall, upon request, be granted an opportunity for consultations by the other Member under the same conditions as those foreseen in paragraph 3.*

<sup>520</sup> The TRIPS Agreement, Article 8.2 states 'Appropriate measures, provided they are consistent with the provisions of the Agreement, may be needed to prevent abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.'

alongside Article 8.2 of the same Agreement.<sup>521</sup> Moreover, Article 31(k) has established that compulsory licences could be issued to remedy anti-competitive practices.<sup>522</sup>

### 1. Article 7 and 8 of the TRIPS Agreement

Articles 7<sup>523</sup> and 8.2 of the TRIPS Agreement have sought to set the framework for achieving competitive balances between Member countries. It has been indicated that the term 'should' that is used in Article 7 of the Agreement makes it confusing as to why this provision has been included in the substantive text, rather than the perambulatory clause of the Agreement.<sup>524</sup> Nevertheless, it has been suggested that Article 7 of the Agreement has provided significant context for the interpretation of the other Articles and their intended purposes as per the duties set in the WTO jurisprudence.<sup>525</sup>

Additionally, Article 8.2 of the TRIPS Agreement has stated some of the objectives and principles related to competition law. The Article has highlighted that Member countries can adopt appropriate measures to stop abuses of IPRs, as well as conduct that add unreasonable restraint on trade or that have an adverse effect on knowledge transfer.<sup>526</sup> This Article is essential as it has provided leeway for competition law

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<sup>521</sup> T. Thnah Nguyen and H, H, Lidgard, 'TRIPS Competition Flexibilities' (Unpublished contribution to Journal, Lund University Libraries) < <https://lup.lub.lu.se/search/publication/516c1376-0c85-4217-bfc8-ab63c4e98dff>> accessed on 7 September 2018

<sup>522</sup> The TRIPS Agreement, Article 31(k)

<sup>523</sup> The TRIPS Agreement, Article 7 states the following:

*The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.*

<sup>524</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at 93

<sup>525</sup> D. Shanker, 'The Vienna convention on the Law of Treaties, the Dispute Settlement System of the WTO and the Doha Declaration on the TRIPS' [2002] 36(4) *Journal of World Trade* 721-772, at p. 721

<sup>526</sup> The TRIPS Agreement, Article 8.2 states the following:

*Appropriate measures, provided they are consistent with the provisions of the Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.*

intervention in circumstances of abuse of dominant position by right holders.<sup>527</sup>

However, one significant limitation is the fact that this Article did not oblige WTO countries to include competition policies in their jurisdictions.<sup>528</sup>

Moreover, it can be suggested by the title 'Principles' of Article 8(2) that the main objective of treaty-makers was not to extensively regulate competition law matters as they have left the regulation of anti-competitive or abusive conduct to the Member countries' discretion.<sup>529</sup> This argument is evident by the content of the Article itself which states that *'appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of IP rights by right holders.'*<sup>530</sup> The choice of words is interesting, for example 'may be needed' reveals the non-exhaustive factor of this provision.<sup>531</sup> Furthermore, the expression of 'appropriate' measures that deal with 'unreasonable' trade practices portrays that the TRIPS Agreement considers 'weighing and balancing'<sup>532</sup> as a way of ensuring the *'clearly excessive remedies, which unnecessarily put the intellectual property altogether in*

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<sup>527</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. 293

<sup>528</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at 111

<sup>529</sup> Abbott, 'Are the Competition Rules in the WTO TRIPS Agreement Adequate?', 7 *J Int'l Economic L* (2004) 692; see also UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), at 541, 546; Anderson, 'The Interface Between Competition Policy and Intellectual Property in the Context of the International Trading System', 1 *J Int'l Economic L* (1998) 661, at 662; Nguyen, 'Competition Rules in the TRIPS Agreement - The CFI's Ruling in Microsoft v. Commission and Implications for Developing Countries', 39 *Int'l Rev IP and Competition L* (2008) 561

<sup>530</sup> The TRIPS Agreement, Art 8(2)

<sup>531</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), at 546

<sup>532</sup> WTO AB Reports, *Korea - Beef*, WT/DS161/AB/R, WT/DS169/AB/R, 11 Dec. 2000, at para. 164: the Appellate Body stated that every appraisal of whether a measure was 'necessary' would involve a process of weighing and balancing a series of legal and factual factors. See Trade Barriers Reg. 356/95 amending Reg. 3286/94 laying down Community procedures in the field of the Common Commercial Policy in order to ensure the exercise of the Community's rights under international trade rules, in particular those established under the auspices of the World Trade Organization, OJ (1995) L 41/3, Preamble: '[w]hereas it is appropriate to confirm that the Community must act in compliance with its international obligations and, where such obligations result from agreements, maintain the balance of rights and obligations which it is the purpose of those agreements to establish'.

*jeopardy*<sup>533</sup> are prevented or stopped. Therefore, it seems that the TRIPS Agreement has depended on the Members States to link the proportionality of the procedures adopted with the unlawful conduct in question.<sup>534</sup>

## 2. Article 40 of the TRIPS Agreement

The title of Article 40, in itself,<sup>535</sup> has addressed issues which relate to practices and conditions of anti-competitive licensing. This Article has indicated that it has been commonly agreed between WTO members that some licensing conduct can be anti-competitive. This joint agreement is due to such practices that may have various negative impacts on trade and could obstruct technological transfer and distribution.<sup>536</sup>

Article 40.2<sup>537</sup> has established that Member countries can identify in their law abusive licensing conduct. As mentioned earlier, Article 8(2) of the Agreement has further implied the fact that WTO members could implement appropriate measures to stop and govern practices that abuse IP rights.<sup>538</sup>

Generally, licensing must be seen as pro-competitive to the level that it legalises third party's access and use of proprietary technology.<sup>539</sup> Nonetheless, there are specific

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<sup>533</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), at 554.

<sup>534</sup> D. Gervais, *The TRIPS Agreement: Drafting History and Analysis* (2008), at para. 2.126; S. Ricketson, *The Berne Convention for the Protection of Literary and Artistic Works 1886-1986* (1987), at 211. The Berne Convention is available at: <[http://www.wipo.int/treaties/en/ip/berne/trtdocs\\_wo001.html](http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html)>

<sup>535</sup> The TRIPS Agreement, Art. 40 'control of anti-competitive practices in contractual licences'

<sup>536</sup> The TRIPS Agreement, Art. 40(1) states the following: '*Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.*'

<sup>537</sup> The TRIPS Agreement, Art 40(2) states the following:

*Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.*

<sup>538</sup> The TRIPS Agreement, Art. 8(2)

<sup>539</sup> C Correa and A Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 295; Paragraph 5 of the introductory text to Commission Regulation (EC) No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the [EC] Treaty to categories of technology transfer agreements (Official Journal of the European Union 2004 L 123/111)

kinds of licensing arrangements that are likely to be used in abusive means, such as grant back obligations.<sup>540</sup> The TRIPS Agreement has allowed Members countries to *'adopt, consistently with the other provision, appropriate measures to prevent or control such practices...in light of the relevant laws and regulations of that Member.'*<sup>541</sup> The requirement of appropriate measures that must be consistent with the other Articles of the Agreement suggests that any TRIPS-mandated control of restricting practices should not be considered as an exclusion to the IP protection's substantive minimum standards. In the negotiations of the Uruguay Round, this qualification was not agreed by the 1991 Dunkel Draft,<sup>542</sup> which was mainly comparable to the final text of the Agreement. Prior drafts including the Brussels Draft of December 1990<sup>543</sup> and the Anell Draft of 23 July 1990<sup>544</sup> did not cover the requirement of such consistency.<sup>545</sup>

Regardless, international law was further enhanced by the enactment of Article 40 of the TRIPS Agreement, given that the discussion on anti-competitive conduct during the start of the Uruguay Round was pushed aside.<sup>546</sup> Competition law and IPRs can be read within Article 40 as complementary to one another, whereby both aim to achieve a balance of rights.<sup>547</sup> Additionally, Article 40 has added further elements to international

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<sup>540</sup> OECD, 'Intellectual Property and Competition policy in the biotechnology industry', (Policy Brief, June 2005), p. 4 <http://oecd.org/daf/competition/42334730.pdf> accessed 30/11/201; a grant back has been identified here as a *'provision in a licensing agreement that requires the licensee to grant a licence on any improvements its patents related to the original invention back to the licensor'*

<sup>541</sup> The TRIPS Agreement, Ar. 40(2)

<sup>542</sup> Trade Negotiations Committee, Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, MTN.TNG/W/FA, 20 December 1991

<sup>543</sup> Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 December 1990

<sup>544</sup> Chairman's Report to the GNG, Status of Work in the Negotiating Group, Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Group on MTN.GNG/NG11/W/76, 23 July 1990

<sup>545</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), Chapter 29, p. 556

<sup>546</sup> H. Ullrick, 'Technology Protection According to TRIPS: Principles and Problems' in F.K. Beier and G. Schricker (eds), *From GATT to TRIPS- the Agreement on Trade-Related Aspects of Intellectual Property Rights* (Wiley-VCH, 1996), at p.407

<sup>547</sup> C. Correa, 'Review of the TRIPS Agreement: Fostering the Transfer of Technology to Developing Countries' [2005] 2 The Journal of World Intellectual Property, 939-960

law as it was the first to introduce provisions related to international businesses' licensing arrangements.<sup>548</sup> Nevertheless, Article 40 did not specify conditions that are to be considered as anti-competitive and thus, lacks any substantive indicators as to what conditions are to be considered unlawful.<sup>549</sup> Further, Article 40 of the Agreement is not mandatory in character, rather an advisory provision. However, it has been suggested that public international law would be fulfilled when WTO law is read in good faith.<sup>550</sup> Thus, it has been indicated that the term 'anti-competitive practices' must be read broadly to adhere to public international law.<sup>551</sup>

Indeed, Member countries can embrace 'appropriate measures' under Article 40 of the TRIPS Agreement in order to control anti-competitive practices.<sup>552</sup> However, such flexibilities raise concerns over matters related to access in the circumstances of absolute refusal to transfer technology. Although the outright refusal to license is not necessarily considered abusive,<sup>553</sup> it was held by the ECJ in the *RTE* case that outright refusal to license can be considered as abusive conduct.<sup>554</sup> Regardless, this matter is more complex in information-based industries such as IT and telecom as the creation of blocks for additional innovation that is covered by IPR's protection is important to

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<sup>548</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. 305

<sup>549</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. 304-305

<sup>550</sup> WTO, *United States-Standards for Reformulated and Conventional Gasoline-Report of the Appellate Body* (29 April 1996) AB-1996-1 and WT/DS2/AB/R

<sup>551</sup> The TRIPS Agreement did not define 'Anti-competitive practices' and the WTO Reference Paper on Basic Telecommunications only listed three anti-competitive practices as seen in WTO, *WTO Reference Paper on Basic Telecommunications* (Reference Paper, 1996)  
<[http://www.wto.org/English/tratop\\_e/serv\\_e/telecom\\_e/tel23\\_e.htm](http://www.wto.org/English/tratop_e/serv_e/telecom_e/tel23_e.htm)> accessed on 7<sup>th</sup> September 2018

<sup>552</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. at 304-305

<sup>553</sup> The US Supreme Court held in *Dawson Chemical Co. v. Rohm & Haas* [1980] 448 US 175, at 215 that refusal to license as patent abuse would essentially deprive the patent holder of the right to exclusively exploit the patent.

<sup>554</sup> *RTE & ITP v. Commission* [1995] 4 CMLR 718, at [49]. The ECJ held that, in some instances, a refusal to license IPRs may actually be an abuse of dominant position if it can be shown that the refusal was unjustified

create a larger economy in these sectors.<sup>555</sup> It can be seen in countries of stronger economies that licensing issues can usually be resolved under voluntary licences, yet it has been suggested that resolving such issues in countries of weaker economies is near impossible.<sup>556</sup> Accordingly, the existing flexibility of ‘appropriate measures’ has been argued to be a significant tool for countries with weak or relatively weak economies to challenge standards adopted in countries of stronger economies.<sup>557</sup>

Moreover, Article 40.1 of the Agreement has been considered to have a valuable direct application to Article 8.2 of the same Agreement. Nonetheless, Article 40.1 seems to add further restrictions as seen in the used term ‘impede’ as opposed to the less restrictive term ‘adversely affect’ used in Article 8.2 of the Agreement.<sup>558</sup> Indeed, Article 40 has added more restrictions to licensing. Nevertheless, the terms ‘practices or conditions’ appear to indicate clauses of a contract and situations that involve the licensing arrangements such as its conclusion can fall under Article 40.1 of the TRIPS Agreement. Therefore, the Article can also include matters related to refusal to license.<sup>559</sup>

The phrase used in Article 40.1 TRIPS Agreement should be comprehended broadly, as it implies that the provision is not only concerned with the licence itself, but also the entire conduct concerning the granting and execution of licences. Therefore, Article 40.1 did not only cover bilateral licensing agreements, but it also has included

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<sup>555</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. 308

<sup>556</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. 308

<sup>557</sup> UNCTAD, *The TRIPS Agreement and Developing Countries*, (UNCTAD/ITE/1), Geneva (1997), at para 268

<sup>558</sup> Article 40 is one of the few provisions in WTO agreements that specifically deals with some types of restrictive practices. See C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at 398

<sup>559</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at p. 399

plurilateral agreements like unilateral conduct and refusals to license.<sup>560</sup> Furthermore, Article 40.1 has been set to control matters related to restraint of competition, given that it also has covered matters that have '*adverse effects on trade and possibly impeding the transfer and dissemination of technology.*'<sup>561</sup> It has been, thus, suggested that impending competition is an unnegotiable condition under Article 40.1 of the Agreement.<sup>562</sup>

There are two possible views as to the legal impact of Article 40.1 provision. The first interpretation can suggest that the provision is a directory and non-committal provision.<sup>563</sup> Nevertheless, it offers protection to Member countries from breaches under the TRIPS when they control restrictive practices in licensing agreements, given that Article 40.2 of the Agreement is fulfilled.<sup>564</sup> The second interpretation can imply that Article 40.1 and Article 7 of the Agreement, read together, impose an obligation on Members to address the exact and specific types of anti-competitive practices.<sup>565</sup> This is mainly since the TRIPS Agreement did not cover all aspects of IPRs' misuses. Examples on misuses of IPRs that are not subject to Article 40 include restrictive conduct or conduct that affect technology transfer which falls outside the context of

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<sup>560</sup> C Correa and A Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008) 317; UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005), Chapter 29, p 556. With respect to refusal to license, it needs to be borne in mind that in most jurisdictions there is no general antitrust obligation on the part of the IP holder to license his exclusive rights; E. M. Fox, 'Can Antitrust Policy Protect the Global Commons from the Excesses of IPRs?' *International Public Goods & Transfer of Technology under a Globalized Intellectual Property Regime* (J. Reichmann & K. Maskus, eds, Cambridge University Press, 2005)

<sup>561</sup> The TRIPS Agreement, Art. 40(1)

<sup>562</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at p. 399

<sup>563</sup> A. Heinemann, 'Antitrust Law of Intellectual Property in the TRIPS Agreement of the World Trade Organisation' in F.K. Beier and G. Schricker (eds) *From GATT to TRIPS: The Agreement on Trade-Related Aspects of Intellectual Property Rights* (VCH Publishers 1996); H. Ullrick, 'Technology Protection According to TRIPS: Principles and Problems' in F.K. Beier and G. Schricker (eds), *From GATT to TRIPS- the Agreement on Trade-Related Aspects of Intellectual Property Rights* (Wiley-VCH, 1996), at p.245

<sup>564</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007) at p. 399-400

<sup>565</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005) at 555-556

licensing, like delimitation agreements, clauses on IP in R&D contract, also all unilateral practices by undertakings that are in a dominant position.<sup>566</sup>

Article 40.2 did not specifically oblige Members to employ necessary measures to control anti-competitive practices, yet it did explicitly refer to ‘adverse effect on competition’.<sup>567</sup> Therefore, the control of licensing arrangements is within the realm of competition law whereby considerations of the impacts on the transfer of technology are inadequate grounds to decide a compulsory licence when the practice is not abusive or does not have an adverse effect on competition.<sup>568</sup> It has been suggested that standards must be applied here to examine the adverse effects of licensing arrangements on competition, such as the US rule of reason doctrine used to measure whether the circumstances of the licensing arrangements have an adverse impact on competition in the relevant market,<sup>569</sup> as well as other standards or tests mentioned in the literature review.<sup>570</sup>

Article 40.3 has referred to the consultation system to help determine anti-competitive licensing arrangements. However, the second country is not obligated to commence an examination of conduct that is considered as anti-competitive in the first country.<sup>571</sup> Therefore, the WTO Dispute Settlement body cannot be activated by a Member under Article 40.3 unless the anti-competitive conduct in question was proven to have a direct effect in the second country as seen in WTO panel reports of *Argentina-Hide and*

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<sup>566</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005) Chapter 29, p 556

<sup>567</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at 401

<sup>568</sup> Herbert J. Hovenkamp, *Antitrust* (2<sup>nd</sup> edn. MN: West Publishing 1993), at 336

<sup>569</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at p. 402

<sup>570</sup> Such as the exceptional circumstances test or the essential facilities test

<sup>571</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007) at p. 404-405

*Leather*<sup>572</sup> and *Japan-Film*.<sup>573</sup> Additionally, Article 40.4 has permitted Members of the Agreement to seek consultation if their residents are subject to measures in other Member states, whereby Members can demand from the host Member to respect the freedom of the home country and its authorities as per Article 40.3.<sup>574</sup>

Interestingly, it has been suggested that Article 40 is only fully implemented when all Member countries include sufficient measures, guidance and adequate procedures for competition disputes.<sup>575</sup> The following section examines Articles 13 and 31 of the TRIPS Agreement which can be used as a corresponding provision to Article 40 as it further establishes that compulsory licences could be granted as a remedy to anti-competitive practices.

### 3. Article 13 of the TRIPS Agreement

Article 13 of the Agreement has highlighted that the legitimate interests of right-holders must not be unreasonably met in special cases that add restrictions or exceptions to exclusive rights conferred to right holders.<sup>576</sup> This Article has indicated that the legitimate expectations of right-holders must be met and thus, countries must not impose unreasonable limitations on their exclusive rights.

It can, thus, be argued that EU judiciary and competition authorities must aim to safeguard the legitimate expectations and interests of right holders when interpreting EU competition law to find an abuse of dominance. Despite the consistent application

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<sup>572</sup> WTO, *Argentina-Measures Affecting the Export of Bovine Hide and the Import of Finished (Argentina-Hide and Leather)- Panel Report* (February 2001) WT/DS155/R, paras 11.49 and 11.51

<sup>573</sup> WTO, *Japan- Measures Affecting Consumer Photographic Film and Paper (Japan-Film)- Panel Report* (April 1998) WT/DS44/R, para 10.41

<sup>574</sup> C. Correa, *Trade Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (Oxford University Press, 2007), at p. 406

<sup>575</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at p. 309

<sup>576</sup> The TRIPS Agreement, Article 13

of the international obligation falling under Article 13 TRIPS by the Commission in the *Microsoft* decision,<sup>577</sup> this does not mean that there is no such risk in future cases.

#### 4. Article 31 of the TRIPS Agreement

Article 31 of the Agreement has expanded the exceptions which have been established in Article 5(A) of the Paris Convention.<sup>578</sup> Article 31 TRIPS Agreement has permitted countries to embrace measures which block the conduct that have an adverse impact on competition.<sup>579</sup> The typical form of remedial action is compulsory licensing, whereby the implementation of Article 5(A) of the Paris Convention must comply with the requirements recognised in Article 31 of the Agreement. Resorting to compulsory licensing to prevent abuses can be supported by both the exception of public interest, as well as, the measures that have been covered in Article 8 of the TRIPS Agreement.<sup>580</sup>

Article 31 of the Agreement has referred to the non-exhaustive list of circumstances under which compulsory licences can be issued.<sup>581</sup> The different grounds said in Article 31 of the Agreement mainly refer to anti-competitive practices, public non-commercial use and the case of an emergency.<sup>582</sup> This Article has just set out the requirements that should be met '*where the law of a Party allows for the other use*'<sup>583</sup> and exclusive of the

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<sup>577</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final

<sup>578</sup> C Correa and A Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 314; UNCTAD, 1994

<sup>579</sup> The TRIPS Agreement, Art. 31

<sup>580</sup> C Correa and A Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 314; UNCTAD, 1994

<sup>581</sup> An administrative or judicial body can decide to grant a compulsory license to a third party to exploit an invention without the authorisation of the IPR owner. This type of license is usually non-voluntary; it is obtained without the IPR holder's consent. At the international level, compulsory licences have been formally established as early as Article 5(A)(2) of the Paris Convention of 1883. Compulsory licensing aims to achieve balance of rights and obligations set by the TRIPS Agreement, particularly through speeding the process of transfer and dissemination of technology.

<sup>582</sup> The TRIPS Agreement, Article 31

<sup>583</sup> TRIPS Agreement, Article 31

approval of the relevant IP owner. Therefore, compulsory licences can be granted for other grounds than those explicitly referred to in Article 31 of the Agreement.<sup>584</sup>

Article 31(k) has referred explicitly to competition law matters<sup>585</sup> in order to balance strong IPRs that can have an adverse impact on competition.<sup>586</sup> However, the TRIPS Agreement did not indicate any specific standards to govern anti-competitive practices. The Agreement has allowed its Members to implement legislative structures within their jurisdictions that govern anti-competitive practices that stem from abusive and restrictive uses of IPRs. Article 31(k) of the TRIPS Agreement has stipulated that relevant authorities are to be excused from the requirement of negotiating with the patent owner before the granting of a compulsory licence. Additionally, relevant authorities have not been required to safeguard that the IPR in question is mainly for a national market if an administrative authority found that the practice of right holders is, indeed, anti-competitive.<sup>587</sup>

Indeed, a patent-holder must be paid compensation with licences that are issued to remedy anti-competitive practices. Nevertheless, a reasonable reward given to an IP holder could be lessened when anti-competitive abuse is found.<sup>588</sup> It has been suggested that national authorities may also interpret Article 31(k) in a way that would

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<sup>584</sup> TRIPS Agreement, Article 31

<sup>585</sup> The TRIPS Agreement, Article 31(k) states the following:

*Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorisation if and when the conditions which led to such authorisation are likely to recur.*

<sup>586</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at 380-381

<sup>587</sup> The TRIPS Agreement, Art. 31(k)

<sup>588</sup> The TRIPS Agreement, Art. 31(k)

lessen the cost of reimbursement to be paid to the patent-holder or even provide 'royalty-free' licences.<sup>589</sup>

Furthermore, the TRIPS agreement did not contain any procedural standards that control restrictive conducts or subsequent solutions that could be applicable against these types of behaviours.<sup>590</sup> The varying interpretations of the wording of the Agreement can indicate that disputed matters can sometimes be left with vague answers.<sup>591</sup> It may not have been possible to take into account the changing political, scientific, technological and economic landscape by the drafters of the Treaty.<sup>592</sup> This could be evident by the fact that definitions of 'anti-competitive practices' and 'abuse' are not mainly a matter of focus in the Agreement, as it leaves it to domestic systems to deal with these matters.<sup>593</sup>

It has also been suggested that compulsory licencing Articles under the TRIPS Agreement have contained various vague terms which are most likely intentional for different reasons. Indeed, these ambiguities make it harder to determine valid circumstances for compulsory licensing.<sup>594</sup> Arguably, the lack of specificity was meant to provide countries with some room to decide the grounds for granting compulsory licencing. From a rule of law perspective, decreasing these ambiguities would progress

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<sup>589</sup> C. Correa, 'Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries' (1999) South Centre T.R.A.D.E found at <

[https://www.iatp.org/files/Intellectual\\_Property\\_Rights\\_and\\_the\\_Use\\_of\\_Co.pdf](https://www.iatp.org/files/Intellectual_Property_Rights_and_the_Use_of_Co.pdf)> last accessed on 08/03/2018; In the US various compulsory licenses have been determined as a remedy to anti-competitive conduct. In some circumstances, such licenses have been determined as 'royalty free'.

<sup>590</sup> The TRIPS Agreement, Art. 40(2) provides a non-exhaustive list of examples of restrictive practices.

<sup>591</sup> S. Subramanian, 'EU obligations to the TRIPS Agreement: EU *Microsoft* Decision' [2010] 21(4) European Journal of International Law 997-1023

<sup>592</sup> Chayes and Chayes, 'On Compliance', in B. Simmons and R. Steinberg (eds), *International Law and International Relations* (2006), at 77, 78.

<sup>593</sup> WTO Panel Report, *Mexico - Telecoms*, WT/DS204/R, 2 Apr. 2004, at para. 7.230: 'the word "anti-competitive" has been defined as "tending to reduce or discourage competition." On its own, therefore, the term "anti-competitive practices" is broad in scope, suggesting actions that lessen rivalry or competition in the market'.

<sup>594</sup> V. Gupta, 'A Mathematical Approach to Benefit-Detriment Analysis as a Solution to Compulsory Licensing of Pharmaceuticals under the TRIPS Agreement' [2005] 13 Cardozo J. Int'l & Comp. L, 631

the effectiveness of utilising compulsory licencing, and could also reassure WTO Members that decisions of compulsory licences have based on fairgrounds. The decrease in vagueness could also reduce the pressure and time on countries deciding whether granting compulsory licencing is indeed diplomatic.

Therefore, it has been argued that a WTO clarification on the exact scope of Article 31 is needed.<sup>595</sup> Such clarifications can prevent or decrease concerns of dispute settlement proceedings.<sup>596</sup>

#### 5. The Conditions of Compulsory Licences under Article 31

As indicated above, the Doha Declaration on TRIPS and Public Health has affirmed that WTO members can conclude their measures for compulsory licences,<sup>597</sup> yet Article 31 of the Agreement has still established various conditions for the granting compulsory licences. All compulsory licences must adhere to the set of requirements established in Article 31. Some of these conditions incorporate the circumstances of a voluntary licence whereby the anticipated licensee must have made '*efforts to obtain authorisation from the right holder on reasonable terms and conditions*'<sup>598</sup> and that '*such efforts have not been successful within a reasonable period of time*'.<sup>599</sup> Therefore, a compulsory licence could be issued if an individual applied for a licence and following efforts made to discuss a voluntary licence with the right-owner on reasonable terms

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<sup>595</sup> J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer International Law, 2001), at 381

<sup>596</sup> M. Stillwell and E. Turek, 'Towards a Full Review of the WTO's TRIPS Agreement under Article 71.1' (CIEL, April 2001), at 8 <[https://www.ciel.org/wp-content/uploads/2015/03/Assessment\\_Trips\\_article711.pdf](https://www.ciel.org/wp-content/uploads/2015/03/Assessment_Trips_article711.pdf)> accessed on 7<sup>th</sup> September 2018

<sup>597</sup> WTO, 'Compulsory licensing of pharmaceuticals and TRIPS' (TRIPS AND HEALTH: FREQUENTLY ASKED QUESTIONS, 2006) <[https://www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faq\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/public_health_faq_e.htm)> accessed 18 February 2018; Article 31 (b)

<sup>598</sup> The TRIPS Agreement, Article 31 (b)

<sup>599</sup> The TRIPS Agreement, Article 31(b)

and they have failed to reach an agreement.<sup>600</sup> This Article has obligated a licence seeker to attempt to commence negotiations for a licence with the right holder. In addition, a proprietor should be made alert of the use of the IPR as soon as it is within the reasonable practice of public non-commercial use.<sup>601</sup> It must be mentioned, nevertheless, this condition could be neglected in situations of public interest, national emergency and other events of great urgency or 'public non-commercial use'.<sup>602</sup> This exception has been set out in that Article 31(c) which relates to 'semi-conduction technology', whereby a compulsory licence can be granted only for public non-commercial use and to remedy anti-competitive practices.<sup>603</sup>

The Agreement has also established that the extent and length of authorisation are limited to the reason under which it has been approved.<sup>604</sup> This condition has indicated limitations that can relate to both the scope and length of the licence. Nevertheless, a possible licensee can still request a comprehensive licence that extends until the expiry period of a patent.<sup>605</sup> In reality, up until now, this has been common under the Paris Convention. It has been indicated that the commencement of investments would usually be necessary for the licensee, to obtain a licence that would last throughout the existence of a patent.<sup>606</sup>

Another condition relates to the fact that any authorisation should not be exclusive and assignable so that the patent owner can also use and benefit from the patent even in

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<sup>600</sup> WTO 'Compulsory licensing of pharmaceuticals and TRIPS (TRIPS AND HEALTH: FREQUENTLY ASKED QUESTIONS)' (wto.org, 2006)

<[https://www.wto.org/english/tratop\\_e/trips\\_e/public\\_health\\_faq\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/public_health_faq_e.htm)> accessed 18 February 2018

<sup>601</sup> The TRIPS Agreement, article 31 (b)

<sup>602</sup> The TRIPS Agreement, Article 31(b)

<sup>603</sup> The TRIPS Agreement, Article 31(c)

<sup>604</sup> The TRIPS Agreement. Article 31c

<sup>605</sup> C Correa 'The GATT Agreement on Trade-Related Aspects of Intellectual Property Rights: new standards for patent protection' [1994] 16 (8) European Intellectual Property Review 327-335

<sup>606</sup> C Correa 'The GATT Agreement on Trade-Related Aspects of Intellectual Property Rights: new standards for patent protection' [1994] 16 (8) European Intellectual Property Review 327-335

the circumstance of a compulsory licence. This condition also suggests that more than one compulsory licence could be issued for a particular patent.<sup>607</sup>

Moreover, a significant alteration is presented in the case of compulsory licensing which is now commonly applied to the term of the licence. Article 31 (g) has set out the standard for the dismissal of a compulsory licence which includes '*the circumstances which led to it cease to exist and are unlikely to recur*'.<sup>608</sup> Thus, authorities can review, when requested, the continual presence of such situations. Nonetheless, the final dismissal must still provide appropriate protection of the legitimate interests of the individuals<sup>609</sup> that are allowed to use the patent. In other words, the protection of the licensee's interests cannot be disadvantaged when genuine arrangements have been made to use the invention. This requirement makes sense, given that no one would be interested in applying for a licence that may be terminated at any given moment without justifiable reasons.

Another condition set under Article 31 of the Agreement is that a right holder should be rewarded appropriate remuneration whilst taking into consideration the economic value.<sup>610</sup> This clause can be applied to any type of compulsory licence.<sup>611</sup> The need to remedy anti-competitive practices can also be taken into consideration when deciding a value of remuneration in such circumstances.<sup>612</sup> It must be mentioned here that a

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<sup>607</sup> The TRIPS Agreement, Article 31(d) and (e)

<sup>608</sup> The TRIPS Agreement, Article 31(g)

<sup>609</sup> The TRIPS Agreement, Article 31(g)

<sup>610</sup> The TRIPS Agreement, Article Article 31(h)

<sup>611</sup> In the case of licences to remedy anti-competitive practices, the need to correct them 'may be taken into account in determining the amount of remuneration' (Article 31k). As the objective is to restore healthy competition, this provision would allow for a reduced remuneration or even for a 'free-royalty' licence as granted under US anti-trust law. See P. Mendes da Costa, 'Patent Harmonization through GATT: TRIP or Trap?', Patent World, September 1992; and W. Fugate, Foreign Commerce and Antitrust Law, Vol. II, 4th edn, Little, Brown & Co., 1991.

<sup>612</sup> C. Correa and A. Yusuf, Intellectual Property and International Trade: The TRIPS Agreement (2nd edn, Kluwer Law International 2008), 315; UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (2005) Chapter 29, p 557

significant level of independent interpretation is left at the national level to determine when a reward is 'adequate'.<sup>613</sup> Indeed, the Article has indicated that the adequacy is to be judged in the circumstances of each case whilst taking into consideration 'the economic value of the authorisation'. However, various factors can have an impact on the circumstances of each case, such as the country where the patent operates and the purpose of the licence. Moreover, the 'economic value' can depend on multiple elements such as the market's size, the length of technology's age, the rate of desirability in the relevant division, the exposure, and the level of competition of alternative products.<sup>614</sup>

From a rule of law perspective, the word 'adequate' could be further explained to provide some defined guidance to domestic judicial systems. There are different potential understandings of the word 'adequate'. One potential interpretation of the word 'adequate' could indicate the compensation that the right holder must attain within the length of the transaction.<sup>615</sup> Another possible interpretation could take into consideration elements like the aids that the right holder finally obtained to grow the patent, the R&D duty of the right holder and the level to which development costs have been repaid.<sup>616</sup> Nevertheless, the TRIPS Agreement has ascertained that the right holder should be capable of requesting a review of the 'legal validity' of any judgement

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<sup>613</sup> C. Correa, 'The GATT Agreement on Trade-Related Aspects of Intellectual Property Rights: new standards for patent protection' [1994] 16(8) European Intellectual Property Review 327-335; This is the only provision in the draft Agreement that refers to 'adequate' remuneration. Whereas, Articles 14.4 and 70.4 use 'equitable' remuneration instead.

<sup>614</sup> C. Correa 'The GATT Agreement on Trade-Related Aspects of Intellectual Property Rights: new standards for patent protection' [1994] 16 (8) European Intellectual Property Review 327-335

<sup>615</sup> H. Small, 'The EEC Draft Directive on Rental Rights and Other Rights', [1991] 3(4) Intellectual Property in Business, at 21.

<sup>616</sup> C. Correa 'The GATT Agreement on Trade-Related Aspects of Intellectual Property Rights: new standards for patent protection' [1994] 16 (8) European Intellectual Property Review 327-335

by a judicial authority regarding a decision made for a compulsory licence, as well as the decided remuneration.<sup>617</sup>

As indicated above, Article 31 of the TRIPS Agreement controls anti-competitive practices in non-voluntary licences.<sup>618</sup> Article 31 of the Agreement supplements the substantive provision provided in Article 5(A) in the Paris Convention<sup>619</sup>, as it has recognised the authority of Member countries to adopt legislative measures that are set to prevent abuses resulting from the exclusivity of the rights conferred under patent law, such as failure to work.<sup>620</sup> Nevertheless, it can be noted that the TRIPS Agreement is generally broad in dealing with anti-competitive practices.

WTO Members are permitted, under the TRIPS Agreement, to embrace measures to control anti-competitive conduct. The Agreement did not define the term of abuse as it leaves it for each Member to decide its definition. Therefore, differences could arise between national laws as they deliberate what is to be considered as an abusive practice. National rules can be consistent with the Agreement and can be suitably modified to meet the set conditions when the broad standards existing under the TRIPS Agreement provide a better comprehension of the underlying concepts and standards.<sup>621</sup>

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<sup>617</sup> The TRIPS Agreement, Articles 31(i) and (g)

<sup>618</sup> The TRIPS Agreement, Art. 31

<sup>619</sup> C. Correa and A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 314

<sup>620</sup> Paris Convention for the Protection of Industrial Property of 20 March 1883, WIPO (1979), available at <[http://www.wipo.int/wipolex/en/treaties/text.jsp?file\\_id=287556](http://www.wipo.int/wipolex/en/treaties/text.jsp?file_id=287556)> accessed on 6th December 2017

<sup>621</sup> C. Correa and A. Yusuf, *Intellectual Property and International Trade: The TRIPS Agreement* (2nd edn, Kluwer Law International 2008), 326

### III. REFUSAL TO LICENSE IN DIFFERENT JURISDICTIONS, BOTH INTERNATIONAL AND COUNTRY SPECIFIC REGIME

At an international level, the TRIPS Agreement has indicated that WTO Member countries have to adhere to the requirements of the main conventions of WIPO. This principle includes the adherence to the Paris Convention, as well as, the Berne Convention on Copyright.<sup>622</sup> Therefore, the TRIPS Agreement can be referred to as 'Berne and Paris Plus Agreement'.<sup>623</sup> In principle, the integration of WIPO into the TRIPS Agreement would indicate a successful combination of IP standards with trade goals that lacks any conflicts.<sup>624</sup> However, this may not always be as straightforward as it may appear to be. An example on this can be in *Havana Club*<sup>625</sup> where the Appellate Body had indeed highlighted the primacy of the WIPO instrument over the TRIPS Agreement,<sup>626</sup> yet it can be noted that sometimes conflicts could be raised by a concerned party regarding a potential conflict between the TRIPS and WIPO instruments.

In addition, the WIPO have conducted a survey on the treatment of refusal to license by various countries in order to highlight the differences between country specific regimes.

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<sup>622</sup> The TRIPS Agreement, Art. 2(2) states the following: '*Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.*'

<sup>623</sup> WTO, 'Frequently asked questions about TRIPS [trade-related aspects of intellectual property rights] in the WTO' (wto.org) < [https://www.wto.org/english/tratop\\_e/trips\\_e/tripfq\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm) > accessed 11<sup>th</sup> November 2018

<sup>624</sup> Graeme Dinwoodie, 'Designing a Global Intellectual Property System Responsive to Change: The WTO, WIPO and Beyond (with R. Drefuss) [2009] 46 House Law Review 1188-1233, at 1201

<sup>625</sup> WTO AB Reports, U.S-Section 211 of the Omnibus Appropriations Act of 1998 WT/DS176/AB/R 2<sup>nd</sup> Jan 2002

<sup>626</sup> WTO AB Reports, U.S-Section 211 of the Omnibus Appropriations Act of 1998 WT/DS176/AB/R 2<sup>nd</sup> Jan 2002, at 333-41 it was stated by the Appellate Body the following: '*To adopt the Panel's approach would be to deprive Article 8 of the Paris Convention... of any and all meaning and effect.*'

The following section examines the WIPO's development agenda and aims to highlight some of the different jurisdictions on refusal to license by both international treaties and country specific regimes, in order to position the relative importance of any differences or similarities.

#### A. WIPO's Developmental Agenda

This section examines the WIPO Development Agenda in providing further clarifications to the link between competition law and IPRs. The development of pro-competitive IPRs licensing, exchange of information and further clarifications have been highlighted in the 7<sup>627</sup>, 23<sup>628</sup>, and 32<sup>629</sup> Recommendations of the WIPO Development Agenda.<sup>630</sup>

The twenty-first session by the CDIP has presented a document in May 2018 which summarised the implementation of the Development Agenda by WIPO and programs within the Organisation.<sup>631</sup> The CDIP have outlined the status as of the end of December 2017 of the implementation of the Development Agenda's 7, 23 and 32 Recommendations in the twenty-first session as the following:

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<sup>627</sup> General Assembly for Immediate Implementation, 'The 45 Adopted Recommendations under the WIPO Development Agenda' (wipo.int, 2007) < <http://www.wipo.int/export/sites/www/ip-development/en/agenda/recommendations.pdf> > accessed 15 August 2018. Recommendation 7 states: *'Promote measures that will help countries deal with intellectual property-related anti-competitive practices, by providing technical cooperation to developing countries, especially LDCs, at their request, in order to better understand the interface between IPRs and competition policies.'*

<sup>628</sup> General Assembly for Immediate Implementation, 'The 45 Adopted Recommendations under the WIPO Development Agenda' (wipo.int, 2007) < <http://www.wipo.int/export/sites/www/ip-development/en/agenda/recommendations.pdf> > accessed 15 August 2018. Recommendation 23 states: *'[T]o consider how to better promote pro-competitive intellectual property licensing practices, particularly with a view to fostering creativity, innovation and the transfer and dissemination of technology to interested countries, in particular developing countries and LDCs.'*

<sup>629</sup> General Assembly for Immediate Implementation, 'The 45 Adopted Recommendations under the WIPO Development Agenda' (wipo.int, 2007) < <http://www.wipo.int/export/sites/www/ip-development/en/agenda/recommendations.pdf> > accessed 15 August 2018. Recommendation 32 states: *'To have within WIPO opportunity for exchange of national and regional experiences and information on the links between IPRs and competition policies.'*

<sup>630</sup> F. Gurry, 'Successful Technology Licensing' (wipo.net, 2015) [http://www.wipo.int/edocs/pubdocs/en/licensing/903/wipo\\_pub\\_903.pdf](http://www.wipo.int/edocs/pubdocs/en/licensing/903/wipo_pub_903.pdf) accessed on 15 August 2018

<sup>631</sup> Committee on Development and Intellectual Property (CDIP) 'Twenty-First Session' (wipo.net, 18 May 2018) [http://www.wipo.int/meetings/en/details.jsp?meeting\\_id=46438](http://www.wipo.int/meetings/en/details.jsp?meeting_id=46438) accessed 15 August 2018

1. Recommendation 7 has been under implementation since it has been introduced in the Development Agenda of 2007.<sup>632</sup> The Recommendation was also tackled in a 'Project on Intellectual Property and Competition Policy',<sup>633</sup> and an Evaluation Report has been submitted in the ninth session to the CDIP.<sup>634</sup>
2. Recommendation 23 has commenced implementation in January 2010. This Recommendation was also attended in the same Project mentioned above and Evaluation Reports.<sup>635</sup> Moreover, the Recommendation is currently being presented by the project on 'Intellectual Property Management and Transfer of Technology: Promoting the Effective Use of Intellectual Property in Developing Countries, Least Developed Countries and Countries with Economic in Transition' which has been accepted to commence implementation in 2018.<sup>636</sup>

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<sup>632</sup> Committee on Development and Intellectual Property, 'Twenty-First Session: Director General's Report on the Implementation of the Development Agenda' (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018

<sup>633</sup> Committee on Development and Intellectual Property 'Twenty-First Session: Director General's Report on the Implementation of the Development Agenda' (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. For further information, see Committee on Development and Intellectual Property, 'Fourth Session: Project on Intellectual Property and Competition Policy (Recommendations 7, 23 and 32) (CDIP/4/4, 2009) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4.pdf) accessed on 30 August 2018

<sup>634</sup> Committee on Development and Intellectual Property 'Twenty-First Session: Director General's Report on the Implementation of the Development Agenda' (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. For further information, see Committee on Development and Intellectual Property, 'Ninth Session: External Independent Evaluation Report of the Project on Intellectual Property and Competition Policy' (CDIP/9/8, 2012) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_9/cdip\\_9\\_8.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_9/cdip_9_8.pdf) accessed on 30 August 2018

<sup>635</sup> Committee on Development and Intellectual Property 'Twenty-First Session: Director General's Report on the Implementation of the Development Agenda' (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. For further information, see Committee on Development and Intellectual Property, 'Fourth Session: Project on Intellectual Property and Competition Policy (Recommendations 7, 23 and 32) (CDIP/4/4, 2009) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4.pdf) accessed on 30 August 2018. See also Committee on Development and Intellectual Property, 'Ninth Session: External Independent Evaluation Report of the Project on Intellectual Property and Competition Policy' (CDIP/9/8, 2012) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_9/cdip\\_9\\_8.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_9/cdip_9_8.pdf) accessed on 30 August 2018

<sup>636</sup> Committee on Development and Intellectual Property 'Twenty-First Session: Director General's Report on the Implementation of the Development Agenda' (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. For further information, see Committee on Development and Intellectual Property, 'Nineteenth Session: Project on Intellectual Property Management and Transfer of Technology: Promoting the Effective Use of Intellectual Property in Developing Countries, Least Developed Countries and Countries with Economies in Transition Proposed by South Africa' (CDIP/19/11 Rev., 2017)

3. Recommendation 32 has also been under operation as of early 2010. The Recommendation was tackled in the aforementioned ‘Intellectual Property and Competition Policy’ document<sup>637</sup> as well as ‘Enhancing South-South Cooperation on IP and Development among Developing countries and LDCs.’<sup>638</sup> Moreover, an Evaluation Report for these two projects was provided in the ninth and thirteenth sessions of the CDIP.<sup>639</sup>

The project on ‘Intellectual Property and Competition Policy’<sup>640</sup> has emphasised the WIPO’s intention to undertake various activities and licence training programmes to promote an enhanced understanding of IP and competition policy. This project was undertaken nine years ago, yet the suggested activities derived from the report are still ongoing as of the end of 2017. Such activities mainly entail a set of surveys, seminars

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<[http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_19/cdip\\_19\\_11\\_rev.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_19/cdip_19_11_rev.pdf)> accessed on 30 August 2018

<sup>637</sup> Committee on Development and Intellectual Property ‘Twenty-First Session: Director General’s Report on the Implementation of the Development Agenda’ (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. See also Committee on Development and Intellectual Property, ‘Fourth Session: Project on Intellectual Property and Competition Policy (Recommendations 7, 23 and 32) (CDIP/4/4, 2009) <[http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4.pdf)> accessed on 30 August 2018.

<sup>638</sup> Committee on Development and Intellectual Property ‘Twenty-First Session: Director General’s Report on the Implementation of the Development Agenda’ (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. See also Committee on Development and Intellectual Property, ‘Seventh Session: Project Proposal from the African Group on Enhancing South-South Cooperation on Intellectual Property (IP) and Development Among Developing Countries and Least Developed Countries (CDIP/7/6, 2011) <[http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_7/cdip\\_7\\_6.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_7/cdip_7_6.pdf)> accessed on 30 August 2018

<sup>639</sup> Committee on Development and Intellectual Property ‘Twenty-First Session: Director General’s Report on the Implementation of the Development Agenda’ (CDIP\_21\_2, 2018) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_21/cdip\\_21\\_2.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_21/cdip_21_2.pdf) accessed on 30 August 2018. See also

Committee on Development and Intellectual Property, ‘Ninth Session: External Independent Evaluation Report of the Project on Intellectual Property and Competition Policy’ (CDIP/9/8, 2012) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_9/cdip\\_9\\_8.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_9/cdip_9_8.pdf) accessed on 30 August 2018 and Committee on Development and Intellectual Property, ‘Thirteenth Session: Evaluation Report on the Project on Enhancing South-South Cooperation on IP and Development Among Developing Countries and LDCs’, (CDIP 13/4, 2014) < [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_13/cdip\\_13\\_4.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_13/cdip_13_4.pdf)> accessed on 30 August 2018

<sup>640</sup> Committee on Development and Intellectual Property, ‘Fourth Session: Project on Intellectual Property and Competition Policy (Recommendations 7, 23 and 32) (CDIP/4/4, 2009) <[http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4.pdf)> accessed on 30 August 2018

and Geneva-based conferences which enable the exchange of knowledge in this area.<sup>641</sup>

A survey, for example, has been conducted in 2011 following its approval during the Fourth Session of the CDIP in 2009 on ‘Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights’.<sup>642</sup> Most countries in the questionnaire have implied that compulsory licences are not mainly established to tackle anti-competitive practices of IPRs as it has been highlighted that the majority of domestic laws that address compulsory licensing do not contain language that particularly addresses anti-competitive practices of IPRs.<sup>643</sup> Following the project’s examination of different domestic law, it was generally understood that compulsory licences are not particularly used to remedy, correct, repress or prevent anti-competitive practices of IPRs per se, but are instead used to achieve specific objectives and aims such as the public interest and failure to work a patented invention.<sup>644</sup>

The UK had expressed that the IP Office does not receive many requests for compulsory licences. It can, thus, be safe to assume that the system of compulsory licensing acts as a preventive measure to anti-competitive or abusive practices, as it appears that IP owners prefer to enter into negotiations to decide for themselves the terms of a licensing agreement under a voluntary one. Similarly, it was indicated by Hungary that

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<sup>641</sup> Committee on Development and Intellectual Property (CDIP) ‘Fourth Session’ (wipo.net, November 2009) [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_5/cdip\\_5\\_ref\\_cdip\\_4\\_4\\_rev.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_5/cdip_5_ref_cdip_4_4_rev.pdf) accessed on 15 August 2018

<sup>642</sup> WIPO Secretariat ‘Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights’ (CDIP/4/4 Rev./Study/INF/5, 2011) <[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

<sup>643</sup> WIPO Secretariat ‘Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights’ (CDIP/4/4 Rev./Study/INF/5, 2011) <[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

<sup>644</sup> WIPO Secretariat ‘Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights’ (CDIP/4/4 Rev./Study/INF/5, 2011) <[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

the existence of the compulsory licensing system, in itself, allows for disputes to be resolved under voluntary licences.<sup>645</sup>

Other WIPO Member States such as Austria, Belgium, Ukraine and Finland have advised that the absence of precedents makes it impossible for them to advise whether compulsory licences in the form of antitrust law interventions are suitable means to deal with anti-competitive practices of IPRs. France, however, has expressed that compulsory licensing is a suitable means of dealing with anti-competitive practices of IPRs despite the absence of practice. Germany indicated that compulsory licences are suitable on a case-by-case evaluation to attain a balance between IPRs and competition.<sup>646</sup>

The UK, Germany, Sweden and France referred to Articles 101 and 102 TFEU and previous case laws to tackle matters related to competition and antitrust cases. Those Member States conveyed that a compulsory licence could be issued to provide access to an IPR in the circumstances of abuse of dominance under EU competition law and the essential facilities doctrine. Interestingly, it was indicated by Spain that the effectiveness of compulsory licences is unidentified due to the lack of its application.

Germany highlighted that the respondent could present the of compulsory licences as a defence against patent infringement claims brought by a right holder. In other words, the 'infringing' user in patent infringement cases can claim that the right holder's refusal to license was anti-competitive or abusive. The consideration of refusal to license as anti-competitive by the German courts is dependent on the fact that access

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<sup>645</sup> WIPO Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (CDIP/4/4 Rev./Study/INF/5, 2011)

<[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

<sup>646</sup> WIPO Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (CDIP/4/4 Rev./Study/INF/5, 2011)

<[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

to the patent is essential. If access is essential, then it provides the defendant with defence against any use of the IPR undertaken before the grant of a compulsory licence.<sup>647</sup> The UK also highlighted that an infringer may be permitted to file a counter action for a compulsory licence against the patent infringement proceeding brought by the right holder. Nonetheless, the grant of a compulsory licence by UK courts, interestingly, would only provide the infringer with defence for future uses of the IPR in question, instead of uses before the infringement proceeding.<sup>648</sup>

Moreover, Hungary and Poland have suggested that compulsory licence defences due to allegations of anti-competitive practices as counter-actions against infringement proceedings are not to be permitted in their jurisdictions. Whereas, Germany, as indicated above, has stressed that compulsory licences are necessary to cover anti-competitive practices on a case-by-case basis. Germany has rationalised its approach by stating that the mere existence of IPRs is protected without restrictions, however, its exercise is restricted by competition law as any other type of property.<sup>649</sup>

It can be noted from above that the motives and objectives of the compulsory licensing system are different from one WIPO State to the other. Moreover, such differences also exist between one EU country to the other. Therefore, it can be presumed that the exchange of knowledge in this area is necessary in order to understand why such significant differences exist, at least for the purpose of this research, why such differences exist between the EU Member States in the application of EU competition

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<sup>647</sup> WIPO Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (CDIP/4/4 Rev./Study/INF/5, 2011)  
<[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

<sup>648</sup> WIPO Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (CDIP/4/4 Rev./Study/INF/5, 2011)  
<[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

<sup>649</sup> WIPO Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (CDIP/4/4 Rev./Study/INF/5, 2011)  
<[http://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=187423](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=187423)> accessed on 30 August 2018

law between EU Member states. From a rule of law perspective, such differences could lead to better legal enforcement in one Member state than the other which might also lead to some inconsistencies in the application of Article 102 TFEU.

### B. Different Approaches to Refusal to License IPRs within the WIPO States

The WIPO Member States have adopted different and complex approaches that deal with the refusal to license IPRs.<sup>650</sup> Generally speaking, refusal to license is identified as the exclusive right to use the IPR as per statutes and national legislation. In some circumstances, the refusal to license can be contemplated as unlawful depending on national legislation. In further situations, refusal to license can trigger harsh sanctions.<sup>651</sup>

#### 1. Right to Refuse to License as the Essence of IPRs

The essence of IPRs offers exclusivity of rights conferred to right holders and the right to refuse to license a protected right.<sup>652</sup> For instance, Article 31(b)<sup>653</sup> of the TRIPS

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<sup>650</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 12 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

<sup>651</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 12 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

<sup>652</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 13 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

<sup>653</sup> Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) 1996, Article 31(b)

Agreement recognises that a compulsory licence can only be granted when the licensee had made attempts to attain a licence from the right holder under reasonable terms.

The mentioned above is further reinforced by Article 28.2<sup>654</sup> of the TRIPS Agreement which stresses that the provision would not be fulfilled if a compulsory licence is to be granted whenever a refusal to license takes place. Hypothetically speaking, if the outcome of refusal to license was to always be granted a compulsory licence, then right holders would always be obliged to conclude licensing contracts which will undermine private property rights and can consequently result in the weakening of Article 28.1<sup>655</sup> of the TRIPS.

It can be noted that refusal to license can also be seen in other types of IP and not only patents as indicated in the introductory chapter and as can be seen in various countries.<sup>656</sup> It must be noted here, however, that the US has indicated that the outcome of a refusal to license could differ from one type of an IP to the other, even when the same principles are applied to the cases involved with refusal to license

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<sup>654</sup> Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) 1996, Article 28(2) states that *'Patent owners shall also have the right to assign, or to transfer by succession, the patent and to conclude licensing contracts.'*

<sup>655</sup> Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) 1996, Article 28.1 states the following:

*A patent shall confer on its owner the following exclusive rights: (a) where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing these purposes that product; (b) where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.*

<sup>656</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) <[http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018; The Unilateral Conduct Working Group, 'Report on the Analysis of Refusal to Deal with a Rival Under Unilateral Conduct Laws' (international competition network, 2010) at 23 <<http://www.internationalcompetitionnetwork.org/uploads/library/doc616.pdf>> accessed 24 August 2018

IPRs.<sup>657</sup> As a matter of fact, Article 21 of the TRIPS Agreement outlaws the compulsory licensing of trademarks altogether.<sup>658</sup>

## 2. The International Legal Framework on Refusal to License IPRs

IPRs are increasingly being licensed across various jurisdictions which results in a further layer of complexity. There are no existing international agreements that frame international competition policies, unlike IPRs which are harmonised to a certain degree by the TRIPS Agreement.<sup>659</sup> The international context set by the TRIPS Agreement only provides limited provisions on competition policy, and such provisions have been identified only to provide general guidance as they are not obligatory on Member countries.<sup>660</sup> The determination of the circumstances where refusal to license create a breach of antitrust laws is left for the discretion of Member countries. It has been stipulated that *'saying so little in the international instrument [TRIPS] means, by necessary implication, recognising correspondingly expansive latitude to the relevant domestic law-making powers retained by the Members.'*<sup>661</sup> Indeed, the TRIPS antitrust provisions are limited in scope, yet the Agreement remains the most inclusive

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<sup>657</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018; The Unilateral Conduct Working Group, 'Report on the Analysis of Refusal to Deal with a Rival Under Unilateral Conduct Laws' (International Competition Network, 2010) at 23 <<http://www.internationalcompetitionnetwork.org/uploads/library/doc616.pdf>> accessed 24 August 2018

<sup>658</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), Article 21

<sup>659</sup> G. Duduchava and G. Miteva, 'Global Antitrust Trends in the Context of Refusal to License IPRs' (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018; Agreement on Trade-Related Aspects of Intellectual Property rights 1994, Marrakesh Agreement Establishing the World Trade Organisation, Annex 1C, Legal Instruments-Results of the Uruguay Round, 33 I.L.M. 1125, 1197 (1994)

<sup>660</sup> G. Duduchava and G. Miteva, 'Global Antitrust Trends in the Context of Refusal to License IPRs' (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018

<sup>661</sup> G. Duduchava and G. Miteva, 'Global Antitrust Trends in the Context of Refusal to License IPRs' (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018. See also I. Eagles and L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics*, (Oxford and Portland Oregon: Hart Publishing, 2011), at 316

international Agreement on IP-antitrust law.<sup>662</sup> Some Member countries have extensively legislated IP-antitrust matters, whilst other Member countries do not have any legislation that addresses the matter, given that the TRIPS Agreement adopts a ‘minimalist framework’<sup>663</sup> on antitrust matters.

It has, thus, been argued that existing inconsistencies between domestic competition law seems to have encouraged knowledge exchange between economic experts rather than international collaboration.<sup>664</sup> It was also highlighted that the lack of harmonisation of international standards have made international businesses pursue the fulfilment of the most severe competition regimes so that they will not have to modify their licensing arrangements for the laws of each Member country.<sup>665</sup> Additionally, it has been even suggested that existing inconsistencies between domestic competition laws results in the unpredictability of the outcomes of right holders’ licensing practices that operate at an international level.<sup>666</sup>

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<sup>662</sup> G. Duduchava and G. Miteva, ‘Global Antitrust Trends in the Context of Refusal to License IPRs’ (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018; M. M. Ricolfi, ‘Is there an Antitrust Antidote Against IP Overprotection within TRIPS?’ [2006] 10 Marq. Intell. Prop. L. Rev. 305, at p. 315

<sup>663</sup> G. Duduchava and G. Miteva, ‘Global Antitrust Trends in the Context of Refusal to License IPRs’ (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018. See also I. Eagles and L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics*, (Oxford and Portland Oregon: Hart Publishing, 2011), at 21

<sup>664</sup> G. Duduchava and G. Miteva, ‘Global Antitrust Trends in the Context of Refusal to License IPRs’ (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018. See also I. Eagles and L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics*, (Oxford and Portland Oregon: Hart Publishing, 2011), at 21

<sup>665</sup> G. Duduchava and G. Miteva, ‘Global Antitrust Trends in the Context of Refusal to License IPRs’ (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018. See also I. Eagles and L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics*, (Oxford and Portland Oregon: Hart Publishing, 2011), at 22

<sup>666</sup> G. Duduchava and G. Miteva, ‘Global Antitrust Trends in the Context of Refusal to License IPRs’ (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018. See also I. Eagles and L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics*, (Oxford and Portland Oregon: Hart Publishing, 2011), at 11

Thomas Cottier and Joseph Drexel have both provided interesting suggestions to overcome the defects of the TRIPS Agreement's antitrust standards. It has been indicated by Cottier that a separate international agreement on the national IP-related antitrust system would not be sufficient.<sup>667</sup> Similarly, it has been implied by Drexel that harmonisation of antitrust standards between WTO Members is unnecessary, but they have favoured a comprehensive antitrust agreement that prohibits of discrimination against foreign markets.<sup>668</sup>

### 3. Refusal to license as abuses of IPRs

As previously indicated, the refusal to license can be measured as abusive by the courts of national legislation under specific circumstances.<sup>669</sup> The concept of abuse of IPRs is established under Article 5(A)(2) of the Paris Convention,<sup>670</sup> as well as, Article 8.2 of the TRIPS Agreement.<sup>671</sup> However, the concept of abusive conduct varies greatly from one jurisdiction to the other. This is because abusive conduct is established with an act that

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<sup>667</sup> G. Duduchava and G. Miteva, 'Global Antitrust Trends in the Context of Refusal to License IPRs' (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018; T. Cottier and I. Meitingner, 'The TRIPS Agreement without Competition Agreement?' (2000) Fondazione Eni Enrico Mattei Working Paper No. 65-99, 1760-1761

<[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=200622](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=200622)> accessed on 4 September 2018

<sup>668</sup> G. Duduchava and G. Miteva, 'Global Antitrust Trends in the Context of Refusal to License IPRs' (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018; J. Drexel, 'International Competition Law- A Missing Link between TRIPS and Transfer of Technology' (2003) Max Planck Institute for Intellectual Property, Competition and Tax Law [http://www.wipo.int/edocs/mdocs/academy/en/wipo\\_wto\\_2003/wipo\\_wto\\_2003-relateddrexel.doc](http://www.wipo.int/edocs/mdocs/academy/en/wipo_wto_2003/wipo_wto_2003-relateddrexel.doc) at 11-14

<sup>669</sup> World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 19 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf)> accessed on 30 August 2018

<sup>670</sup> Paris Convention for the Protection of Industrial Property 1883, Article 5(A)(2) states that '*Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses, which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.*'

<sup>671</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), Article 8.2

is contrary to the aims of a law established in a specific jurisdiction. Clearly, the aims of the law differ from one country to the other and so do the definitions of abuse.<sup>672</sup>

It has been suggested that one of the main issues in Article 5(A)(2) of the Paris Convention is the fact that the Article had identified the right to exclude others as the essence of the right given to IP holders.<sup>673</sup> Inevitably, rights holders do also enjoy the right to license as well as the right to assign.<sup>674</sup> Nevertheless, it has been argued that these positive rights exist due to their negative essence as the right to a licence is an expected consequence of the right to refuse a license. This argument is supported by the language used in Article 28.2 of the TRIPS Agreement. The Article used the word 'also' which indicates that the positive dimension of such rights is an expected consequence of the right to exclude.<sup>675</sup>

It must be mentioned that there is a difference between abusive conduct and anti-competitive conduct with regards to the scope of Article 31(k). Once an authority of court finds that the practice of a right holder has been anti-competitive, then sanctions harsher can be applied on top of compulsory licences, such as revocation or forfeiture of the IPR in question.<sup>676</sup> Moreover, an authority or a relevant administration must

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<sup>672</sup> World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 20 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf)> accessed on 30 August 2018

<sup>673</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dSPACE lib 2014) < [http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59\\_257-289.pdf](http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018

<sup>674</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), Article 28(2)

<sup>675</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dSPACE lib 2014) < [http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59\\_257-289.pdf](http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018. See also World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 22 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf)> accessed on 30 August 2018

<sup>676</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dSPACE lib 2014) < [http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59\\_257-289.pdf](http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018. See also World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 25 <

examine the anti-competitive practices by IPRs before the granting of a compulsory licence, unlike abusive practices.<sup>677</sup> This is because authorities aim to remedy anti-competitive refusals to license as per Article 31(k) of the TRIPS Agreement and thus, Article 5 of the Paris Convention becomes inapplicable<sup>678</sup>. On the one hand, the potential licensee must make a genuine effort to attain a voluntary licence before seeking a court calling for a compulsory licence due to the proprietor's abusive refusal to license. On the other hand, the possible beneficiary does not have to seek a voluntary licence before seeking a compulsory licence from an authority or court in circumstances of anti-competitive practices by IPR holders.<sup>679</sup>

The majority of WIPO Member countries can consider a refusal to license as abusive, particularly when the local markets cannot embody or import the patented invention,<sup>680</sup> and there are no reasonable defences for a refusal to license, or when prejudice exists to the development or formation of national commercial or industrial

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[http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf)> accessed on 30 August 2018

<sup>677</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), Article 31(k) states the following:

*Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorisation if and when the conditions which led to such authorisation are likely to recur.*

<sup>678</sup> World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 25 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

<sup>679</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dSPACE lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018. See also World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 25 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

<sup>680</sup> World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 24 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

undertakings.<sup>681</sup> For example, the Dominican Republic and Argentina consider such conduct as anti-competitive. Therefore, Article 31(k) of the TRIPS Agreement is applicable in these jurisdictions. Accordingly, the condition of serious attempt to obtain a licence, in such circumstances, is waived in countries like Argentina and the Dominican Republic. Whereas, in the United Kingdom, India and Australia such practices are considered as abusive, and thus, a potential licensee must make a serious effort to acquire a licence, before seeking the claim for the compulsory licence under competition laws. Accordingly, Article 31(k) of the TRIPS Agreement, in such circumstances, is inapplicable in these three jurisdictions is inapplicable, given that such practices are considered abusive, and not anti-competitive.<sup>682</sup>

#### 4. Refusal to license as Anti-Competitive Practices

In exceptional circumstances, the refusal to license could be considered as an abuse of dominance if violation of competition or antitrust law were to take place.<sup>683</sup> However, a patent holder may be exempted from antitrust laws with valid business reasons to 'anti-competitive' refusal to license.<sup>684</sup> It has also been argued that it is rare to see that

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<sup>681</sup> World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 25 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf)> accessed on 30 August 2018

<sup>682</sup> World Trade Organisation Secretariat, 'Refusal to License IP Rights: A Comparative Note of Possible Approaches' (2013) at para. 25 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf)> accessed on 30 August 2018

<sup>683</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018. See also Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (wipo.net, 4 October 2011) at 26  
[http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4\\_rev\\_study\\_inf\\_5.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4_rev_study_inf_5.pdf) accessed on 15 August 2018

<sup>684</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018; *CSU, L.L.C v. Xerox Corp.* [2000] 203 F.3d 1326; *Data Gen. Corp. v. Grumman Sys. Support Corp.* [1994] 36 F.3d 1147, [1187]

market power is accorded through IP rights alone.<sup>685</sup> Regardless, anti-competitive refusal to license can only occur when the actual or possible competitor exists in the same market.<sup>686</sup>

Generally, anti-competitive refusal to license is linked with, the previously discussed, essential facilities.<sup>687</sup> The facility must be unavailable and cannot be embodied in the relevant market.<sup>688</sup> The essential facilities doctrine suggests that an IP must never be an essential facility and it should not prevent others from entering the same relevant market.<sup>689</sup>

#### IV. THE EU COMPETITION LAW

This section addresses the position of the ECJ towards the direct effect of international agreements, in particular, the TRIPS Agreement. It then examines the principle of

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<sup>685</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; *Illinois Tool Works Inc. and others Petitioners v. Independent Ink, Inc* [2006] 547 U.S. 28, [45]

<sup>686</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (wipo.net, 4 October 2011) at 28 [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4\\_rev\\_study\\_inf\\_5.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4_rev_study_inf_5.pdf) accessed on 15 August 2018

<sup>687</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018. See also Organisation for Economic Co-operation and Development (OECD) 'The Essential Facilities Concept' (OECD, 1996) <http://www.Oecd.Org/Competition/Abuse/1929921.Pdf> accessed 24 August 2018

<sup>688</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (wipo.net, 4 October 2011) at 30 [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4\\_rev\\_study\\_inf\\_5.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4_rev_study_inf_5.pdf) accessed on 15 August 2018

<sup>689</sup> Jose Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; Secretariat 'Survey on Compulsory Licenses Granted by WIPO Member States to Address Anti-Competitive Uses of Intellectual Property Rights' (wipo.net, 4 October 2011) at 28 [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_4/cdip\\_4\\_4\\_rev\\_study\\_inf\\_5.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_4/cdip_4_4_rev_study_inf_5.pdf) accessed on 15 August 2018

consistent interpretations and hierarchy of norms leading to the exploration of refusal to license as an abuse of dominance under EU competition law.

A. The Position of the EU Towards Direct Effect of International Agreements.

The EU strictly controls the interpretation and direct applicability of international treaties. It seems that the EU maintains the supremacy of EU law over international treaties including the WTO Agreement.<sup>690</sup>

The EU attempted to resolve the connection between international and domestic law by imposing supremacy of EU law over its Member States.<sup>691</sup> The ECJ established in the case of *Costa v ENEL* that the Member States must act in a way that validates the obligations derived from, at that time, Community Treaty.<sup>692</sup> Moreover, it has been argued that we must distinguish the terms ‘direct effect’ and ‘direct applicability’.<sup>693</sup> Treaty articles are subject to the direct application by the Member States and, in circumstances of conflict, the EU can disregard the direct effect of international agreements.<sup>694</sup>

The issue of whether the TRIPS Agreement specifically has a direct effect in the EU, Article 1(1) of the Agreement allows Member countries to employ measures deemed appropriate in their own legal system, given that they comply with the aims of the

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<sup>690</sup> Joined Cases C-402/05 P and C-415/05 P, *Kadi et al v. Council and Commission* [2008] ECLI:EU:2008:461, at para 288 states the following: ‘the obligations imposed by an international agreement cannot have the effect of prejudicing the constitutional principles of the EC Treaty.’

<sup>691</sup> Case 8/55 *FEDERCHAR v. High Authority* [1954] 55 ECR 245; Case 6/60 *Humblet v. Belgium* [1960] ecr 559; Case 26/62 *Van Gen den Loos v. Netherlands Inland Revenue Administration* [1963] ECR 1

<sup>692</sup> Case 6/64 *Costa v ENEL* [1964] ECR 585

<sup>693</sup> J. A. Winter, ‘Direct Applicability and Direct Effect: Two Distinct and Different Concepts in Community Law’ 9 [1972] Common Market Law Review 425-438

<sup>694</sup> Case C- 245/02 *Anheuser-Busch v. Budejovicky Budvar* [2004] ECR I-10989, paras 41, 42; Joined Cases C-447 and 448/05 *Thomson Multimedia and Vestel France v Administration des Douanes* [2007] ECR I-2049; Joined Cases C-300/98 & C-392/98 *Parfums Christian Dior SA v. TUK Consultancy BV and Assco Geruste GmbH and Rob van Dijk v. Wilhelm Layker GmbH & Co. KG and Layher BV* [2000] ECR I-11307, at paras 35 and 40

Agreement.<sup>695</sup> It was held by the ECJ, for example, that the TRIPS Agreement is non-self-executing and thus, it does not have a direct effect within the EU.<sup>696</sup> Nevertheless, the ECJ has stated that *'there must be bona fide performance of every agreement.'*<sup>697</sup>

#### B. The Principle of Consistent Interpretation

To start off with, there is room for considerable independent interpretations when international treaties include broad language. International treaties and the doctrine of consistent interpretations allow for the incorporation of different interpretations so long as the interpretation of the domestic law does not conflict with the international obligations.<sup>698</sup> The principle of consistent interpretation significantly impacts the application of domestic laws.<sup>699</sup> As indicated earlier, Articles 8(2) and 40(2) of the TRIPS Agreement allow Member countries to implement measures that prevent anti-competitive conduct, but such rules or measures should remain *consistent* with the central values of the TRIPS Agreement.

Looking into TRIPS negotiations' history, it can be noted that there were concerns over the increased IP protection which can make Members with weaker economies more vulnerable to anti-competitive abuses by suppliers from Members with stronger

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<sup>695</sup> The TRIPS Agreement, Article 1(1) states the following:

*Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions within their own legal system and practice.*

<sup>696</sup> Case 104/81 *Hauptzollamt Mainz v. Kupferberg* [1982] ECR 3641

<sup>697</sup> Case 104/81 *Hauptzollamt Mainz v. Kupferberg* [1982] ECR 3641, para 18

<sup>698</sup> VCLT 1986, Art. 27 available at:

[http://untreaty.un.org/ilc/texts/instruments/english/conventions/1\\_2\\_1986.pdf](http://untreaty.un.org/ilc/texts/instruments/english/conventions/1_2_1986.pdf) accessed on 1<sup>st</sup> November 2018 states the following '*[a]n international organization party to a treaty may not invoke the rules of the organization as justification for its failure to perform the treaty.*' Note: EU has not ratified this treaty.

<sup>699</sup> S. Subramanian, 'EU Obligation to the TRIPS Agreement: EU Microsoft Decision', [2011] *The European Journal of International Law* 21(4) 997-1023

economies.<sup>700</sup> It was suggested that a negative impact on international trade can happen when some suppliers are put in a better situated to enforce restraining requirements on the licensing of an IPR.<sup>701</sup> Therefore, it was indicated that the TRIPS Agreement's provisions requiring Members to make domestic competition law consistent with the Agreement are merely a formality to stop the extreme applicability of national competition laws and to provide competition authorities with control against the exploitation of IP rights.<sup>702</sup> Nonetheless, it was indicated that the provisions of the TRIPS do not stop EU Members from ruling against anti-competitive conduct, however, the *consistency* condition does deter EU members from implementing measures that do not, *necessarily*,<sup>703</sup> fit the purposes of the TRIPS Agreement.

The above mentioned has been suggested to fit with the principle of 'good faith' set under Article 26 VCLT.<sup>704</sup> This Article specifies that '*[e]very treaty in force is binding upon the parties to it and must be performed by them in good faith*'.<sup>705</sup> Thus, abusive exercise of IPRs is unlawful under the principle of good faith.<sup>706</sup> Accordingly, EU authorities must

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<sup>700</sup> Roffe and Spennemann, 'Control of Anticompetitive Practices in Contractual Licences under the TRIPS Agreement', in C. Correa and Y. Abdulqawi (eds), *Intellectual Property and International Trade* (2002)

<sup>701</sup> Roffe and Spennemann, 'Control of Anticompetitive Practices in Contractual Licences under the TRIPS Agreement', in C. Correa and Y. Abdulqawi (eds), *Intellectual Property and International Trade: The TRIPS Agreement* (2002), at 311; see GATT, Multilateral Trade Negotiations, The Uruguay Round, Communication from India, 10 July 1989, MTN.GNG./NG11/W/37, available at: [http://www.wto.org/gatt\\_docs/English/SULPDF/92070115.pdf](http://www.wto.org/gatt_docs/English/SULPDF/92070115.pdf). See also J. Watal, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer Law International, 2001)

<sup>702</sup> Heinemann, 'Antitrust Law of Intellectual Property in the TRIPS Agreement of the World Trade Organization', in F.K. Beier and G. Schriker (eds), *From GATT to TRIPS* (1996), at 239, 242.

<sup>703</sup> There is an extensive jurisprudence with regard to the meaning of the term 'necessary'. Note from the Secretariat, 'Necessity Tests in the WTO', 03-6404, S/WPDR/W/27, 2 Dec. 2003, at para. 4; In *United States - Section 337 of the Tariff Act of 1930*, BISD 36S/345-402 (L/6439), at para. 5.26, 'necessity' consisted in an examination of whether a satisfactory and effective alternative existed.

<sup>704</sup> S. Subramanian, 'EU Obligation to the TRIPS Agreement: EU Microsoft Decision', [2011] *The European Journal of International Law* 21(4) 997-1023

<sup>705</sup> P. Manin, 'The European Communities and the Vienna Convention on the Law of Treaties between States and International Organisations or between International Organisations' [1987] 24 *CML-Rev* 468

<sup>706</sup> WTO Appellate Body Report, *US - FSC*, WT/DS108/AB/R, 24 Feb. 2000, at para. 166. *Thailand - H-Beams*, WT/DS122/AB/R, 12 Mar. 2001, at para. 97. *US - Lamb*, WT/DS177/AB/R, WT/DS178/AB/R, 1

show that competition law is a matter related to the interpretation of the principle of good faith.<sup>707</sup> The integration of the articles of the TRIPS Agreement in EU decision-making would support that EU competition law is applied under the principle of good faith.<sup>708</sup> The weighing and balancing of obligations and rights can also indicate that EU adherence with the standard of good faith.<sup>709</sup> Indeed, the principle of good faith is essential, yet Article 13 of the TRIPS Agreement also indicates that the legitimate interests of the right-holders must be reasonable during any special cases that consider confining or limiting their exclusive rights. From a rule of law perspective, it could be argued that the legitimate expectations of the concerned parties must be met when interpreting EU competition law under the principle of good faith.

With regards to EU law's primacy over national law, it was suggested in *Commission v. Germany*, that:

*'Secondary EU legislation must be interpreted in terms consistent with the primacy of international agreements that are concluded by the Community.'*<sup>710</sup>

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May 2001, at para. 115. *US - Hot Rolled Steel*, WT/DS184/AB/R, 24 July 2001, at para. 101. *US - Cotton Yarn*, WT/DS192/AB/R, 8 Oct. 2001, at para. 81. *Mexico - Corn Syrup*, WT/DS132/AB/RW, 22 Oct. 2001, at para. 47; *EC - Sardines*, WT/DS231/AB/R, 26 Sept. 2002, at para. 278. *EC - Pipe Fittings*, WT/DS/219/AB/R, 22 July 2003, at para. 127; *EC - Export Subsidies on Sugar*, WT/DS265/266/283/AB/R, 28 Apr. 2005, at para. 307. See also Cheng, *General Principles of Law as applied by International Courts and Tribunals* (Cambridge, 1953), at 125: '[a] reasonable and bona fide exercise of a right...is one which is appropriate and necessary for the purpose of the right (i.e., in furtherance of the interests which the right is intended to protect)'

<sup>707</sup> S. Subramanian, 'EU Obligation to the TRIPS Agreement: EU Microsoft Decision', [2011] *The European Journal of International Law* 21(4) 997-1023

<sup>708</sup> S. Subramanian, 'EU Obligation to the TRIPS Agreement: EU Microsoft Decision', [2011] *The European Journal of International Law* 21(4) 997-1023

<sup>709</sup> S. Subramanian, 'EU Obligation to the TRIPS Agreement: EU Microsoft Decision', [2011] *The European Journal of International Law* 21(4) 997-1023

<sup>710</sup> Case C-61/94, *Commission v. Germany* [1996] ECLI:EU:C:1996:313, at [52]. Case T-01/04, *Microsoft Corp. v. EC*, [2006] ECR II-1491. EC Decision of 24 Mar. 2004, *Microsoft Corp.*, (COMP/C-3/37.792) [2004] OJ (2004) L 32/23, [781].

Therefore, it was argued that *consistent interpretation* only applies to EU secondary legislation,<sup>711</sup> despite the fact that the supremacy of international law is acknowledged as such only when the principle of consistent interpretation is also applicable to primary legislation, such as the TFEU.<sup>712</sup> Regardless, it was indicated by the EU that according to the '*hierarchy of norms*'<sup>713</sup>, international agreements are available as an intermediary between both primary and secondary EU law as further indicated below.<sup>714</sup>

### C. The Hierarchy of Norms

International treaties require Member States and organisations to regulate their interests in conformity with international law.<sup>715</sup> International law suggests that states and/or organisations that sign to join an international treaty would signify an acknowledgement of international law's primacy over national systems.<sup>716</sup> For example, Article 27 VCLT implies that all binding treaties have to be implemented in good faith. It is made clear by Article 27 VCLT that failure to adhere with international duties cannot be defended on the basis that there is a divergence between national law and such

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<sup>711</sup> S. Subramanian, 'EU Obligations to the TRIPS Agreement: EU Microsoft Decision' [2010] 21(4) European Journal of International Law 997-1023

<sup>712</sup> Case C-284/95, *Safety Hi-Tec Srl v. S & T Srl* [1998] ECR I-4301, at para. 22 states that '*It is settled law that Community legislation must, so far as possible, be interpreted in a manner that is consistent with international law.*' See also Case C-89/99, *Schieving-Nijstad and Others v. Robert Groeneveld* [2001] ECR I-5851, at para 55 states the following:

*[W]here the judicial authorities are called upon to apply national rules with a view to ordering provisional measures for the protection of intellectual property rights falling within a field to which TRIPS applies and in respect of which the Community has already legislated, they are required to do so as far as possible in the light of the wording and purpose of ... TRIPS.*

See also Petersmann, 'Strengthening the Domestic Legal Framework of the GATT Multilateral Trade System', in E.-U. Petersmann and M. Hilf (eds), *The New GATT Round of Multilateral Trade Negotiations* (1991), at 85-93. See also T. Cottier and K. Schefer, 'The Relationship between World Trade Organization Law, National and Regional Law', [1998] 1 *J Int'l Economic L* 84, at 90.

<sup>713</sup> Europa, 'European Union (EU) hierarchy of norms' (Glossary of Summaries) <[http://eur-lex.europa.eu/summary/glossary/norms\\_hierarchy.html](http://eur-lex.europa.eu/summary/glossary/norms_hierarchy.html)> accessed 13 November 2017

<sup>714</sup> S. Subramanian, 'EU Obligations to the TRIPS Agreement: EU Microsoft Decision' [2010] 21(4) European Journal of International Law 997-1023

<sup>715</sup> Statute of the International Court of Justice 1945, Art. 38(1)(a) states that '*[t]he Court shall apply international conventions, whether general or particular, establishing rules expressly recognised by the contesting states.*'

<sup>716</sup> T. Cottier and K. Schefer, 'The Relationship between World Trade Organization Law, National and Regional Law', [1998] 1 *J Int'l Economic L* 84, 86

duties.

Without a doubt, the ECJ recognises that international law requires 'bona fide performance of every agreement'.<sup>717</sup> International law requires countries to enforce their international duties in their legal orders.<sup>718</sup> However, the internal application of these international treaties is different from one state to another. Normally, dualist legal systems would transform international treaty obligations into national ones. Monist countries give treaties an equal legal position to that of national laws (subsequent to adopting the treaty), whereby the treaty would be considered as a part of their domestic legal system.<sup>719</sup> On the other hand, individual countries assess 'the legal regime in its totality' to determine if it is adequately accurate for individuals to rely on it and if so, then it would be applicable by the national courts.<sup>720</sup> Generally speaking, the EU has been monistic in regards to international treaties except it adopts a dualist approach when dealing with matters of WTO. The treaties become a part of EU law once relevant EU institutions have decided these treaties.<sup>721</sup>

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<sup>717</sup> Case 104/81, *Hauptzollamt Mainz v. Kupferberg* [1982] ECR 3641, at para. 18.

<sup>718</sup> Tietje, 'The Status of International Law in European Legal Order: The Case of International Treaties and Non-Binding International Instruments', in J. Wouters *et al.* (eds), *The Europeanisation of International Law* (2008), p. 57

<sup>719</sup> S. Subramanian, 'EU obligation to TRIPS Agreement: EU Microsoft decision' [2010] 21(4) EJIL 997-1023

<sup>720</sup> P. Eeckhout, *External Relations of the European Union: Legal and Constitutional Foundations* (Oxford University Press, 2004), at p. 274.

<sup>721</sup> Rosas, 'The European Court of Justice and Public International Law', in J. Wouters *et al.*, *The Europeanisation of International Law* (2008), at 75

#### D. Refusal to license in the EU

If desired, a right holder in the EU can decide licensing arrangements. This attitude is applied to both tangible and intangible properties.<sup>722</sup> Nonetheless, Article 102 TFEU<sup>723</sup>, in specific circumstances, can be used as an exception to the contractual freedom in circumstances of abusive refusal to license by a dominant business.<sup>724</sup> This has been seen in various EU cases where the right holder has been found violating Article 102 TFEU due to the abusive refusal to licence.<sup>725</sup> Nonetheless, EU case law has been adopting a lenient approach to the ‘exceptional circumstances’ as its definition has expanded, particularly by the Commission throughout recent cases.<sup>726</sup> Additionally, the standards set in *IMS v NDC Health*<sup>727</sup> by the ECJ do not particularly add any limits to the scope of liability set under Article 102 TFEU.<sup>728</sup> Thus, it has been stipulated that the

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<sup>722</sup> Guidance on the Commission’s Enforcement Priorities in Applying Article 82 of the EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings, 2009 (C 45/7) 7-20 75 (2009) <[http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52009xc0224\(01\)&FROM=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52009xc0224(01)&FROM=EN)> accessed on 1<sup>st</sup> November 2018

<sup>723</sup> Consolidated Version of the Treaty on the Functioning of the European Union, 2012 O.J. (C 326/47) 47-390 102 (2012) <<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>> accessed on 2<sup>nd</sup> November 2018

<sup>724</sup> J. Espinosa ‘Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective’ (dSPACE lib 2014) <[http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59\\_257-289.pdf](http://dSPACE.lib.niigata-u.ac.jp/dSPACE/bitstream/10191/31252/1/59_257-289.pdf)> accessed on 22 August 2018; University of Oslo, ‘Refusal to License IP as Abuse of Dominance: Balancing Intellectual Property and Competition Law’ (duo.uio 2010) <<http://www.duo.uio.no/bitstream/handle/10852/36378/178756.pdf?sequence=4>> accessed on 2<sup>nd</sup> November 2018

<sup>725</sup> S. Anderman & H. Schmidt, *EU Competition Law and Intellectual Property Rights: The Regulation of Innovation* (2<sup>nd</sup> edn., Oxford University Press 2011) 73

<sup>726</sup> These cases are covered in the following chapter which include the following: Case 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122; Case C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743; Case C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791; Case C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743; *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final; Case T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (GC); Case T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (General Court) (The *Microsoft* judgement); Case C 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14; *Huawei Technologies Co Ltd v ZTE Corp*. [2016] R.P.C. 4

<sup>727</sup> Discussed further in the upcoming chapters Case C-481/01 *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG* [2004] ECR I 5039

<sup>728</sup> I. Lianos & Rochelle C. Dreyfuss, ‘New Challenges in the Intersection of Intellectual Property Rights with Competition Law- a View from Europe and the United States’ (2013) CLES Working Paper Series

conditions or 'exceptional circumstances' are unclear.<sup>729</sup> The following critically analyses, from a rule of law approach, the expansion of the exceptional circumstances throughout EU case law for finding an abuse of dominance in order to examine areas that are still unclear or that have resulted in a set of contradictory decisions.

It can be mentioned that past decisions of the ECJ and the GC have suggested that abusive refusal to license can be found once several conditions are fulfilled. First, the right owner has to be a dominant undertaking in a relevant market. Second, the IPR has to be crucial to an activity in the market. Third, the refusal to license should have a negative effect on competition in that market. Fourth, there must be consumer demand for the products or services sought by the potential licensee. Fifth, there are no reasonable justifications for the refusal to licence.<sup>730</sup>

#### 1. Legal framework: Article 102 TFEU

Article 102 TFEU does not mention examples of abusive refusal to deal or license IPRs.<sup>731</sup>

Nevertheless, the Article applies to exploitative abuses<sup>732</sup>, structural<sup>733</sup> and

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4/2013, p. 81 <https://www.ucl.ac.uk/cles/sites/cles/files/cles-4-2013new.pdf> accessed on 4 September 2018

<sup>729</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018

<sup>730</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018

<sup>731</sup> I. Eagles & L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> edn., Hart Publishing 2011), p. 150

<sup>732</sup> An exploitative abuse has been defined as conduct that makes 'use of the opportunities arising out of [a company's] dominant position in such a way as to reap trading benefits which it would not have reaped if there had been normal and sufficiently effective competition' as seen in B. E. Hawk, 'Article 82 and Section 2: Abuse and Monopolising Conduct,' (2008) Fordham Law Legal Studies Research Paper No. 1301690, 873 < <http://papers.ssrn.com/abstract=1301690> > accessed on 4 September 2018; Case 27/76 United Brands Co. & United Brands Cont'l v. Comm'n (United Brands) [1978] E.C.R. 207, 249

<sup>733</sup> Structural abuses concern mergers and acquisition that strengthen a dominant position as seen in Case 6/72 Cont'l Can Co. v. Comm'n (Continental Can) [1973] E.C.R. 215

exclusionary<sup>734</sup> abuses. Refusal to supply is categorised as exclusionary abuses, and thus, refusal to license IPRs has been considered as an exclusionary abuse. The primary legal objective here is to preserve competition in the market, protect consumers and innovation which be compromised by the mere existence of a dominant business.<sup>735</sup> Therefore, Article 102 TFEU disallows a dominant business from using market power to attempt to eliminate competition and obstruct innovation with the refusal to license IPRs.<sup>736</sup>

Accordingly, the ECJ has construed Article 102 TFEU as a means of offering protection to competitors and consumers.<sup>737</sup> The following chapter examines further in details the exceptional circumstances test adopted by EU competition authorities for determining abuse of dominance under Article 102 TFEU in cases of abusive refusal to license.

## 2. Enforcing EU Competition Rules

The European Commission has the role of safeguarding that competition in the EU Single Market is not hindered. To be more specific, the Directorate-General for Competition must ensure the effectivity of EU competition policy, explore cases of unlawful conduct, as well as take the necessary steps to ensure the appropriate and effective functioning of competition in the EU Single Market. Moreover, the European

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<sup>734</sup> Exclusionary abuses concern direct or indirect harm to competitors. The classic definition is found in Case 85/76 *Hoffman La-Roche & Co. AG v. Comm'n (Hoffman La-Roche)* [1979] E.C.R. 461

<sup>735</sup> S. Anderman & H. Schmidt, *EU Competition Law and Intellectual Property Rights: The Regulation of Innovation* (2<sup>nd</sup> edn., Oxford University Press 2011) at p. 74; Case 6/72 *Cont'l Can Co. v Comm'n (Continental Can)* [1973] E.C.R. 215, [24]

<sup>736</sup> S. Anderman & H. Schmidt, *EU Competition Law and Intellectual Property Rights: The Regulation of Innovation* (2<sup>nd</sup> edn., Oxford University Press 2011), at p. 74; Case 6/72 *Cont'l Can Co. v Comm'n (Continental Can)* [1973] E.C.R. 215 at [26]

<sup>737</sup> J. Espinosa 'Unilateral Refusal to License Intellectual Property Rights: A Comparative Perspective' (dspace.lib 2014) < [http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59\\_257-289.pdf](http://dspace.lib.niigata-u.ac.jp/dspace/bitstream/10191/31252/1/59_257-289.pdf) > accessed on 22 August 2018; Case 85/7676 *Hoffman La-Roche & Co. AG v. Comm'n (Hoffman La-Roche)* [1979] E.C.R. 461 at [6]; Case 322/81 *N.V. Nederlandsche Banden-Industrie Michelin v. Comm'n (Michelin)* [1983] E.C.R. 3461

Commission has wide-ranging powers of investigating and carrying out unexpected inspections at the premises of undertakings and requiring them to deliver evidence that is relevant for its examinations. Finally, the College of Commissioners must then adopt any final and formal decisions.

Prior to 2004, the Commission had the sole authority and the competence to enforce antitrust rules. Nonetheless, a new enforcement system has been introduced as a major reform whereby both national competition authorities and the European Commission can now directly apply and enforce EU competition rules. The national competition authorities of EU Member States and the European Commission can now cooperate as they do independent investigations and make competition decisions via the European Competition Network.

Overall, the cooperation between national competition authorities and the European Commission has led to more than 2000 inspections and more than 1000 decisions by the end of 2017.<sup>738</sup> Indeed, the Commission has the role of initiating investigations alongside national competition authorities, yet the Commission must also ensure that national competition authorities apply EU competition rules in a uniform manner which ultimately makes the European Commission the main enforcer of EU competition rules.

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<sup>738</sup> European Court of Auditors, 'Enforcement of EU competition policy' September 2018 <[https://www.eca.europa.eu/Lists/ECADocuments/BP\\_COMPETITION/BP\\_COMPETITION\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/BP_COMPETITION/BP_COMPETITION_EN.pdf)> accessed on 15<sup>th</sup> September 2019

### 3. CFREU and Directive 2004/48/EC on the Enforcement of IPRs

On the one hand, Article 47 CFREU ensures the right to effective remedy and fair trial.<sup>739</sup>

The ECJ has recently examined whether the bringing of IP infringement proceedings could amount to an abuse of Article 102 TFEU and hinder the standard implementer's rights granted under Article 47 CFREU with regards to fair trial.<sup>740</sup> The same Article ensures everyone's rights to access justice, and thus, it could be argued that patent or SEP holders must enjoy the right of seeking justice in cases of disputes without the risk of breaching Article 102 TFEU.

On the other hand, the essence of IPRs is to protect and reward and innovation which is guaranteed under Article 17(2) CFREU<sup>741</sup> and the Directive 2004/48/EC on the Enforcement of IPRs<sup>742</sup> as they both ensure a high level of protection to IPRs. As a matter of fact, Directive 2004/48 aims to harmonise the minimum measures, procedures and remedies for the enforcement of IPRs as it makes available permanent and preliminary injunctions.<sup>743</sup> Furthermore, Article 3 of the same Directive states that remedies must be proportionate and must aim to evade being barriers to legitimate trade.<sup>744</sup> Aside from the Directive, Member States still enjoy the independence of enforcing and regulating their legal procedures, and thus, this leads to the lack of comprehensive uniformity which can raise obstacles of inconsistency. These obstacles can have a significant impact on disputes concerning enforcement action, as it usually the situation for SEPs.

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<sup>739</sup> Charter on Fundamental Rights of the European Union 2000/C 364/01, Article 47

<sup>740</sup> *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4

<sup>741</sup> Charter on Fundamental Rights of the European Union 2000/C 364/01, Article 17(2)

<sup>742</sup> Directive 2004/48/EC on the Enforcement of Intellectual Property Rights

<sup>743</sup> Directive 2004/48/EC on the Enforcement of Intellectual Property Rights

<sup>744</sup> Directive 2004/48/EC on the Enforcement of Intellectual Property Rights, Article 3

4. Guidance on the Commission's Enforcement Priorities in Applying Article 82 of the EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings

The Guidance has only directly mentioned the refusal to license IPRs twice. Therefore, the Commission views the refusal to license as merely one of the wide-ranging examples of abusive conduct,<sup>745</sup> whereas the Discussion Paper<sup>746</sup> had dedicated a full section on refusal to license IPRs. Moreover, the Discussion Paper has also indicated that EU courts should adopt a different approach in general cases of refusal to license of IPRs, as opposed to refusal to license of interoperability information. The Discussion Paper has suggested that, indeed, interoperability could be considered IP, but it does not make sense to apply harsh interventions similar to those applied on patents or copyrights.<sup>747</sup>

Article 102 TFEU<sup>748</sup>, ex Article 82, is a short provision with a sum of undefined concepts. Thus, the Commission in 2009 has published Guidance on Article 82 Enforcement Priorities, particularly following backlash received after the *Microsoft* decision.<sup>749</sup> The

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<sup>745</sup> I. Eagles & L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> edn., Hart Publishing 2011), p.176

<sup>746</sup> DG Competition, DG Competition Discussion Paper on the application of Article 82 of the Treaty to exclusionary abuses 1-72 9.2.26 (2006)

<<http://ec.europa.eu/competition/antitrust/art82/discpaper2005.pdf>> accessed 10<sup>th</sup> October 2018

<sup>747</sup> I. Eagles & L. Longdin, *Refusal to License Intellectual Property: Testing the Limits of Law and Economics* (1<sup>st</sup> edn., Hart Publishing 2011), p.176

<sup>748</sup> The TFEU, Article 102 states the following:

*Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.*

*Such abuse may, in particular, consist in:*

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;*
- (b) limiting production, markets or technical development to the prejudice of consumers;*
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;*
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.*

<sup>749</sup> P. Akman, 'The European Commission's Guidance on Article 102 TFEU: from Inferno to Paradiso?' [2010] 73 (4) *Modern Law Review*, 605-630

Guidance was initially welcomed as it was believed that it would provide further clarity and predictability to the subject matter.<sup>750</sup> The Guidance was intended to deliver the following:

*Greater clarity and predictability as regards the general framework of analysis which the Commission employs in determining whether it should pursue cases concerning various forms of exclusionary conduct and to help undertakings better assess whether certain behaviour is likely to result in intervention by the Commission under [Article 102].*<sup>751</sup>

Nevertheless, it appears that the Commission's Guidance did not reach its objectives since it has resulted in a sum of arguments that have been mainly brought up by economists. Some of which include issues related to dominance and market power, anti-competitive foreclosure and protection of competitors, and much more.<sup>752</sup> It has also been suggested that the Guidance does not expand to cover the law of exclusionary abuse,<sup>753</sup> whereby concerned relevant parties must seek consultation from authorities in regards to this matter.

Some commentators have even considered that the Commission's Guidance Paper brings legal uncertainty as the Commission had adopted a lenient approach in the

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<sup>750</sup> Shearman & sterling, 'The European Commission's Dominance Guidance: Towards a Review or Abandonment?' (Oxera, 2016) <<https://www.oxera.com/getattachment/437e4201-98ce-467e-87d0-048c3b3f23a3/Synthesis-Concurrences-Workshop-220616.pdf.aspx>> accessed 21 February 2018

<sup>751</sup> Guidance on Article 102 Enforcement Priorities, para 2

<sup>752</sup> Shearman & sterling, 'The European Commission's Dominance Guidance: Towards a Review or Abandonment?' (Oxera, 2016) <<https://www.oxera.com/getattachment/437e4201-98ce-467e-87d0-048c3b3f23a3/Synthesis-Concurrences-Workshop-220616.pdf.aspx>> accessed 21 February 2018

<sup>753</sup> S. Salop, 'Exclusionary Conduct, Effect on Consumers, and the Flawed Profit-Sacrifice Standard' [2006] 73 Antitrust Law Journal 311- 374  
<<https://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?referer=https://www.google.co.uk/&httpsredir=1&article=1197&context=facpub>> accessed 21 February 2018

application of Article 102 on exclusionary abuses.<sup>754</sup> An example on this can be provided by the fact that the Commission's standpoint in paragraph 80 of the Guidance has been more lenient<sup>755</sup> than the ECJ's decision in *Konkurrensverket v TeliaSonera Sverige AB*<sup>756</sup> on margin squeeze abuse. In fact, it was contended that the Commission must remove the Guidance Paper due to the dangerous conflict between the authority of the EU courts, as well as, the Guidance Paper.<sup>757</sup> Others have argued that Commission's Guidance Paper should not be removed, but it should be revisited, given that it has failed to identify priorities which have led to more confusion amongst businesses about this area.<sup>758</sup>

Indeed, it can be argued that the Guidance in itself is not binding, yet it can also be argued that it provides legitimate expectations for undertakings that, at least, the Commission is going to abide by its guidance. It must be mentioned here that the ECJ had ruled in *Expedia Inc v Autorite de la concurrence*<sup>759</sup> that the Commission is bound

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<sup>754</sup> A. Pinar, 'The European Commission's Guidance on Article 102 TFEU: From *Inferno* to *Paradiso*?' [2010] 73(4) *Modern Law Review* 605, 630

<sup>755</sup> L. Gormsen 'Why the European Commission's enforcement priorities on Article 82 EC should be withdrawn' [2010] 31 (2) *ECLR* 45. Paragraph 80 of the Guidance states the following: *Finally, instead of refusing to supply, a dominant undertaking may charge a price for the product on the upstream market which, compared to the price it charges on the downstream market, does not allow even an equally efficient competitor to trade profitably in the downstream market on a lasting basis (a so-called 'margin squeeze'). In margin squeeze cases the benchmark which the Commission will generally rely on to determine the costs of an equally efficient competitor are the LRAIC of the downstream division of the integrated dominant undertaking.*

<sup>756</sup> Case C-52/09 *Konkurrensverket v TeliaSonera Sverige AB* [2011] ECR I-000; [2011] 4 *CMLR* 982

<sup>757</sup> L. Gormsen 'Why the European Commission's enforcement priorities on Article 82 EC should be withdrawn' [2010] 31 (2) *ECLR* 45.

<sup>758</sup> P. Akman 'The European Commission's Guidance on Article 102 TFEU: from *Inferno* to *Paradiso*?' [2010] 73 (4) *Modern Law Review* 605. For further commentary on the debate leading to the Guidance and the Guidance itself see *European Competition Law Annual 2007: A Reformed Approach to Article 82 EC* in Ehlermann and Marquis (eds.) (Bloomsbury Publishing, 2008). A. Ezrachi 'The European Commission Guidance on Article 82 EC- The way in Which Institutional Realities Limit the Potential for Reform' (2009) *Oxford Legal Paper Series* (No 27/2009), available at [www.ssrn.com](http://www.ssrn.com). N. Pettit 'From Formalism to effects? - The Commission's Communication on Enforcement Priorities in Applying Article 82 EC' [2009] 32 *World Competition* 485. M. Kellerbauer 'The Commission's New Enforcement Priorities in Applying Article 82 EC to Dominant Companies' Conduct: A Shift Towards a More Economic Approach?' [2010] 31(5) *ECLR* 175. D. Geradin 'Is the Guidance Paper on the Commission's Enforcement Priorities in Applying Article 102 TFEU to Abusive Exclusionary Conduct Useful?' (2010) <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1569502](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1569502)> accessed 7<sup>th</sup> October 2016.

<sup>759</sup> C-266/11 *Expedia Inc v Autorite de la concurrence* [2013] *Bus. L.R.* 705, [28]

by the Notice it published as it was intended to provide guidance to courts and the Member States. It was held by the ECJ that the Commission could not deviate from the Notice without breaching the principle of legitimate expectation and equal treatment.<sup>760</sup> Therefore, it can be argued here that undertakings have derived some legitimate expectations from the Guidance Paper. The Commission is to be bound by the Guidance and must fulfil its guiding principles, otherwise, the Commission could deviate from the principle of legitimate expectations and equal treatment. Such deviations do not adhere to the rule of law element of equality before the law. It would be interesting to see whether or not the Commission has followed its Guiding principles in its the *Microsoft* case.<sup>761</sup>

In support to the above argument, it can be evident in the comments presented by Vodafone Group Plc (Vodafone) that some businesses do indeed prefer more explicit guidance on the application of Article 102 TFEU. It has been highlighted by the company that unclear guidance on the application of Article 102 gives a 'chilling effect' of uncertainty for the application of the Article. It has been further argued by Vodafone that the Commission's Discussion Paper on the application of Article 102 TFEU should include more precise statements on the likelihood of circumstances to be pursued by the Commission, as well as examples of non-abusive behaviour and to reduce the discretionary language in the Discussion Paper.<sup>762</sup>

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<sup>760</sup> C-266/11 *Expedia Inc v Autorite de la concurrence* [2013] Bus. L.R. 705, [28]

<sup>761</sup> It has been argued in the following chapter that the Commission has contradicted its Guidance Paper in the *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final which is concerning from a rule of law perspective as undertakings have derived expectations from the Guidance Paper despite its non-binding character

<sup>762</sup> Vodafone Group Plc, 'Vodafone Group Plc response to DG Competition discussion paper on Article 82 EC' (*Europaeu*, March 2006) <<http://ec.europa.eu/competition/antitrust/art82/067.pdf>> accessed 8 May 2018

It has been suggested by Vodafone that such discretionary language used in such Guidelines would result in an inconsistent application, which undermines the Commission's objective in developing legal certainty. Further, Vodafone argued that the Discussion Paper provided an expansive definition of dominance with limited guidance on the assessment of dominance. Most importantly, Vodafone implied that legitimate commercial behaviour suffers from a 'chilling effect' with the lack of guidance on the application of Article 102 has a substantial. The company stressed the importance of legal certainty in the application of the Article as it would play a huge role in enhancing EU productivity, human capital, employment, R&D. Therefore, Vodafone considers that well-defined guidelines are achievable using more unambiguous language for EU businesses.<sup>763</sup> Further, Hayek has stressed that it is crucial for companies to have clear guidelines which are indeed important for effective competition.<sup>764</sup>

Whatever the merits of the backlash Article 102 TFEU have received, it is unquestionable that a because a breach of Article 102 may have significant negative impacts, whereby the Commission or a judicial authority can decide an excessive fine, similarly to that in *Microsoft* and *Intel*, on top of the fact that a third party could bring an action for an injunction, as well as, damages before a domestic court or judicial authority.<sup>765</sup>

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<sup>763</sup> Vodafone Group Plc, 'Vodafone Group Plc response to DG Competition discussion paper on Article 82 EC' (*Europaeu*, March 2006) <<http://ec.europa.eu/competition/antitrust/art82/067.pdf>> accessed 8 May 2018

<sup>764</sup>F. Hayek, *The Road to Serfdom*, (first published 1977, Routledge 2001), p. 198

<sup>765</sup> It was reported in the media that out-of-court settlements were reached between Microsoft and various of the complainants against it for the payment of damages: a report in the Financial Times of October 2005 suggested that Microsoft had paid a total of \$1.25 billion: see Financial Times, 13 November 2009

## V. CONCLUSION

The elimination of vague languages used in international agreements or treaties, and the decrease or elimination of existing inconsistencies between different domestic jurisdictions as to the treatment of refusal to license as an abuse of dominance is important from a rule of law perspective. This is because the international community needs the rule of law very much the same way as do national regimes. Therefore, it is, arguably, necessary to address IP-related antitrust frictions between Member countries by the international community as soon as possible to eliminate or decrease existing inconsistencies between different national legislations.<sup>766</sup> This can be done by providing a WTO explanation on the exact scope of Article 31 of the TRIPS Agreement in order to decrease concerns of dispute settlement proceedings. Moreover, as indicated earlier, Article 40 of the same Agreement can only be fully implemented once all Member countries include sufficient measures, guidance and adequate procedures for competition disputes. Moreover, Article 8 could benefit from the decrease of vague language used within its provision.

Indeed, the TRIPS Agreement permits the Member States to embrace appropriate measures in their domestic laws that deal with anti-competitive and abusive practices so long they are coherent with the standards established in the Agreement. However, an appropriate level of fulfilling international obligations within national legal systems is challenging, particularly without a full understanding of the EU's obligations to international treaties. It has been suggested that limited awareness of the WTO rules is

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<sup>766</sup> G. Duduchava and G. Miteva, 'Global Antitrust Trends in the Context of Refusal to License IPRs' (2016) WIPO Academy, University of Turin and ITC-ILO Research Papers Collection -2013-2014 <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2723858](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2723858)> accessed on 31 August 2018

the cause of 'benign neglect or even amused disrespect'.<sup>767</sup> Additionally, the TRIPS Agreement's provisions cannot be taken very seriously when the nature and scope of the TRIPS Agreement's articles that have been set out to control anti-competitive and abusive practices are not clearly expressed.<sup>768</sup>

Additionally, the requirement of consistency that has been set out in both Articles 8(2) and 40(2), were argued to be '*caveat against an excessive exercise of competition policy*'<sup>769</sup>, in a way that authorities cannot use antitrust laws as an excuse to undermine the protection of IPRs as it has set out in the TRIPS Agreement. Thus, the competition law Articles in the Agreement seem to be meant to be used as a means of controlling domestic competition policy, instead of a norm that informs the development of competition policy.<sup>770</sup>

Overall, the varying levels of precision in the wording of the Agreement, indeed, can indicate that it would be challenging to deliver definite answers to specific disputed matters, given that there are constant changes within the political, economic, technological or scientific landscape. However, as prerequisite of the rule of law, the rules of the international legal order must be complete in order to provide certainty as to the law, and thus, it must avoid ambiguity for Member States to apply such rules and take them seriously. Indeed, what is required by the international rule of law is far from being clearly recognised and does not have clearly defined content. Nevertheless, completeness and certainty of the law leads to a degree of confidence that the

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<sup>767</sup> T. Cottier and K. Schefer, 'The Relationship between World Trade Organization Law, National and Regional Law', 1 *J Int'l Economic L* [1998] 1 *J Int'l Economic L* 84, at 94.

<sup>768</sup> H. Ullrich, 'Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective', in K. Maskus and J. Reichman (eds), *International Public Goods and Transfer of Technology under a Globalized Intellectual Property Regime* (2005), at 726.

<sup>769</sup> H. Ullrich, 'Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective' [2004] 7 *J. Int'l Econ. L.* 401, 410

<sup>770</sup> H. Ullrich, 'Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective' [2004] 7 *J. Int'l Econ. L.* 401, 410

elements of the international rule of law are acknowledged by the Member States of the international community, and thus, ensuring the application of the legal rules when regulating international relations.

As discussed above, although the TRIPS Agreement, as a whole, aims to achieve competitive balances and guarantees valuable minimum level of international protection, the Agreement does not specify standards used to achieve such competitive balances. It is, thus, important to firstly examine the standards adopted by EU courts and authorities to assess competition law interventions in refusal to license cases and FRAND violations and, secondly, to examine the admissibility and administration of EU competition law defenses within the national courts of the three previously named EU Member States.

## CHAPTER FIVE

### ABUSIVE REFUSAL TO LICENSE IPRs AND FRAND VIOLATIONS IN THE EU

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#### I. INTRODUCTION

As indicated in the previous chapter, the conduct of IPR holders can sometimes clash with competition law. Article 28 of the TRIPS Agreement provides IP holders with the exclusive right to exclude others from using or exploiting their IPRs. Right holders can decide to assign, license or transfer by succession their IPRs.<sup>771</sup> However, the conflict between IPRs and competition law can be particularly visible when EU competition authorities are concerned over the maintenance or growth of the market.<sup>772</sup>

Indeed, the mere refusal to license is not unlawful unless it has a negative impact on the market as seen in Article 40 of the TRIPS Agreement.<sup>773</sup> International treaties such as the TRIPS Agreement and Article 5(A) of the Paris Convention have only set the general principles for finding an abuse of dominance, particularly given that it has been left the door open for lawmakers to adopt specific provisions that are configured to control abuses or anti-competitive conduct of IPRs.

This chapter assesses the measures adopted at a regional level by EU competition authorities to balance IPRs and effective EU competition against the elements of the

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<sup>771</sup> The TRIPS Agreement, Article 28

<sup>772</sup> C-85/76 *Hoffman-La Roche v Commission* [1979] ECLI:EU:C: 1979:36; c-62/86 *AKZO v Commission* [1991] ECLI:EU:C:1991:286, at [69]; C-52/07 *Kanal 5 and TV 4* [2008] ECLI:EU:C:2008:703, at [25]; C-52/09 *TeliaSonera Sverige* [2011] ECLI:EU:C:2011:83, at [2]

<sup>773</sup> The TRIPS Agreement, Article 40

rule of law. The ECJ has emphasised<sup>774</sup> that it is necessary to achieve such a balance. Article 102 TFEU prohibits the abusive refusal to licenses and FRAND violations. Refusal to license IPRs can be deliberated as abusive under Article 102 TFEU instead of anti-competition conduct, and thus, Article 31(K) of the TRIPS for the granting of compulsory licences becomes inapplicable.<sup>775</sup> In return, a potential licensee must make serious attempts to obtain a licence in cases of ‘abusive’ refusal to license as per the study conducted by WIPO.<sup>776</sup> However, EU courts have expanded throughout EU case law on the ‘exceptional circumstances’ test used for finding a dominant undertaking participating in abusive conduct under Article 102 TFEU. Moreover, the nature and scope of these circumstances remain vague up till this date which is problematic from a rule of law perspective. This chapter aims to highlight that rule of law concerns can be raised, given that Article 102 TFEU has been aggressively applied and its scope of application has expanded to a great extent over the years, in particular to refusal to license cases and FRAND commitments. Additionally, this chapter aims to offer contrast of approaches to evaluation issues of refusal to license and potential solutions.

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<sup>774</sup> T-504/93 *Tierce Ladbroke v Commission* [1997] ECLI:ET:T:1997:84

<sup>775</sup> World Trade Organisation Secretariat, ‘Refusal to License IP Rights: A Comparative Note of Possible Approaches’ (2013) at para. 25 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

<sup>776</sup> World Trade Organisation Secretariat, ‘Refusal to License IP Rights: A Comparative Note of Possible Approaches’ (2013) at para. 25 < [http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals\\_license\\_IPRs.pdf](http://www.wipo.int/export/sites/www/ip-competition/en/studies/refusals_license_IPRs.pdf) > accessed on 30 August 2018

## II. EU CASE LAW

EU or domestic courts may decide a compulsory licence in cases of abusive refusal to license. Within the past thirty years, EU courts, as well as the Commission, have issued various compulsory licensing decisions under Article 102 TFEU. This chapter examines some of the most prominent cases and assesses the scope of the ‘exceptional circumstances’ test used to determine abuse of dominance under Article 102 TFEU in some refusal to license cases and FRAND violations. Some of the cases mentioned below have been involved with copyrights, nevertheless, competition authorities have referred to such cases in refusal to license patents and FRAND violations.

### A) *Volvo v Veng*

To start with, the assessment of whether a refusal to license established an abuse of dominance has been first captured on the 5<sup>th</sup> October 1988 by the ECJ in *Volvo v Veng*.<sup>777</sup> Volvo, an undertaking with protected copyright design in Denmark and Italy, brought IP infringement action against Veng, a UK undertaking. Veng counter-claimed Volvo’s proceedings by stating that Volvo had abused its dominant position with its refusal to license.<sup>778</sup>

The Court had determined that a refusal to license, does not, in itself, and even for a reasonable royalty, amount to an abuse of dominance under Article 102 TFEU, ex Article

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<sup>777</sup> C- 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122

<sup>778</sup> The following chapter further assesses how the courts had dealt with competition law defenses in IP infringement proceedings, but it is interesting to note here that It must be mentioned here that the Court did not contemplate whether or not Volvo had abused its dominant position by bringing IP infringement proceedings against Veng.

82 EC.<sup>779</sup> The ECJ had identified three conditions that have to be present to establish a violation of dominance. First, there must be arbitrary practice such as refusal to license to independent parties. Second, illegal price fixing and third, prevention of the production of relevant products for a model that is still in circulation.<sup>780</sup> The Court then decided that the mentioned elements were not present in *Volvo v Veng* and thus, it was determined that Volvo did not abuse its dominant position with its refusal to license.<sup>781</sup>

The ECJ did not highlight whether the three elements, mentioned above, are exhaustive or not. Therefore, domestic courts were provided with little guidance regarding the determination of when a refusal to license is, indeed, unlawful. Moreover, refusal to supply or license has been provided as a mere example of abusive conduct, and thus, the decision does not necessarily add any limitations to abusive conduct.

### B) Magill

The ECJ in *Magill*<sup>782</sup> had decided a compulsory licence of the IPR in question. The ECJ confirmed that the mere proprietorship of an IPR does not allow the IPR holder to abuse its dominant position.<sup>783</sup> The ECJ referred to its decision in *Volvo v Veng* to highlight that in ‘exceptional circumstances’ a refusal to license can be unlawful.<sup>784</sup> In other words, the ECJ has outlined here that only in ‘exceptional circumstances’ can a court issue a compulsory licence. The ECJ further identified that a compulsory licence could be granted when the product is crucial for the production of a new product that is not

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<sup>779</sup> C-238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [8]

<sup>780</sup> C-238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [9]

<sup>781</sup> C-238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [10]

<sup>782</sup> C- C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743 (referred to as *Magill* within the text)

<sup>783</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [46]

<sup>784</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [50]

provided by the IP holder, there are no justifiable reasons for the refusal to license, and the conduct excludes competition in the secondary market of that specific IPR.<sup>785</sup>

The ECJ established that right holders could be obliged to license their IPRs in exceptional circumstances. Nevertheless, the ECJ did not expand on whether the conditions mentioned above of ‘the exceptional circumstances’ test are cumulative or disjunctive. It also did not address whether the set of circumstances was exhaustive or illustrative.<sup>786</sup> It has been attempted by the ECJ to cover such concerns in *IMS Health* which is further examined in this chapter.

Moreover, the ECJ in its *Magill’s* decision had relaxed its exceptional circumstances test as opposed to its approach in *Volvo v Veng*.<sup>787</sup> A compulsory licence may now be granted under Article 102 TFEU when the production of a new product outweighs the right holder’s incentives to innovate.<sup>788</sup> The ECJ had supported its decision when it stipulated that the new product would not challenge the original IP, as it can be differentiated from one another. Accordingly, the Court had resorted to a balancing of efficiencies and had adopted a follow-on innovation approach for the determination of unlawful refusal to license IPRs.<sup>789</sup>

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<sup>785</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [53]-[57]

<sup>786</sup> I. Eagles and L. Longdin, *Refusals to License Intellectual Property: Testing the Limits of Law and Economics* (1 end, 2011) 163

<sup>787</sup> G. Monti, *EC Competition Law* (Cambridge University Press, 2007) 228

<sup>788</sup> M Angelov, ‘The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU’ [2014] 10(1) European Competition Journal, 37-67

<sup>789</sup> M Angelov, ‘The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU’ [2014] 10(1) European Competition Journal, 37-67

### C) *Bronner*

The ECJ in the case of *Bronner*<sup>790</sup> had provided a further elaboration as well as a new approach to the 'exceptional circumstances'<sup>791</sup> test used in *Magill*. In this case, Mediaprint was an undertaking of a home-delivery network, and Bronner wanted to access the network. The ECJ referred to *Magill* and had determined that violation of Article 102 TFEU, ex Article 82 EC, was not breached by Mediaprint with its refusal to license. The ECJ had highlighted that Mediaprint's network was not crucial, particularly given that there are other methods of distribution which could include shops and post-delivery.<sup>792</sup> Therefore, the Court decided that there are no economic, technical or legal difficulties that would prevent Bronner from creating its own home-delivery network.<sup>793</sup> The Court had delivered in its decision further clarifications in regards to the determination of abusive conduct. It was stipulated that refusal to license can be unlawful when the refusal could eliminate competition in that market, there are no justifiable objective considerations, and the product or service is indispensable for carrying on that individual's business.<sup>794</sup>

The case of *Bronner* is relevant to the interpretation of existing compulsory licensing case law even though it was not, per se, involved with IPRs. It was made clear by the ECJ that economic and legal considerations are necessary to balance the conduct of an

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<sup>790</sup> C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791

<sup>791</sup> C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791, at [40]

<sup>792</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [37]

<sup>793</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [42]-[47]

<sup>794</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [41]

undertaking against public interests. Moreover, the ECJ in the *Bronner* case has provided further clarifications of the requirements set in *Magill*.<sup>795</sup> An example on this can be seen by the fact that the requirement of ‘not justified’ in *Magill* became ‘not justified by objective considerations’ in *Bronner*. Additionally, the requirement of ‘exclude all competition’ found in *Magill* became ‘likely to exclude all competition’ in *Bronner*. The ECJ in *Bronner* has, thus, presented an element of probability.<sup>796</sup>

#### D) *IMS Health*

The *IMS Health* case<sup>797</sup> was yet another opportunity for the ECJ to expand on and further clarify ‘the exceptional circumstances’ test used to assess the granting of a compulsory licence under Article 102 TFEU, ex Article 82 EC. The ECJ’s decision in *IMS Health* reaffirmed *Bronner* and *Magill*’s requirements for the ‘exceptional circumstances’ test in cases of refusal to license IPRs.

To start with, *IMS Health* sought IP infringement proceedings before the ECJ against *NDC Health* following an objection brought to the Commission by *NDC Health* suggesting that *IMS Health* has breached EU competition law with its refusal to license the industry standard. *NDC Health* has then used competition law defence to counter-claim *IMS Health*’s IP infringement proceedings arguing that *IMS Health* had breached EU competition law with its refusal to license its IPR.<sup>798</sup>

The ECJ determined that the court can impose a compulsory licence when the product or service is indispensable within the downstream market.<sup>799</sup> The Court trialled the view

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<sup>795</sup> C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791, at [40]

<sup>796</sup> M Angelov, ‘The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU’ [2014] 10(1) European Competition Journal, 37-67

<sup>797</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28

<sup>798</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [3]-[12]

<sup>799</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [45]

of AG Tizzano indicating that IPRs are outweighed by competition when the '*refusal to grant a license prevents the development of the secondary market to the detriment of consumers*.'<sup>800</sup> It can be noted here that the ECJ furthered the 'new product' condition set in *Magill* into the development of a secondary market.<sup>801</sup> The ECJ further indicated that refusal to license could be considered unlawful when such a refusal might exclude potential competition on a secondary market.<sup>802</sup> The Court provided further details on the new product condition, as it stated that the refusal to license IPRs by a dominant business could be unlawful when the IPR is indispensable for the development of a secondary market. Moreover, if the licence seeker does not limit itself to the mere duplication of the goods or services that are already provided in that market by the IPR holder. In other words, the licence seeker must have the intention to produce new products or services that are not provided by the IPR holder in that market, given that there is possible consumer demand on such goods or services.<sup>803</sup>

It was, thus, recognised by the ECJ that a refusal to license by a dominant business could be sufficiently measured as abusive under Article 102 TFEU, ex Article 82 EC, when specific requirements are fulfilled. First, the IPR in question is crucial for carrying on a specific business. Second, the refusal prevents the production of a new product that might have consumer demand. Third, there are no objective justifications for the refusal to license, and finally, the conduct might exclude all competition in a secondary market.<sup>804</sup> The Court in *IM Health* has created a narrower approach to the new product

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<sup>800</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [48]

<sup>801</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [239]

<sup>802</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [43]

<sup>803</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [49]

<sup>804</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [38] and [44]-[45]

condition, as it made duplication of an IPR insufficient for a compulsory licence.<sup>805</sup> This stricter approach to the ‘exceptional circumstances’ test is desirable from a rule of law perspective, given that mere economic considerations can weaken the essence of IPRs and cause harm to IPR owners. As a matter of fact, this approach could better safeguard the supremacy of law as per the rule of law doctrine, given that it would ensure that the law is clearly defined before any economic benefits can surface.

The ECJ has also affirmed the cumulative aspect of the exceptional circumstances test used in *Magill* and has also tightened the test used in *Volvo v Veng*.<sup>806</sup> Moreover, the ECJ’s decision in *IMS Health* is consistent with previous case law, since the main principles of judgement were derived from *Volvo v Veng* and *Magill*. However, the Court had only relied on *Volvo v Veng* and *Magill* to state that a mere refusal to license is only unlawful in exceptional circumstances and has only confirmed that the conditions of *Magill* are cumulative. Therefore, some questions remain unanswered, particularly given that the ECJ has used the term ‘sufficient’ instead of ‘necessary’ to highlight the circumstances of when a refusal to license could be breaching EU competition law. The choice of the term ‘necessary’ indicates that the three conditions set in *Magill* are not exhaustive in nature. It would have been preferable if the ECJ did not leave the door open for other requirements that can also be considered ‘sufficient’ for the finding of unlawful conduct in future refusal to license cases. The use of the word ‘necessary’ would have better fulfilled the rule of law elements of legal certainty and provided further clarity for businesses so that they can plan their conduct accordingly.

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<sup>805</sup> Order of the President of the Court of First Instance, Case T-184/01 R *IMS Health Inc v Commission* [2001] ECR II-3193, 125

<sup>806</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [38]

Some commentators have stressed that the determination of a new product under ‘the exceptional circumstances’ test remains vague, despite the fact the ECJ has been consistent with previous case law.<sup>807</sup> It has also been emphasised that such vagueness in the new product test may increase insincere complaints against lawful refusal to license IPRs.<sup>808</sup> Indeed, the consistency in law principle that can be derived from the doctrine of the rule of law has not been jeopardised following the ECJ’s decision in *IMS Health*, yet legal certainty can be jeopardised due to the vagueness that remains in the application of the new product test. We must remember that the rule of law elements requires a transparent and predictable application of the law without unnecessary vagueness regarding the new product test.

#### E) Microsoft

The Commission has established a different approach to the standards that have already been used in cases of compulsory licences prior to its *Microsoft*’s decision. This matter does not necessarily deal with a refusal to license,<sup>809</sup> nevertheless, it has comparable effects.<sup>810</sup> The Commission found that Microsoft had infringed EU competition law with its refusal to supply interoperability information to Sun Microsystems.<sup>811</sup>

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<sup>807</sup> Forrester, ‘Regulating Intellectual Property via Competition? Or Regulating Competition via Intellectual Property? Competition and Intellectual Property: Ten Years on, the Debate Still Flourishes’, in C Elhermann and I Atanasiu (eds), *European Competition Law Annual 2005: The Relationship between Competition Law and Intellectual Property Law* (Oxford: Hart Publishing, 2005) p. 67

<sup>808</sup> Forrester, ‘Regulating Intellectual Property via Competition? Or Regulating Competition via Intellectual Property? Competition and Intellectual Property: Ten Years on, the Debate Still Flourishes’, in C Elhermann and I Atanasiu (eds), *European Competition Law Annual 2005: The Relationship between Competition Law and Intellectual Property Law* (Oxford: Hart Publishing, 2005) p. 67

<sup>809</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, paras 568-572

<sup>810</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para. 546

<sup>811</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para. 546

Sun Microsystems brought a complaint to the Commission against Microsoft Corporation. The complaint suggested that Microsoft Corporation had breached EU competition law with its refusal to provide Sun Microsoft sufficient information on how to integrate Microsoft package of Windows 2000 into its server. The Commission had discovered that Microsoft refused to disclose the information and share its information with other competitors alongside Sun Microsystems.<sup>812</sup> The Commission found that Microsoft Corporation had been breaching Article 102 TFEU with its abusive refusal to share information and purposely restricting interoperability with other undertakings.<sup>813</sup> The Commission based its finding on the fact that Microsoft is a dominant business in the relevant market.<sup>814</sup>

The Commission then examined Microsoft's refusal to supply per existing case law. The cases of *Volvo v Veng* and *Magill* were referred to in order to highlight that refusal to supply cannot be considered on its own as abusive conduct. Nevertheless, the Commission stressed that there are exceptions to this principle, as it has been previously identified by the ECJ in *Magill's* 'exceptional circumstances' test.<sup>815</sup> The Commission had attempted to narrow down the definition of 'exceptional circumstances' to a case-by-case method. In other words, the Commission has disagreed with the *Magill's* single test that is used to determine a violation of EU competition law under Article 102 TFEU. The Commission's main standard that was applied in its *Microsoft's* decision has been the following:

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<sup>812</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 3

<sup>813</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final

<sup>814</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, paras 324-401. For further information on the Commission's definition of relevant market, see *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, paras 472,489 and 514-562

<sup>815</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, paras 550-551 and 557

*‘The case law of the European Courts therefore suggests that the Commission must analyse the entirety of the circumstances surrounding a specific instance of a refusal to supply and must take its decision based on the results of such a comprehensive examination.’*<sup>816</sup>

The above mentioned new legal standard applied by the Commission had introduced an ‘entirety of circumstances’ test, instead of the ‘exceptional circumstances’ test that has already been established by the ECJ in previous case law.<sup>817</sup> The Commission had identified three exceptional requirements for finding a refusal to license by a dominant undertaking as abusive under Article 102 TFEU.<sup>818</sup> The first requirement suggested that the refusal to supply must introduce a threat of excluding competition in the relevant market. The second requirement indicated that such a risk must be due to the indispensability of the product or service to carry on businesses in that market. The last requirement implied that the refusal to supply should have an adverse impact on technical development, as well as consumers’ interests.<sup>819</sup>

The Commission has touched on the basic requirements of indispensability, elimination of competition and no objective justifications, however, the new product test was not a matter of concern by the Commission.<sup>820</sup> The Commission assessed the requirement of indispensability by looking at the level of existing interoperability in the relevant market. Indeed, the Commission had found that it can be possible to reach an appropriate level of interoperability without issuing a compulsory licence, yet the Commission measured that Microsoft’s refusal to supply does not allow rivals to remain

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<sup>816</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 558

<sup>817</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 712

<sup>818</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 712

<sup>819</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, paras 573-577

<sup>820</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 554 and 670

in the market.<sup>821</sup> The indispensability test in previous case law such as *Bronner* and *IMS Health* does not necessitate maximum access to the market when there are other available solutions and even if they are less beneficial.<sup>822</sup> Nonetheless, the Commission had disregarded the possibility of other solutions mainly because they are less advantageous.

As indicated above, the Commission did not necessarily address the new product test established in previous case law by the ECJ. The test has been seen in both *Magill* and *IMS Health* where it was noted that duplication of products is not sufficient grounds for deciding a compulsory licence. It has been highlighted in *Magill* and *IMS Health* that the licence seeker must have the intention of providing new products or services that have consumer demand and are not being offered by the right-holder.<sup>823</sup> The Commission's decision in *Microsoft* did not address whether Sun Microsystems must provide a new product or service that has consumer demand and is not being offered by Microsoft Corporation. The Commission has instead indicated that Microsoft's information must be provided to its competitors in the relevant market so that they are not discouraged from developing new products.<sup>824</sup>

The Commission's approach has indicated that Microsoft's abusive refusal to supply limits the technical development and incentives to innovate. The requirement of the elimination of competition in *Microsoft* appears to be inconsistent with previous case law. As indicated above, the ECJ had already tightened the *Magill's* test in *IMS Health* to the elimination of 'all' competition. Nevertheless, the Commission has undertaken a

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<sup>821</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 712

<sup>822</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [28]

<sup>823</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [49]

<sup>824</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, paras [694]-[695]

lenient approach as opposed to the existing case with its requirement of the 'risk of eliminating competition'.<sup>825</sup> Another difference in the stance embraced by the Commission in its *Microsoft's* decision as opposed to existing case law can be noted when looking into the requirement of objective justifications found in ECJ's previous case law. This inconsistency can be seen when Microsoft argued that it had refused to disclose its information due to objective justifications in order to protect its multibillion R&D investments in its software and technology, yet the Commission rejected Microsoft's reasons for its refusal to disclose its information. Microsoft argued that disclosure of its information would have had a negative impact on IPR protection and it would undermine the essence of IPR, as it would eliminate Microsoft's future incentives to invest in more IP.<sup>826</sup>

The Commission tackled Microsoft's arguments by applying a new incentives trade-off test. It was stated that the essence of IPRs is to protect both the right holder's moral rights and guarantee a reward for efforts made on creativity. Nonetheless, such creativity must be motivated for the interest of the public. Therefore, refusal to supply by a dominant business can clash, in some circumstances, with the interests of the general public.<sup>827</sup> Moreover, the Commission further supported its stance when it implied that Microsoft would be inclined to invest in future innovations due to the competitive pressure of a compulsory licence. Ultimately, the Commission found that Microsoft's refusal its IPRs cannot be objectively justified.<sup>828</sup>

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<sup>825</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, at [589]

<sup>826</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, at [709]

<sup>827</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, at [711]

<sup>828</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, at [712]

It must be mentioned that it became less challenging to access an indispensable IP following *Microsoft's* decision. The Commission's lenient approach to compulsory licensing and access to indispensable IP can lead to products' imitation which can have a negative effect on incentives to innovate and invest.<sup>829</sup> It has been further highlighted that such a lenient approach to compulsory licensing may increase competition, yet it can harm the economy as it discourages the investment in future R&D.<sup>830</sup> Moreover, the inconsistencies highlighted above of the *Microsoft's* decision made by the Commission as opposed to existing case law, in specific to *IMS Health*, is concerning from a rule of law perspective, given that one of the basic principles of the doctrine is that law must be consistent. Without consistency in the judicial sector, individuals may lose their trust in the legal system in question. Moreover, such contradictions must be avoided as much as possible, because the simple statement that 'law has to rule' is derived as an essential element of the doctrine. Once the law becomes a path of contradictions, then it would usually lead to unacceptable outcomes,<sup>831</sup> such as the discouragement of future investments in R&D.

There have been three distinct phases that can be grasped from the EU competition authorities' decisions made in an attempt to achieve a balance between competition law and IPRs. The stages can be summarised as the 'new product' requirement,<sup>832</sup> the 'exceptional circumstances' test,<sup>833</sup> as well as, the technological improvement

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<sup>829</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal 37-67

<sup>830</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal 37-67

<sup>831</sup> G. Palombella, 'The rule of law beyond the state: failures, promises and theory' [2009] 7(1) International Journal of Constitutional Law 442-467

<sup>832</sup> C- 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122

<sup>833</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743 and Case C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791

principle.<sup>834</sup> The assumption of legality of refusal to license had been present in the first stage: the new product requirement. This presumption still existed in the second stage, but the ‘exceptional circumstances’ test has emphasised that such a presumption can be altered. The presumption of illegality can be seen in the third stage when the Commission made modifications to ‘the exceptional circumstances’ test.

The Commission’s alterations to the ‘exceptional circumstances’ test in *Microsoft* can have a major effect on incentives to innovate and invest. Indeed, several commentators have stressed that a potential licensee does not have to bring a totally different ‘new product’ so long as it satisfies the requirement of possible consumers’ demand.<sup>835</sup> However, Monti had reminded us that the Commission’s modifications to the ‘new product’ test should *only* be applied when they do not weaken the right holder’s incentive to innovate and invest.<sup>836</sup>

It can be noted that there has been a striking development throughout EU case law for the determination of breach of EU competition law under Article 102 TFEU. To start with, the duplication and imitations have been the main point of concern in *Volvo* and *IMS Health* and then *Magill*, where the follow-on innovation motivated by new products, has justified fears of imitation initially found in *Volvo*. The same fears concerning duplication became less important in the *Microsoft* case via the insertion of the reasoning of technical development, nonetheless, technical development does not necessarily indicate a distinctive new product. As noted from the earlier discussion, the

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<sup>834</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final

<sup>835</sup> C Ahlborn, D Evans and J Padilla, ‘The Logic and Limits of the ‘Exceptional Circumstances’ in *Magill* and *IMS Health*’ [2005] 28 *Fordham International Law Journal* 1109, at 1147 and P Larouche, ‘The European *Microsoft* Case at the Crossroads of Competition Policy and Innovation: Comment on Ahlborn and Evans’ [2009] 75 *Antitrust Journal* 935, at 946

<sup>836</sup> G Monti, *EC Competition Law*, (Cambridge University Press, 2007), 228

Commission did not investigate concerns of imitation that were highlighted in previous case law such as *Magill* and *IMS Health*. In other words, the Commission has mainly emphasised that consumer demand for a particular technical development as well as follow-on innovation outweigh concerns of duplication. It can, thus, be argued that the Commission has prioritised competition over inventor's incentives to innovate.

The Commission's decision in *Microsoft* has been based on follow-on innovation that entails a modification of a particular product<sup>837</sup> and not a 'new product' that was presented in the rationale of follow-on innovation by the ECJ in *Magill*.<sup>838</sup> From a rule of law perspective, the rationale of technical development is inconsistent with preceding case law as it has not based on the principles of the ECJ's previous case law.<sup>839</sup> It is also striking that the GC in the *Microsoft* appeal case, discussed further below, also seems to have weakened the 'exceptional circumstances' test when it allowed refined and similar products to enter the market.<sup>840</sup>

Moreover, the Commission had stressed in *Microsoft* that compulsory licensing could be granted when the benefit to consumers outweighs the adverse effects on future incentives to invest. The Commission has also emphasised in *Microsoft* that competition encourages a dominant undertaking to further its incentives to invest and innovate due to the pressure of existing competition.<sup>841</sup> Nevertheless, it must be mentioned here

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<sup>837</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final

<sup>838</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743

<sup>839</sup> As indicated in chapter three of this research, consistency in the application of the law is one of the pillars of the rule of law.

<sup>840</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>841</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para [725]

that the Commission's Guidance, referred to in the previous chapter, had highlighted the following:

*The Commission will consider claims by the dominant undertaking that a refusal to supply is necessary to allow the dominant undertaking to realise an adequate return on the investments required to develop its input business, thus generating incentives to continue to invest in the future, taking the risk of failed projects into account. The Commission will also consider claims by the dominant undertaking that its own innovation will be negatively affected by the obligation to supply, or by the structural changes in the market conditions that imposing such an obligation will bring about, including the development of follow-on innovation by competitors*<sup>842</sup>

The Commission had acknowledged in its Guidance that a compulsory licence might discourage inventors from investments in future innovations following the extensive investments already made on an IPR before the granting of a compulsory licence. The Commission, in its Guidance, also recognised that easy access to technology via compulsory licensing may discourage IPR holders from incentives to invest in their own IP. However, the Commission had deviated from its Guidance in its *Microsoft*'s decision. This sort of departure can be easily seen when the Commission stated in *Microsoft* that competitive pressure on the essential facility motivates Microsoft's future innovation and investments, whereas it stated in its Guidance that easy access to technologies via compulsory licensing could discourage the IPR holders' incentives to invest in new technologies. Even though the Commission had recognised such problems in its

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<sup>842</sup> Guidance on the Commission's enforcement priorities in applying Article 82 EC [now 102 TFEU] to abusive exclusionary conduct by dominant undertakings [2009] OJ C45/01, [89]

Guidance, it had still decided that Microsoft would be forced to compete and innovate due to the competitive pressure of providing rivals with the same technology.

From the rule of law viewpoint, the Commission's contradictions between its *Microsoft's* decision and its Guidance Paper is concerning, particularly given that undertakings can derive legitimate expectations in regard to the outcome of their conduct per the published Commission's Guidance. Therefore, it is to be expected that the Commission would follow its own Guidance to remain coherent with the rule of law principles of predictability and equality before the law.

Moreover, an unacceptable outcome due to the contradiction presented by the Commission is that the competitive pressure argument mentioned in the *Microsoft* decision allows businesses to go above their position in the market and easily obtain a compulsory licence.<sup>843</sup> Some have argued that undertakings, in innovative industries, must be fast with their innovations in order to remain<sup>844</sup> and maintain their position in that market.<sup>845</sup> Thus, competitors of a dominant business should not presume legality of a compulsory licence,<sup>846</sup> particularly in the innovation industry. This sort of presumption can have a more significant impact on the IPR holders' incentives to invest and innovate as has already identified by the Commission in its Guidelines.<sup>847</sup>

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<sup>843</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, at [725]

<sup>844</sup> W Baumol, J Panzar and R Willing, *Contestable Markets and the theory of Injudsty Structure* (Harcourt College Pub, 1982)

<sup>845</sup> T Kaseberg, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US* (Hart Publishing, 2012), 53

<sup>846</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>847</sup> Guidance on the Commission's enforcement priorities in applying Article 82 EC [now 102 TFEU] to abusive exclusionary conduct by dominant undertakings [2009] OJ C45/01, [89]

The presumption of legality of a compulsory licence can now also be seen in the ECJ's recent case of *Huawei Technologies v ZTE Corp*,<sup>848</sup> examined below. The ECJ has indicated that Huawei, the IPR holder, could be abusing its dominant position by bringing IP infringement claims against the user. However, it is to be argued that potential licensees still need to take appropriate measures to obtain a licence and should not automatically assume their entitlement to a licence.

Indeed, the Commission had supported the judgement made in *Microsoft* via the argument that Microsoft's incentives to innovate and invest would be furthered by competitive pressure. However, the GC seems to have disagreed on that point as it concluded in the appealed case of *Microsoft Corp v Commission* that effective competitive structure on that specific industry had been impaired by the acquisition of a significant market share.<sup>849</sup> The GC, nonetheless, has reasoned that the proprietor would impair the effective competitive structure when it establishes its IPR as an industry standard due to the product's success in that market. The GC has further emphasised that the proprietor's product, in such circumstances, must be licensed to its competitors.<sup>850</sup> Whereas, the Commission has suggested that competition and competitive pressure are vital factors for Microsoft's incentives to innovate. In other words, the GC has identified that a dominant business would be motivated to advance its technology and invest in future innovations. However, undertakings must be careful not to develop their technology to the extent where it becomes vital as an industry standard in order not to impair effective competitive structure.

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<sup>848</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp, ZTE Duetschland GmbH (Re Smartphone Standard Essential Patents)* [2015] C.M.L.R 14

<sup>849</sup> T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (GC), at [664]. The case was brought by Microsoft Corp against the Commission decision

<sup>850</sup> T-201/04 *Microsoft Corp v Commission* [2007] ECR II--3601 (GC)

F) *Re Google Search (Shopping)*

As indicated earlier, EU competition law does not necessarily consider that market dominance in itself is illegal. Nonetheless, the market power enjoyed by a dominant undertaking must not restrict competition in the market it is dominant in or in a separate market.<sup>851</sup> The *Microsoft*'s case of 2004 is the last comparable decision to the recent case of *Re Google Search (Google)*. The Commission's decision in *Microsoft* became a precedent-setting case when it was had upheld by EU courts in 2007 finding that Microsoft had indeed breached Article 102 TFEU as it leveraged its dominance in order to put its rivals out of business. Therefore, some of the European Commission's experts that investigated *Re Google Search (Shopping)* have also previously worked on the *Microsoft* case. The *Intel* case was a significant case in 2009 among a small group of hardware undertakings. Nonetheless, the *Microsoft* and *Re Google Search (Shopping)* cases have an impact on a wide range of industry.<sup>852</sup>

Google's conduct was found to be abusive because it had prioritised its own comparison shopping services over its competitors in its shopping search engines. This case was not involved with refusal to license, yet reference was made to the *Microsoft* case for the determination of an abuse of dominance.<sup>853</sup> The Commission had adopted the standards implemented in the case of *Microsoft* and considered that Google's conduct had been abusive because Google had financially benefited from the significant impact it had on competition in the market for comparison shopping at the expenses of

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<sup>851</sup> European Commission, 'Antitrust: Commission fines Google €2.42 billion for abusing dominance as search engines by giving illegal advantage to own comparison shopping service' (Europa.eu Press Release, 27 June 2017) <[http://europa.eu/rapid/press-release\\_IP-17-1784\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1784_en.htm)> accessed on 23 October 2018

<sup>852</sup> Fair Search, 'The Google Comparison Shopping Case: Background' (Fairsearch. Org, 26 June 2017) <<http://fairsearch.org/the-google-comparison-shopping-case-background/>> accessed on 23 October 2018

<sup>853</sup> Case AT.39740 *Re Google Search (Shopping)* [2018] 4 CMLR 12

competitors as well as the detriment of consumers. Moreover, the Commission considered that Google had breached Article 102 TFEU by using its own search engines, Google Search, to make its services more visible than the services of its competitors.<sup>854</sup>

Nevertheless, consumers are still capable of comparing prices when they visit other sites or by simply scrolling down Google's search engine to compare prices before they buy online. The Commission in *Google Search (Shopping)* imposed a duty on Google to provide competitors with access to its search result engine, without the establishment of a duty to supply by reference to the *Bronner* criteria. This point is central because the ECJ in *Bronner*<sup>855</sup> did not find that Mediaprint had abused its dominant position. It was found that Mediaprint's home-delivery network is not crucial, given that there are other methods of distribution.<sup>856</sup> Similarly, there are other platforms available for competitors besides Google's shopping search engine, yet the Commission still found that Google's conduct had been unlawful.

The decision of the Commission in the case of *Google Search (Shopping)* has resulted in scrutiny amongst scholars and commentators throughout the Commission's examination of the facts and after the publication of the decision.<sup>857</sup> The Commission has imposed on Google the second highest fine of 2.42 billion Euros in matters of an

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<sup>854</sup> Case AT.39740 *Re Google Search (Shopping)* [2018] 4 CMLR 12

<sup>855</sup> C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791

<sup>856</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [37]

<sup>857</sup> GA Manne and JD Wright, 'Google and the Limits of Antitrust: The Case Against the Case Against Google' [2011] 34 *Harvard Journal of Law and Policy* 171; P Akman, 'A Preliminary Assessment of the European Commission's Google Search Decision' [2017] *CPI Antitrust Chronicle* 7; R Nazzini, 'Google and the (Ever-Stretching) Boundaries of Article 102 TFEU' [2015] 6(5) *Journal of European Competition Law and Practice* 301; J Verhaert 'The Challenge involved with the Application of Article 102 TFEU to the New Economy: A Case Study Google' [2014] 35(6) *European Competition Law Review* 265

abuse of dominance up to this date.<sup>858</sup> High fines may donate positively to deterrence, yet commentators have questioned the appropriateness of the fine imposed by EU competition authorities.<sup>859</sup> The imposition of severe fines could come into conflict with the principles of prospective laws as per the rule of law and legal certainty when the unlawfulness of conduct is unclear ex-ante to the sanctions imposed.<sup>860</sup> Moreover, hefty fines without clear legal standards and principles can result in the deterrence of pro-competitive practices and harm long-term competition and innovation.

It has even been feared that the *Re Google Search (Shopping)* case could have a negative impact on consumers as it could lead to innovation being rejected rather than rewarded, particularly given that the Commission did not provide much economic evidence or guiding principles on consumer harm.<sup>861</sup> Indeed, the Commission had covered an in-depth analysis of the unfairness to competitors as not many consumers are clicking on their links due to the means used by Google to design its search results page. Nevertheless, the Commission did not provide an in-depth examination of consumer harm and how consumers have been affected by the conduct of Google.<sup>862</sup>

The Commission's decision in *Re Google Search (Shopping)*, as well as the Commission and GC's decisions in *Microsoft*, have indicated that innovators must be careful in the

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<sup>858</sup> Google was fined again in 2018 for abuse of dominant position and was fined €4.34 billion: the highest fine on matters of abuse of dominant position to this date which is discussed further below. See European Commission, 'Antitrust: Commission fines Google €4.34 billion for illegal practices regarding Android mobile devices to strengthen dominance of Google's search engine' (Europa.eu, 18 July 2018) < [http://europa.eu/rapid/press-release\\_IP-18-4581\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4581_en.htm) > accessed on 24 October 2018

<sup>859</sup> M Eben, 'Fining Google: A Missed Opportunity for Legal Certainty?' [2018] 14(1) European Competition Journal 129-151

<sup>860</sup> This argument is also consistent with Article 47 of the European Charter on Fundamental Rights and Article 7 of the European Convention on Human Rights

<sup>861</sup> D Balto, 'Google shopping- How the EU's market competition policy is on the wrong track' (thehill.com, 07 January 2017) < <https://thehill.com/blogs/pundits-blog/international/340300-google-shopping-how-the-eus-market-competition-policy-is-on> > accessed 23 October 2018

<sup>862</sup> Case AT.39740 *Re Google Search (Shopping)* [2018] 4 CMLR 12

future as to how they improve their products. In other words, undertakings must be careful not be too successful in providing the consumers with what they want. It must not be forgotten that Google Search's users can use different platforms if they do not like the Google Shopping service or they can simply scroll down to compare prices. Therefore, it has been suggested that consumer harm can only be seen had they been confined to solely using Google Shopping's service, yet consumers can easily use other competing products search platforms such as eBay or Amazon.<sup>863</sup>

Moreover, Google has appealed the case before the GC calling for at least the annulment or, at least, the reduction of the fine. Google had presented several arguments as to why it believes that there are errors in the Commission's decision. Some of which first include that the Commission's decision violates the legal standard for the assessment of Google's objective justifications for showing Shopping Units. Second, the Commission did not provide sufficient evidence as to how Google's conduct is unlikely to have anti-competitive effects. Third, the Commission's decision speculates anticompetitive effects without an examination on actual market developments and that the fine imposed has been improperly calculated. Google further argued that the Commission had required Google to supply its competitors with access to its product improvements, but without meeting the required legal requirements.<sup>864</sup> Google could argue here that the Commission did not meet the required legal conditions set by the ECJ in *Brunner* for finding an abuse of dominance, given that Google's shopping search engine is not crucial and thus, there is no evident consumer harm. Hopefully, the GC

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<sup>863</sup> D Balto, 'Google shopping- How the EU's market competition policy is on the wrong track' (thehill.com, 07 January 2017) < <https://thehill.com/blogs/pundits-blog/international/340300-google-shopping-how-the-eus-market-competition-policy-is-on> > accessed 23 October 2018

<sup>864</sup> So far an action has been brought against the Commission on 11 September 2017 in the pending appeal Case T-612/17 <https://publications.europa.eu/en/publication-detail/-/publication/f6cfcc84-bd0c-11e7-a7f8-01aa75ed71a1> > accessed on 24 October 2018

could provide further clarifications on self-preference as an abuse of dominance in its ruling, yet the outcome of the case is still pending.

#### G) Google Android

The Commission has circulated a press release where it announced that Google had been fined €4.34 billion for violating EU competition laws.<sup>865</sup> The Commission has decided that Google has been imposing unlawful restrictions on Android device manufacturers and mobile network operators to strengthen its monopoly through the general internet search.<sup>866</sup> The Commission has announced that Google would face penalty costs or up to 5% of the average global turnover of Google's parent undertaking (Alphabet) if Google does not end its conduct within 90 days.<sup>867</sup> The deadline for Google ending its conduct was October 28 2018.<sup>868</sup>

The Commission has concluded that Google is a dominant undertaking in the market of internet search services, licensable devices operating system and app stores for the Android mobile operating structure. It has been established that Google's conduct is abusive due to the following: first, it had been participating in unlawful tying when

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<sup>865</sup> European Commission Press Release Data Base, 'Antitrust: Commission fines Google €4.34 billion for illegal practices regarding Android mobile devices to strengthen dominance of Google's search engine' (Europa.eu, 18 July 2018) <[http://europa.eu/rapid/press-release\\_IP-18-4581\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4581_en.htm)> accessed on 25 October 2018

<sup>866</sup> European Commission, 'Antitrust: Commission fines Google €4.34 billion for illegal practices regarding Android mobile devices to strengthen dominance of Google's search engine' (Europa.eu, 18 July 2018) <[http://europa.eu/rapid/press-release\\_IP-18-4581\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4581_en.htm)> accessed on 25 October 2018

<sup>867</sup> European Commission Press Release Data Base, 'Antitrust: Commission fines Google €4.34 billion for illegal practices regarding Android mobile devices to strengthen dominance of Google's search engine' (Europa.eu, 18 July 2018) <[http://europa.eu/rapid/press-release\\_IP-18-4581\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4581_en.htm)> accessed on 25 October 2018

<sup>868</sup> I.I Hamilton, 'Google is appealing its \$5 billion EU antitrust fine over Android' (uk.businessinsider 10 October 2018) <<http://uk.businessinsider.com/google-appeals-its-5-billion-eu-antitrust-fine-over-android-2018-10?r=US&IR=T>> accessed on 25 October 2018

Google conditioned that it will only license Google's app store if manufacturers pre-installed the Google Search app and browser app (Chrome). Second, Google has engaged in unlawful payments made to specific large-scale corporations and mobile network operators under the requirement that the Google Search app is exclusively pre-installed into their products. Third, Google engaged in unlawful barriers to developing and distributing competing Android operating systems when it prohibited corporations from selling a device that runs on other types of Android that Google did not accept.<sup>869</sup>

At this point of time, the decision made by the Commission in 18<sup>th</sup> July 2018 in the case AT.40099 *Google Android* cannot be critically examined, as the Commission has still not published a version of the decision.<sup>870</sup> It must be mentioned that Google has already appealed the Commission's decision before the GC to contest the €4.3 billion fine for the abuse of dominance in the Android operating system. Google has also indicated that it did not abuse its dominant position. Instead, it has provided everyone with an exciting ecosystem, further innovation and lower prices that advances competition.<sup>871</sup>

A sum of almost €7 billion in fines within two years would inevitably have an immense impact on many undertakings, yet that may not necessarily be the case for Google due to its size. It is interesting to note that the decision took place one week before the

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<sup>869</sup> European Commission Press Release Data Base, 'Antitrust: Commission fines Google €4.34 billion for illegal practices regarding Android mobile devices to strengthen dominance of Google's search engine' (Europa.eu, 18 July 2018) <[http://europa.eu/rapid/press-release\\_IP-18-4581\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4581_en.htm)> accessed on 25 October 2018

<sup>870</sup> The Commission is currently working on providing a version of the decision that does not contain confidential information and business secrets. We are invited to regularly check the DG's Competition's website to remain alert of any progress. For future research please check when decision is published on European Commission, 'Case AT.40099- Google Android: Commission Decision of 18 July 2018', (ec.europa.eu) <[http://ec.europa.eu/competition/antitrust/cases/dec\\_docs/40099/40099\\_8996\\_3.pdf](http://ec.europa.eu/competition/antitrust/cases/dec_docs/40099/40099_8996_3.pdf)> accessed on 25 October 2018

<sup>871</sup> I. Hamilton, 'Google is appealing its \$5 billion EU antitrust fine over Android' (uk.businessinsider 10 October 2018) <<http://uk.businessinsider.com/google-appeals-its-5-billion-eu-antitrust-fine-over-android-2018-10?r=US&IR=T>> accessed on 25 October 2018

Commission's chief Jean-Claude met with President Donald Trump on the tariffs dispute. Some were concerned that the decision would result in a transatlantic trade war with the U.S, particularly following Trump's announcement to impose tariffs on EU's exports of steel and aluminium.<sup>872</sup> Noteworthy, it initially appears that the Commission's decision<sup>873</sup> emphasises that the rule of law doctrine is essential, regardless of any possible political concerns or clashes that may arise following such decisions. It highlights that no one is above the laws that are set for all, not even Google or anyone else.

Google has announced that it will start charging a fee for its previously free systems such as Google Chrome, Google Play and Gmail.<sup>874</sup> Google has also introduced a new paid licensing agreement for EU Google as of the end of October 2018 whereby it reiterated that Android would stay as a free and open source. Manufacturers would have to pay an unspecified fee to Google for them to install applications on all Android devices that are launching or shipped to the EU. Such applications could include Google Play Drive or YouTube.<sup>875</sup> It is important to note that Google's licensing fees must remain reasonable. Otherwise, EU competition authorities could be capable of pursuing

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<sup>872</sup> NDTV, "'Android Created More Choice for Everyone': Google After EU Slaps Fine' (ndtv.com 19 July 2018) [https://www.ndtv.com/world-news/android-created-more-choice-for-everyone-google-after-eu-slaps-fine-1885828?ndtv\\_related](https://www.ndtv.com/world-news/android-created-more-choice-for-everyone-google-after-eu-slaps-fine-1885828?ndtv_related) accessed on 25 October 2018. Trump wrote a Twitter post of 19 July 2019 stating the following: *'I told you so! The European Union just slapped a Five Billion Dollar Fine on one of our great companies, Google. They truly have taken advantage of the U.S., but not for long!'* For access to the screen shot of the post see V. Highfield and K. Afifi-Sabet, 'Donald Trump weighs in on Google's record €3.8 billion Android antitrust fine' (alprh.com, 20 July 2018) < <http://www.alphr.com/business/1009546/google-european-commission-android>> accessed on 1<sup>st</sup> November 2018

<sup>873</sup> This observation might change depending on what the Commission puts out in its published decision and as to whether the decision has been consistent with previous case law as this can only critically examined following the publication of the decision.

<sup>874</sup> S. Atlamazoglou, 'Is \$5 billion EU fine a form of trade war aimed at Google? (thenewsrep.com <https://thenewsrep.com/109405/is-5-billion-eu-fine-a-form-of-trade-war-aimed-at-google/> accessed 14 November 2018

<sup>875</sup> A. Li, 'Google details Android changes after Europe ruling: license fees, app bundling, forked phones' (9to5google.com <https://9to5google.com/2018/10/16/google-android-europe-antitrust/> accessed on 25 October 2018

Google under Article 102 TFEU for an abusive refusal to supply to manufactures on reasonable licensing fees.

Nevertheless, the Commission's decision could have an impact on consumers as it could lead to devices becoming more expensive.<sup>876</sup> Manufacturers are likely to add the costs to us, the consumers, in order to evade loss of profits due to the new policy.

The case at hand is similar to the case of *Microsoft v Commission*. The *Microsoft* case led to the 'browser choice' popup on Windows which made matters confusing for many users in the EU. Following the decision, new users were presented with a popup once they installed Windows. Ironically, it led to the decline in the use of Internet Explorer and resulted instead in the rise of Chrome's use.

Apple will be able to sell its devices whilst locking its consumers to a particular set of tools. The EU does not consider this as a matter of concern from a competition law perspective because Apple has a fully-closed ecosystem. In other words, it does not dictate decisions for other manufacturers because no other manufacturer can produce an iPhone.<sup>877</sup> There is a chance that the decision of *Google* could end up pushing consumers into using Apple's monopoly. Unlike Microsoft a decade ago, Google dominates 90 per cent of all search and Chrome controls 66 per cent of browser share and thus, it is not foreseen that Google Search and Chrome will fail following the decision.<sup>878</sup> Once the decision is published, it will be interesting to examine the test

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<sup>876</sup> C. Walker, 'As Google splits Android in Europe, it risks losing control of its empire' (wired.co.uk, 17 October 2018) <https://www.wired.co.uk/article/google-android-changes-eu-ruling> accessed on 25 October 2018

<sup>877</sup> O. Williams, 'Europe just screwed over Android (and you too): The European Union and Google are not on good terms' (medium.com, 10 October 2018) < <https://medium.com/s/story/europe-just-screwed-over-android-and-you-too-f33d6393ce8a> > accessed 11 November 2018

<sup>878</sup> O. Williams, 'Europe just screwed over Android (and you too): The European Union and Google are not on good terms' (medium.com, 10 October 2018) < <https://medium.com/s/story/europe-just-screwed-over-android-and-you-too-f33d6393ce8a> > accessed 11 November 2018

used by the Commission to determine Google's abuse of dominance and whether it provided evidence of consumer harm once it has made its decision public, as well as, to assess the outcome of the appealed case by the GC.

### III. INTERIM RESULT

It appears that the approaches that are taken by EU competition authorities to advance competitive structure lead to legal uncertainty, as the focus is directed more towards offering protection to competitors instead of competition.<sup>879</sup> The main issue with the approach adopted by EU competition authorities as case law progressed is that competition considerations have started to outweigh IPRs. It appears that competition considerations are on top, so much on top, that by bringing IP infringement proceedings against an unlicensed user can be considered by EU competition authorities as an abuse of dominant position, as seen in the case of *Huawei Technologies v ZTE Corp.*<sup>880</sup>

This chapter so far has portrayed that the point of focus in *Volvo v Veng* was on the IPR holder's economic freedom and protection against similar products prevailing in the market, whereas the main point of focus in *Microsoft* and *Re Google Search (Shopping)* was on the protection of competitors. It may initially appear that EU competition authorities have focused on consumer welfare, but in reality, competition and economic factors are prioritised by EU competition authorities as they are expected to benefit consumers automatically.<sup>881</sup> It is concerning that the protection appears to be mainly focused on competitors rather than competition and without much evidence on

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<sup>879</sup> G Monti, *EC Competition Law*, (Cambridge University Press, 2007), 231 and R Whish and D Bailey, *Competition Law* (7<sup>th</sup> edn, Oxford University Press, 2012) 195

<sup>880</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp* EU:C: 2015:477 [2015] C.M.L.R 14. See also C-170/13 *Huawei Technologies Co Ltd v ZTE Corp*. [2016] R.P.C. 4

<sup>881</sup> T Kaseberg, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US* (Hart Publishing, 2012), 77

consumer harm. From a rule of law perspective, this approach leads to legal uncertainty due to the drastic shift in the presumption of legality and over inclusivity of competition rules.

The following section aims to provide a more tangible meaning of IPR holders' commitments arising from FRAND violations by building on the 'exceptional circumstances' rationale and the rule of law doctrine.

#### IV. WHAT IS FAIR, REASONABLE AND NON-DISCRIMINATORY UNDER EU COMPETITION LAW

The arguments around FRAND licensing terms have stemmed originally from one of the very first references to FRAND. The European Telecommunications Standard Institute (ETSI) had established a digital mobile standard for trans-European Trunked Radio<sup>882</sup> when it initially chose the model of Thomson Electronics instead of Digital Voice Systems Inc (DVS).<sup>883</sup> Initially, the ETSI had decided to incorporate Thomson's code even though it was a lower quality product, given that DVS had refused to make its IP a source code. The matter of concern here was that ETSI, during the standard-setting process, had interpreted that DVS's licensing terms were FRAND. Thus, its refusal to reveal its code has been considered by ETSI as consistent with EU procedure. The ETSI has then decided to proceed with Thomson's lower quality code, as Thomson portrayed its willingness to make its code public. DVS had protected its invention with an IPR,

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<sup>882</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67; European Telecommunication Standards Institute/Digital Voice Systems Inc (complaint rejected, not published); R Bekkers, *Mobile Telecommunications Standards: GSM, UMTS, Tetra and Ermes* (Artech House, 2001), 391; the Trans-European Trunked Radiom or Terrestrial Trunked Radio is a mobile radio internationally known as walkie-talkie

<sup>883</sup> R Bekkers, *Mobile Telecommunications Standards: GSM, UMTS, Tetra and Ermes* (Artech House, 2001), 402

and thus, it prevented DVSI from fully contributing within the industry standard. It has been suggested by the Commission that *‘over standardisation can have extremely negative effects on market development and competition’* and ETSI was advised that they must assess standards and procedures for any possible impact on competition.<sup>884</sup> Interestingly, the Commission has considered ‘over standardisation’ as a matter of concern, however, competition law is currently over-inclusive.

It was highlighted that competitors would be put in an advantageous situation when the specification of DVSI’s standard become public, given that its key components were trade secrets following extensive resources to develop and research the new product.<sup>885</sup> However, it has also been indicated that the Commission had allowed competition to treat potential or current competitors preferentially when it accepted the lower quality product when there are two competing products in setting an industry.<sup>886</sup>

It must be mentioned here that the Commission’s Guidelines have emphasised that:

*In some cases, it would be necessary for the benefit of the consumers or the economy at large to have only one technological solution. However, this standard must be set on a non-discriminatory basis. Ideally, standards should be technology neutral. In any event, it must be justifiable why one standard is chosen over another.*<sup>887</sup>

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<sup>884</sup> M Dolmans, ‘Standards for Standards’ [2006] Fordham International Law Journal 177

<sup>885</sup> M Angelov, ‘The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU’ [2014] 10(1) European Competition Journal, 37-67; R Bekkers, *Mobile Telecommunications Standards: GSM, UMTS, Tetra and Hermes* (Artech House, 2001) 405

<sup>886</sup> M Angelov, ‘The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU’ [2014] 10(1) European Competition Journal, 37-67

<sup>887</sup> Guidelines on the Applicability of Article 101 TFEU of the Treaty on the Functioning of the European Union to horizontal co-operation agreements [2011] OJ C11/01 (Commission’s Guidelines), [171]

Even though the Commission had indicated that standards should be decided on a non-discriminatory basis, the *DVSI* ultimate decision has portrayed that a business was discriminated against following ETSI's decision to publicise DVSI's product as opposed to the norms finally. In other words, the purpose of an SSO is not to oblige IPR holder to publicise their products following the establishment of a standard. Instead, the SSO is responsible for providing access to the standard on FRAND terms. However, the Commission had avoided acting following the decision by ETSI to publicise the product when such a decision had, arguably, disregarded the comments made by the Commission. It is, therefore, evident that from the non-acting of the Commission that EU competition authorities saw that it is crucial for standard specifics to become public in order not to impact the competitive process negatively.

A) The Judgements in *Magill* and *IMS Health*

To start with, the Commission in *Magill* decided that the initial IP owners, ITP, BBC and RTE, must provide their programme listings to one another and other parties when requested on a non-discriminatory basis.<sup>888</sup> It has been identified by the Commission that this requirement only applies to listings as there is no need to provide any other information. If right owners decide to provide licences for means of reproduction, then they must also provide the other party with further information and the royalties must be reasonable.<sup>889</sup> The Commission also stressed in *Magill* that it is essential to protect a better-quality coverage whereby higher royalties are justified, however, the Commission in *DVSI* remained silent about the better quality product.<sup>890</sup>

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<sup>888</sup> Commission Decision 89/205/EEC [1989] (IV/31.851- *Magill TV Guide*/ITP, BBC and RTE), [27]

<sup>889</sup> Commission Decision 89/205/EEC [1989] (IV/31.851- *Magill TV Guide*/ITP, BBC and RTE), [27]

<sup>890</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67;

Strikingly, the Commission adopted different approaches when dealing with the same matter. In *DVSI*, the better-quality product was a protected IPR and DVSI had refused to declare its IPR as a standard and was initially denied incorporation into the industry standard on FRAND terms. In *Magill*, the Commission had particularly expressed that an IPR holder can request higher royalty in the circumstance of a better-quality innovation that is sheltered under an IPR protection. Therefore, unjustifiable different treatment can be noted in *DVSI*, particularly given that royalties were not demanded for the better-quality innovation. Kaseberg has pointed out that there are loose substantive principles when the Commission imposes a duty to license.<sup>891</sup> The loose substantive principles applied to the duty to license are concerning from a rule of law perspective, given that everyone is equal under the rule of law and thus, unjustifiable different treatment could be inconsistent with the main principles of equality before the law as per the doctrine.

Also, a tangible definition of ‘reasonable’ was not provided by the Commission. Indeed, it was identified in *Microsoft* that this problem could be resolved by resorting to an independent expert. Nonetheless, the role and responsibilities of the independent expert have been delimited by the GC in the *Microsoft* appeal case.<sup>892</sup>

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*European Telecommunications Standards Institute/Digital Voice Systems, Inc* (complaint rejected, not published); R Bekkers, *Mobile Telecommunications Standards: GSM, UMTS, Tetra and Hermes* (Artech House, 2001), 391

<sup>891</sup> T Kaseberg, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US* (Hart Publishing, 2012), 243

<sup>892</sup> T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (General Court) (*The Microsoft judgement*), [1269]

## B) The Microsoft Decision

The Commission, in *Microsoft*, had initially followed a similar method previously used in *IMS Health* when it referred to an independent expert to assess whether Microsoft's information was accurate and complete, whether Microsoft's terms were reasonable and non-discriminatory and whether the continuous disclosures were completed within reasonable time.<sup>893</sup> However, the duties and responsibilities of the independent expert set by the Commission were soon delimited by the GC in the appealed case of *Microsoft*.

The Commission provided some clarification to 'reasonable' and 'non-discriminatory' by indicating that the license fee must be 'forward-looking'. The term 'forward-looking' suggests that future disclosures must be considered whilst determining a license fee.<sup>894</sup> However, the term 'forward-looking' does not provide any certainty as to its interpretations. On the one hand, the Commission might have intended to use the term 'forward-looking' to indicate that a licence fee must be high in order to encourage investives to innovate and invest.<sup>895</sup> On the other hand, the Commission might have intended to use the term 'forward-looking' to indicate that the licence fee must be low in order to encourage follow-on investors.<sup>896</sup> Therefore, it is to be argued that from a rule of law perspective, the considerations of a 'forward-looking' licensing fee should be specified in order to avoid any vagueness in outcomes of the application of the Article 102 TFEU.

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<sup>893</sup> T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (General Court) (The *Microsoft* judgement), [1046]

<sup>894</sup> T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601 (General Court) (The *Microsoft* judgement), [1007]

<sup>895</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>896</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

Arguably, the significance of distinct products has been underestimated by the Commission<sup>897</sup> when it rejected Microsoft's requested royalties and had found that the fee for patent access was unreasonable because the algorithms were not considered innovative.<sup>898</sup> Indeed, the Commission's decision in *Microsoft* was upheld by the GC. Nonetheless, the GC did not provide any further guidance as it had used vague language when it assessed the concepts of 'novelty' and 'non-obviousness' for the evaluation of the interoperability of the algorithms. The GC only contemplated that small improvements or developments on interoperability information are not considered innovative.<sup>899</sup>

Moreover, the GC has highlighted that strategic and intrinsic value of technologies must be differentiated from one another for the determination of reasonable licensing terms.<sup>900</sup> The Commission and the GC have made reference to the case of *Automec*<sup>901</sup> in order to stress that the Commission can impose any method deemed suitable on the parties without providing any guidance to the calculations of a reasonable royalty.<sup>902</sup> It has, thus, been stipulated that the GC sees that the Commission is under no obligation to give any guidance or recommendations in regards to the evaluation of reasonable future royalties, given that the Commission does not have to follow one specific method.<sup>903</sup>

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<sup>897</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>898</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>899</sup> T-167/08 *Microsoft Corp v European Commission*, General Court 27 June 2012, [35]

<sup>900</sup> T-167/08 *Microsoft Corp v European Commission*, General Court 27 June 2012, [138]

<sup>901</sup> T-24/90 *Automec Srl v Commission of the European Communities* [1992] E.C.R. II-2223; [1992] 5 C.M.L.R. 43

<sup>902</sup> T-167/08 *Microsoft Corp v European Commission*, General Court 27 June 2012, [95]; *Automec v Commission* [1992] ECR II-2223, [52]

<sup>903</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

Additionally, the Court had highlighted that it is important to compare Microsoft's earnings with the advantages Microsoft derives from abusing its dominant position in order to determine Microsoft's licensing fees.<sup>904</sup> The GC has emphasised that the royalty must not be within the revenue region of the infringer and thus, the Commission cannot impose one particular method for royalty calculation.<sup>905</sup> However, the 'comparable' earning referred to by the GC can vary significantly.

Although the Commission's requirement of 'forward-looking' licence fee has been referred to by the GC,<sup>906</sup> the GC still had determined a licensing fee that was less than what was thought to be reasonable by Microsoft. Therefore, competitors have been rewarded a much less royalty for an input that is valuable and indispensable which indicates that competition authorities have gone for the tactic of market-based pricing in order to add restrictions on dominant businesses by making the downstream market so easily accessible.<sup>907</sup> It has also been submitted that that competition authorities gave new competitors a boost because Microsoft was obliged to provide its product for a lower fee than what was initially proposed by Microsoft.<sup>908</sup> Ultimately, the GC's judgement in *Microsoft* left unanswered questions as it did not provide much clarifications or guidelines as to FRAND commitments following the Commission's decision.<sup>909</sup>

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<sup>904</sup> T-167/08 *Microsoft Corp v European Commission* [[2012] General Court. [141]

<sup>905</sup> T-167/08 *Microsoft Corp v European Commission*, [2012] General Court, [144]

<sup>906</sup> T-167/08 *Microsoft Corp v European Commission*, [2012] General Court

<sup>907</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>908</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>909</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

The following section examines a recent case between *Huawei Technologies Co Ltd v ZTE Corp* in order to examine the ‘exceptional circumstances’ approach adopted by the ECJ when dealing with FRAND commitments.

## V. HUAWEI TECHNOLOGIES CO LTD V ZTE CORP

As indicated in the introductory chapter, this case is significant for purpose of this research as it is a recent case where the ECJ provided its ruling indicating that under ‘exceptional circumstances’ a SEP owner may be found abusing its dominant position by seeking IP infringement claims against an unlicensed user. The rule of law doctrine emphasises that whenever there is a legal issue, everyone has the right to access the courts. Therefore, unjustifiable restrictions added to access to court could be highly inconsistent with the rule of law doctrine, especially if unanswered questions are left by the ECJ which can lead to legal uncertainty. Leaving unanswered question when the ECJ had considerably limited IP owners’ rights to access justice is, arguably, very problematic as it adds limitations to access to courts which also fall within the realm of Article 17(2) CFREU, as well as, the risk of allowing the free-riding off innovation.

### A) Background on the Case and its Parties

The case was involved with a SEP which was considered as indispensable to all competitors associated with that standard. The status of a SEP had been granted via a particular standardisation body which obliges the SEP holder to license on FRAND terms.<sup>910</sup> Huawei and ZTE are powerful Chinese companies in the telecommunications

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<sup>910</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp, ZTE Duetschland GmbH* 5 [2015] 5 C.M.L.R 14

sector, and both are competitors within the Chinese and the EU markets.<sup>911</sup> Huawei committed to license on FRAND conditions, as the undertaking had acknowledged that few of its patents are vital to the standard set in ETSI's 4G/LTE. Negotiations were initiated between both ZTE and Huawei, however, both companies were unable to reach a mutual agreement. To be more specific, Huawei rejected ZTE's request for a cross-licensing agreement instead of paying royalties. Even though negotiations were unsuccessful, ZTE allegedly continued to use Huawei's SEPs without providing royalties.<sup>912</sup> Accordingly, Huawei brought an action for infringement or a claim for damages against ZTE before the Düsseldorf Regional Court (*Landgericht Düsseldorf*).

The German Federal Court of Justice (*Bundesgerichtshof*) noted the existing inconsistencies between the German view and the Commission. Thus, the German Court has raised some questions to the ECJ for a preliminary ruling. Mainly, the German Court requested elaboration on the exact circumstances for finding the conduct of a SEP holder abusive under EU competition law by initiating an action against a standard user who is willing to take a licence. The German Court also requested clarifications in regards to the assessments used under Article 102 TFEU for the finding of an abuse of dominance in cases of refusal to license.<sup>913</sup>

#### B) The ECJ'S decision

The ECJ in *Huawei*<sup>914</sup> had used the 'exceptional circumstances' test to determine a balance between free competition and protection of IPRs. It first had to assess the legality of IP infringement proceedings brought by the proprietor against a user who

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<sup>911</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at AG38

<sup>912</sup> C-170/13 *Hauwei Technologies Co Ltd v ZTE Corp, ZTE Duetschland GmbH* [2015] 5 C.M.L.R 14

<sup>913</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [42]

<sup>914</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14

does not have a licence to use the SEP. The main questions of concern were whether a proprietor could bring IP infringement proceedings without breaching Article 102 TFEU,<sup>915</sup> given that Articles 17(2) and 47 CFREU safeguard the right of effective judicial protection and a high level of IP protection in the internal market.<sup>916</sup> Second, the ECJ had also to determine whether the proprietor had breached EU competition law with its refusal to license and assess whether such conduct had an impact on the maintenance or growth of competition within the market.<sup>917</sup>

The Court highlighted that according to existing case law such as *Volvo v Veng*, *Magill* and *IMS Health*, the proprietor enjoys the right to exercise its exclusive rights granted under IPRs. Thus, a dominant undertaking cannot abuse its dominance by bringing an IP infringement proceeding in itself.<sup>918</sup> However, the Court then also referred to the same cases: *Volvo v Veng*, *Magill* and *IMS Health* to highlight that the proprietor can be found, in exceptional circumstances, in breach Article 102 TFEU by bringing IP infringement proceedings.<sup>919</sup> The ECJ further pointed out that according to the three requirements of abuse that are found in *Volvo v Veng*,<sup>920</sup> a dominant undertaking can be found abusing its dominant position if it participates in abusive conduct different than those that govern regular competition.<sup>921</sup>

The Court identified that the exercise of exclusive IPRs does not automatically constitute an abuse of a dominant position, even when the act of an undertaking is in a

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<sup>915</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14 at [42]

<sup>916</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [42]

<sup>917</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [45]; C- 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [9] and C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [35]

<sup>918</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [46]

<sup>919</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [46] and [47]

<sup>920</sup> C- 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [8]-[10]

<sup>921</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [73]

dominant position.<sup>922</sup> The exercise of exclusive IPRs could be in breach of Article 102 TFEU, but only in exceptional circumstances.<sup>923</sup> Furthermore, the ECJ recognised that the abuse of IPRs of this case must be distinguished from other existing case law, the main concerns in *Huawei/ZTE* revolve around the FRAND commitment, as well as the concept of standardisation.<sup>924</sup> The use of a SEP here is vital to all competitors, especially if the essential patent meets the set-out standard. The Court indicated that a SEP holder could stop competitors from dealing with the product by bringing an action for a prohibitory injunction to solely enjoy manufacturing the product. Nonetheless, standard users have been provided with the legitimate expectation that they are always going to obtain FRAND licences.<sup>925</sup> As a result of such an expectation, standard users can raise a competition law defence in IP infringement proceedings and, in return, compel the proprietor to license the SEP.<sup>926</sup>

The preceding refusal to license cases have ‘indispensability’ as a criterion to the exceptional circumstances test. A SEP can be argued to inherit the indispensability criterion due to its context. Therefore, it seems that the ECJ has remained consistent with the reasoning previously adopted in *IMS Health* and *Bronner* regarding the indispensability criterion of previous case law. Moreover, the ECJ has referred to the legitimate expectations of standard users as the second criterion for the ‘exceptional circumstances’ test used in the case of *Huawei v ZTE*. This new framework for the ‘exceptional circumstances’ test has never been featured in previous refusal to license case law. The Court, however, did not assess the other ‘exceptional circumstances’

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<sup>922</sup> C-170/13 *Huawei technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R. 14, at [46]

<sup>923</sup> C-170/13 *Huawei technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R. 14, at [47]

<sup>924</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [48]

<sup>925</sup> P. Picht ‘The ECJ rules on standard-essential patents: thoughts and issues post-Huawei’ [2016] 37(9) ECLR 365-375

<sup>926</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14

requirements established in previous case law.

The Court, for example, did not explore whether the refusal to license a SEP had stopped the appearance of a new product or whether the conduct had eliminated competition or was likely to eliminate competition. These prerequisites had formed an integral element of the 'exceptional circumstances' test as EU law progressed. It can, thus, be argued that oversight of the requirements of 'new product' and 'elimination of competition' showcase contradictions in the reading of the 'exceptional circumstances' test. Although, the Court may have intended to omit these requirements to differentiate between SEPs and other types of IPRs, the Court could have provided more explicit justifications and reasoning within its ruling for the deviations from previous case law, instead of merely stating that this case can be distinguished from existing case law due to the legitimate expectations of standard users.

On top of the above, it must be mentioned that the Court established that the proprietor of a SEP must fulfil specific requirements before seeking infringement proceedings in order not to be found abusing its dominant position. First, a SEP holder has to alert the user of the infringement taking place by describing the patent and detailing how the user has trespassed the SEP in question. This condition appears to be essential for the ECJ because usually there is a significant number of SEPs that compose a standard and thus, a standard user is not necessarily aware of the infringement taking place. Second, a SEP holder has to present to an 'infringing' user a scripted licensing offer had the user conveyed its willingness to obtain a licensing agreement on FRAND terms.<sup>927</sup>

The licensing offer provided by the proprietor must specify the terms, the royalty and

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<sup>927</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp*, ZT 5 [2015] C.M.L.R 14

how it has been determined. If the ‘infringing’ user continues to use the SEP without attentively reacting to the offer as per usual commercial norms, as well as, the principle of good faith, then the proprietor can bring IP infringement proceedings against the alleged infringer without infringing its dominant position.<sup>928</sup> The court held that if the ‘infringing’ user did not accept the offer made by the proprietor of the SEP, but has still provided a counter-offer on FRAND terms, in a prompt manner and in writing, then the SEP holder would be found abusing its dominant position by initiating IP infringement proceedings.<sup>929</sup>

The Court decided that a dominant undertaking with an essential standard is prohibited from abusing its monopolistic position by bringing IP infringement claims against a user to obtain rendering accounts for past conduct of use or an award of damages. This approach adopted by the Court is because IP infringement claims can have an adverse impact on competition to the detriment of consumers and businesses that have already invested in preparing, adopting, as well as, applying the standard.<sup>930</sup> Furthermore, the Court identified that the user should provide suitable financial security for its use. The calculation should also cover the number of the previous uses of the SEP. When an agreement cannot be grasped on FRAND terms, then the parties can with a mutual agreement request intervention by a third party for the amount of royalty to be decided without delay.<sup>931</sup>

The balance between the right to effective remedy and the protection of IPRs are correspondingly covered under Article 17(2) and Article 47 CFREU.<sup>932</sup> It is important to

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<sup>928</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [65]

<sup>929</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14

<sup>930</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14

<sup>931</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [68]

<sup>932</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, [42]. See also The Charter of

highlight here that Articles 17(2) and 47 CFREU imply the importance of complying with the rule of law perspective by ensuring ‘the right to effective remedy and to fair trial’ and<sup>933</sup> that IPRs must be given a high level of protection within the internal market.<sup>934</sup>

The SEP holder in *Huawei* was ready to grant a FRAND licence, but both parties were unable to agree on what constitutes FRAND terms.<sup>935</sup> The ECJ in such cases compels both parties to display conduct that safeguards a ‘fair’ balance between their interests,<sup>936</sup> whereby the rights of enforcing IPRs must be taken into account. The ECJ has highlighted that these rights are covered under Directive 2004/48 and Article 17(2) CFREU which aims to protect IPRs, as well as Article 47 CFREU which provides the right to effective judicial protection<sup>937</sup> as it has been highlighted in the case that:

*This need for a high level of protection for intellectual property rights means that, in principle, the proprietor may not be deprived of the right to have recourse to legal proceedings to ensure effective enforcement of his exclusive rights, and that, in principle, the user of those rights, if he is not the proprietor, is required to obtain a licence prior to any use.*<sup>938</sup>

Despite the above observation, the ECJ still appears to favour standard users in FRAND

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Fundamental Rights, Art. 17 (2) which states that ‘Intellectual property shall be protected’, and Art. 47 states the following:

*Everyone whose rights and freedoms guaranteed by the law of the Union are violated has the right to an effective remedy before a tribunal in compliance with the conditions laid down in this Article. Everyone is entitled to a fair and public hearing within a reasonable time by an independent and impartial tribunal previously established by law. Everyone shall have the possibility of being advised, defended and represented. Legal aid shall be made available to those who lack sufficient resources in so far as such aid is necessary to ensure effective access to justice.*

<sup>933</sup> CFREU, Art. 47

<sup>934</sup> CFREU, 17(2)

<sup>935</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14

<sup>936</sup> P. Picht ‘The ECJ rules on standard-essential patents: thoughts and issues post-Huawei’ [2016] 37(9) ECLR 365-375

<sup>937</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [57]

<sup>938</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [58]

commitment, as SEP holders are compelled to fulfil certain requirements before seeking infringement proceedings against unlicensed use.<sup>939</sup> Moreover, the ECJ had identified that Article 47 CFREU provides effective judicial protection and thus, the standard user cannot be criticised for challenging the SEP during the period of negotiations.<sup>940</sup> It has been stipulated<sup>941</sup> that the Court's reference to the standard user's right to effective judicial protection as guaranteed by Article 47 CFREU is unclear and vague. What if the standard user was providing unfair offers to the SEP holder which cannot be accepted under FRAND terms? Indeed, Article 47 CFREU provides effective judicial protection to the standard user, but it also provides the same for the SEP holder. Therefore, it appears to be vague as to why the infringer cannot be criticised for challenging the SEP during negotiation periods, and yet the SEP holder can be criticised for bringing IP infringement proceedings when both parties clearly cannot agree on mutual FRAND terms.

Also, the following distinction made by the ECJ concerning actions for injunction, or recall of products and actions for the rendering of accounts or damages highlights that:

*Article 102 TFEU must be interpreted as not prohibiting, in circumstances such as those in the main proceedings, an undertaking in a dominant position and holding an SEP, which has given an undertaking to the standardisation body to grant licences for that SEP on FRAND terms, from bringing an action for infringement against the alleged infringer of its SEP and seeking the rendering of accounts in relation to past acts of use of that SEP or an award of damages in respect of those acts of use.*<sup>942</sup>

However, further questions were referred to the ECJ some of which first include,

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<sup>939</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [59]

<sup>940</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [69]

<sup>941</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375

<sup>942</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [74] et seq.

whether abuse of dominant position can only be assumed when the SEP holder has rejected an unconditional offer, and such a rejection would unfairly obstruct the standard user or breach the prohibition of discrimination.<sup>943</sup> Second, whether willingness to negotiate is considered acceptable if it has been orally and generally portrayed, or should the standard user start negotiations by the submission of certain conditions of a licensing agreement?<sup>944</sup> Third, whether submitting an unconditional offer to reach a licensing agreement is a requirement for consideration of an abuse of dominance and if so, should such an offer include all the conditions which are usually covered in licensing agreements?<sup>945</sup> Fourth, are the conditions for presuming of an abuse of dominance by the holder a SEP applicable on an action brought on the grounds of other claims, such as the account's rendering, damages and recall of products?<sup>946</sup>

It has been highlighted by the ECJ that there is a need to uphold a balance between competition laws and IPRs, as well as, the right to effective judicial protection.<sup>947</sup> It has also been suggested that the bringing of an infringement action does not automatically establish an abuse of dominance.<sup>948</sup> Indeed, the implementation of IPRs can breach EU competition laws, but only in exceptional circumstances.<sup>949</sup> The ECJ was attentive on differentiating this case from earlier case law. First, the importance of the patent which is a SEP established by an SSO. Thus, the patent is essential to all competitors that wish to use the patent in fulfilment to the standard that the patent is associated with.<sup>950</sup> Second, the SSO accepts a patent as a SEP so long as the holder is willing to fulfil the

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<sup>943</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4

<sup>944</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4

<sup>945</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4

<sup>946</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4

<sup>947</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [42]

<sup>948</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [46]

<sup>949</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [47]

<sup>950</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [49]-[50]

duty of granting licences on FRAND terms while taking into account that IP infringement proceedings brought by the holder of a SEP can stop products being manufactured by competitors in the relevant market.<sup>951</sup>

The ECJ highlighted two circumstances for abuse on the grounds of Article 102 TFEU that include the following:

*‘[C]reate legitimate expectations on the part of third parties that the proprietor of the SEP will in fact grant licences on such terms’, and therefore ‘a refusal [...] to grant a licence on those terms’ could be raised as a defence in actions for a prohibitory injunction.*<sup>952</sup>

The underlying facts of the case may be reflected by the reference to ‘competitors’ made by the ECJ, given that the case has involved two competing companies, whereas the operative element of the decision applies to all SEP holders. The remark made to ‘competitors’ in the rationale of the decision results in unanswered questions. One of which includes the question of whether similar legal standards would apply to other IP infringement proceedings that are sought by a licensing undertaking that is not a competing manufacturer.

The ECJ has emphasised that the SEP holder is not stopped from the enforcement of the patent in question, however, the granting a licence under FRAND terms is obligatory. If both parties are incapable of reaching an agreement on FRAND terms, then an injunction can be successful only when the SEP holder had put efforts in ensuring *‘a fair balance of the interests concerned.’*<sup>953</sup> The SEP holder cannot be deprived of judicial

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<sup>951</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [51]-[52]

<sup>952</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [52]-[53]

<sup>953</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [55]

protection, thus should enjoy the opportunity of legal proceedings to safeguard effective enforcement of its rights.<sup>954</sup> Nevertheless, the binding duty to issue licences on FRAND terms supports *‘the imposition on that [SEP holder] of an obligation to comply with specific requirements when bringing actions against alleged infringers.’*<sup>955</sup> Therefore, some of the requirements set by the Court are unclear, such as the efforts that must be taken by the SEP holder in order to make sure that there is a fair balance of the interests of the concerned party. From a rule of law perspective, this gap is better filled as it can have a massive impact on the SEP holder, given that the Court could find a SEP owner abusing its dominance under Article 102 TFEU via an unclear set of requirements.

In addition to the above, the case highlights the binding duty of SEP holders to license their SEP on FRAND terms, nevertheless, it must be taken into consideration the unlikelihood of both parties always and easily agreeing on mutual terms. Therefore, it is essential that the EU judicial system clarifies and outlines the legal standards that are to be taken for the determination of when a SEP owner has taken appropriate steps in ensuring a ‘fair balance of interests’. If these questions remain unanswered, then such a gap in FRAND commitments could have a considerable impact on innovation. Moreover, the rule of law doctrine requires a clear and consistent law that safeguards the rights of the public.

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<sup>954</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [57]-[58]

<sup>955</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp.* [2016] R.P.C. 4, at [59]

### C) Comments

It has been stipulated that the application of Article 102 TFEU is broad and does not give much consideration to procedures, rules and remedies where there is a well-established law that already covers such areas of practice,<sup>956</sup> such as access to court and effective judicial protection.

The mentioned above can be particularly seen in the case of *Huawei v ZTE*, as the Court suggested that the bringing of IP infringement proceedings, in exceptional circumstances, can be seen as an abuse of dominance under Article 102 TFEU. However, this perspective could clash with one of the basic principles of the rule of law, as well as, the fundamental rights that include access to courts and justice. It can be a matter of concern that the interpretation of Article 102 TFEU covers such wide-ranging areas of practice and its application has been continuously and aggressively expanding to cover more areas throughout EU case law. The rule of law and CFREU indicate that everyone should have access to justice. We must remember that the right holder is the ultimate owner of that particular IP. Restrictions added to the access to court could install fears of being found abusing a dominant position under Article 102 TFEU.

It is to be argued that Article 102 TFEU should not expand to cover matters of access to justice under its vague 'exceptional circumstances' test as this could easily contradict with the rule of law doctrine and fundamental human rights. The Court could provide the right holder with a prohibitory injunction against the user that had not obtained a licence to commence such a use. As a matter of fact, the licence seeker's rights are still protected, as they can still seek a parallel proceeding against the right holder's 'abusive'

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<sup>956</sup> D. Bailey, 'The new frontiers of Article 102 TFEU: antitrust imperialism or judicious intervention?' [2018] 6(1) Journal of Antitrust Enforcement 25-53

refusal to license to obtain a compulsory licence and make claims for damages resulted from the right holder's abusive refusal to license.

E) The Commission's and the GC's view prior to *Huawei v ZTE*

The GC had highlighted that the Commission's two conditions for finding an abuse of dominance by bringing legal action are correct.<sup>957</sup> The first requirement identified by the Commission is that the legal action was brought as a means of harassment to the opposite party. The second requirement is that the legal action aims to eliminate competition.<sup>958</sup> It has been stressed in the case of *Protégé International* that these two requirements must be interpreted and applied narrowly in order not to clash with the general fundamental right of access to court.<sup>959</sup>

However, it is extremely difficult for the IPR holder who had genuinely abusively refused to license to eliminate competition. Thus, the Commission's second requirement for finding an abuse of a dominant position by bringing a legal action against an infringing user is near impossible. It is to be stressed here that, from a rule of law perspective everyone should have the right to access justice and thus, bringing IP infringement proceedings against an infringing user should not be considered abuse of a dominant position, particularly given that access to courts is a basic fundamental right.<sup>960</sup>

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<sup>957</sup> T-111/96 ITT *Promedia NV v E.C. Commission v (Belgacom SA, intervening)* [1998] 5 C.M.L.R 491

<sup>958</sup> T-111/96 ITT *Promedia NV v E.C. Commission v (Belgacom SA, intervening)* [1998] 5 C.M.L.R 491

<sup>959</sup> M. Baudry and B. Dumont, *'Patents: Promoting or Restricting Innovation?'* (12<sup>th</sup> edn. ISTE Ltd, 2017); Case T-119/09 *Protégé International v. Commission* [2012] (not published in English language)

<sup>960</sup> M. Baudry and B. Dumont, *'Patents: Promoting or Restricting Innovation?'* (12<sup>th</sup> edn. ISTE Ltd, 2017)

F) Few Issues Post-Huawei v ZTE

Although theories on competitive harm have not been appropriately established,<sup>961</sup> decisions like *Magill* or *IMS Health* have highlighted that competition law under Article 102 TFEU, and its relationship with the corresponding rules on IP protection had created the core of the ECJ's argumentation. However, the current legal concepts are not necessarily stemmed from competition law, given that the Articles of the Charter<sup>962</sup> and notions of fairness, good faith and recognised commercial practices now provide an important part of the ECJ's legal reasoning in *Huawei*.

The new legal reasoning found in *Huawei* as the EU law-framework for the protection of IP and competition has arguably the following possible impacts:

To start with, it can be argued here that it blurs out the view on the relationship between IP protection and competition law. The reason being is that the Court suggested '*striking a balance between maintaining free competition [...] and the requirement to safeguard that proprietor's intellectual property rights [...] guaranteed by Article 17(2) [...] of the Charter.*' However, these phrases make it appear as if competition and IP protection are conflictive principles rather than complementing ones. IPRs need competition to produce profits, and in return, IPRs are meant to empower competition by the blocking of replication, competition by replacement, as well as competition based on follow-on innovations.<sup>963</sup>

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<sup>961</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375

<sup>962</sup> Introducing the Charter, the Court should have mentioned Art.16 (freedom to do business) as well.

<sup>963</sup> J. Drexler, '*Abuse of Dominance in Licensing and Refusal to License: A "More Economic Approach" to Competition by Imitation and to Competition by Substitution*' in Ehlermann and Atanasiu (eds), *The Interaction between Competition Law and Intellectual Property Law* (Oxford/Portland Oregon: Hart Publishing, 2007), pp.647, 647.

In addition to the above, these phrases appear to emphasise that the scope of IPRs' protection is limited. Nonetheless, it has been suggested that this outlook is 'dangerous'.<sup>964</sup> This is because, arguably, the ECJ had mainly<sup>965</sup> established IPRs as a means to grow the market, and it appears as if they are only being tailored to this purpose via EU case law.

Further, CFREU is binding on all EU institutions which provides further means for protection concerning IPRs. It has been highlighted here that IP holders may be restrained to exercise their rights not only because it violates EU competition law, but also because their conduct could be breaching CFREU as applied in Huawei.<sup>966</sup> This can consequently have an impact on future cases whereby Article 102 TFEU will not be the only means that can be used to enforce and apply a compulsory licence, as the EU Enforcement Directive 2004/48 EC, cited in the *Huawei v ZTE's*,<sup>967</sup> requests 'fair', 'equitable' and 'proportionate' remedies<sup>968</sup> and such phrases can be interpreted in alignment with the CFREU.<sup>969</sup> This has an impact on the link between the rules of conduct highlighted in *Huawei v ZTE* and the market dominance requirement of Article

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<sup>964</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375

<sup>965</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; H. Ullrich, 'Intellectual Property: Exclusive rights for a purpose', *Max Planck Institute for Intellectual Property and Competition Law Research Paper No.13-01*, p.15 w.f.r

<sup>966</sup> J. Drexel, 'Abuse of Dominance in Licensing and Refusal to License: A "More Economic Approach" to Competition by Imitation and to Competition by Substitution' in Ehlermann and Atanasiu (eds), *The Interaction between Competition Law and Intellectual Property Law* (Oxford/Portland Oregon: Hart Publishing, 2007), pp.647, 647.

<sup>967</sup> Despite the fact that it has not been applied, it can still be interpreted in accordance with the Charter. Josef Drexel, 'Abuse of Dominance in Licensing and Refusal to License: A "More Economic Approach" to Competition by Imitation and to Competition by Substitution' in Ehlermann and Atanasiu (eds), *The Interaction between Competition Law and Intellectual Property Law* (Oxford/Portland Oregon: Hart Publishing, 2007), pp.647, 647.

<sup>968</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights [2004] OJL157/45, Article 3

<sup>969</sup> P.Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375

102 TFEU, given that the ECJ in its decision suggested a fair interaction between specific members in a standards-based market.

Indeed, Article 102 TFEU is used to establish when a ‘dominant undertaking’ abuses its dominant position. However, the rules of conduct under the CFREU do not require dominant business to particularly undertake such conduct. The concept of fairness and the Articles of the CFREU do not depend on dominance, and thus, they could be applicable to all market participants.<sup>970</sup> Accordingly, this case is problematic as it appears that the decision has not been genuinely based on competition law as Article 102 TFEU has only been available as an additional dominance-dependent sanction for the violation of a widely applicable standard of fairness.<sup>971</sup>

On one the hand, looking into the American case of *Apple v Motorola*, Apple did not make a particular counter-offer.<sup>972</sup> The ‘willingness’ of Apple can be thus questioned if hypothetically compared to the principles of *Huawei v ZTE*, yet this did not keep Judge Posner from rejecting to granting an injunction. On the other hand, the Commission stated that Article 102 TFEU is breached with an action of an injunction, especially if a standard user was keen to negotiate a licence. The Commission did not provide further explanation in relation to the level of ‘willingness’ that must be shown by the standard user.<sup>973</sup> The determination of what forms ‘willingness’ on the part of a potential licensee

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<sup>970</sup> P.Picht ‘The ECJ rules on standard-essential patents: thoughts and issues post-Huawei’ [2016] 37(9) ECLR 365-375; H Ullrich, ‘Intellectual Property: Exclusive rights for a purpose’, *Max Planck Institute for Intellectual Property and Competition Law Research Paper No.13-01*, p.15 w.f.r.

<sup>971</sup> P. Picht ‘The ECJ rules on standard-essential patents: thoughts and issues post-Huawei’ [2016] 37(9) ECLR 365-375; H Ullrich, ‘Intellectual Property: Exclusive rights for a purpose’, *Max Planck Institute for Intellectual Property and Competition Law Research Paper No.13-01*, p.15 w.f.r.

<sup>972</sup> *Apple 886 F. Supp. 2d 1061, 1085 (W.D. Wsh. 2012)*, 20 et seq.

<sup>973</sup> Europa.eu, ‘Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents’ (*European Commission Press Releases*, 2012) <[http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm)> accessed 19 January 2018, No.IP/12/1448 and MEMO/12/1021 of 21 December 2012.

is complicated. Without a doubt, the ECJ's decision provided helpful guidance in regard to the licensing negotiations, nonetheless, some areas of uncertainty are still not answered which are left to be addressed by national courts. From a rule of law perspective, the reference to willingness is unclear, as it does not define the level of willingness that must be portrayed by the standard user or how to evaluate the 'appropriate' degree of willingness.

Moreover, the press release suggests that Article 102 TFEU can be breached with an action for an injunction which can clash with one of the rule of law principle which is access to justice. Thus, it is essential that EU authorities avoid legal uncertainties in the requirement of willingness so that SEP holders can understand their obligations and foresee the outcomes of their conduct.

#### VI. CONTRAST OF APPROACHES TO EVALUATION ISSUES OF JUSTIFICATION OF REFUSAL TO LICENSE

To start off with, the ECJ identified in *Volvo v Veng* three conditions that must be fulfilled for an abuse of dominance to be established. The ECJ did not outline whether these three elements are exhaustive or not. These elements first include that there must be arbitrary practice such as refusal to license to independent parties. Second, there must be the presence of illegal price fixing and third, the prevention of production of relevant products for a model that is still in circulation.<sup>974</sup>

Following this, the ECJ in *Magill*<sup>975</sup> has relaxed its exceptional circumstances test as opposed to its approach in *Volvo v Veng*.<sup>976</sup> The ECJ in the case of *Magill* has

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<sup>974</sup> C-238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [9]

<sup>975</sup> C- C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743 (referred to as *Magill* within the text)

<sup>976</sup> G. Monti, *EC Competition Law* (Cambridge University Press, 2007) 228

acknowledged that a compulsory licence could be granted when the product is crucial for the production of a new product that is not provided by the IP holder, there are no justifiable reasons for the refusal to license, and the conduct excludes competition in the secondary market of that specific IPR.<sup>977</sup> Indeed, the ECJ established here that a compulsory licence may now be granted when the production of a new product outweighs the right holder's incentives to innovate.<sup>978</sup> Accordingly, the Court had resorted to a balancing of efficiencies test and had adopted a follow-on innovation approach for the determination of unlawful refusal to license IPRs.<sup>979</sup>

Following the cases of *Volvo v Veng* and *Magill*, the ECJ in the case of *Bronner* has introduced a new approach to the exceptional circumstances test.<sup>980</sup> The ECJ in this case stipulated that refusal to license can only be unlawful when the refusal could eliminate competition in that market, there are no justifiable objective considerations, and the product or service is indispensable for carrying on that individual's business.<sup>981</sup> Accordingly, it was made clear by the ECJ that economic and legal considerations are necessary to balance the conduct of an undertaking against public interests. Moreover, the ECJ in the *Bronner* case has provided further clarifications to the requirements set in *Magill*.<sup>982</sup> An example on this can be seen by the fact that the requirement of 'not justified' in *Magill* became 'not justified by objective considerations' in *Bronner*. Additionally, the requirement of 'exclude all competition' found in *Magill* became 'likely

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<sup>977</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [53]-[57]

<sup>978</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>979</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>980</sup> C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791

<sup>981</sup> C-241/91 P and C-242/91 P; *Radio Telefis Eirann (RTE) and Independent Television Publication Ltd (ITP) v Commission* [1995] ECR I-743, at [41]

<sup>982</sup> C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co KG* [1998] E.C.R I-7791, at [40]

to exclude all competition' in *Bronner*. Therefore, an element of probability has been introduced by the ECJ in *Bronner*.<sup>983</sup>

Following the cases of *Volvo v Veng*, *Magill* and *Bronner*, the ECJ in the case of *IMS Health*<sup>984</sup> reaffirmed the exceptional circumstances requirements that were previously set in *Bronner* and *Magill*. The ECJ further stated here that a compulsory licence can be determined by the court when the product or service is indispensable within the downstream market.<sup>985</sup> The Court also indicated that a compulsory licence can be issued when the '*refusal to grant a license prevents the development of the secondary market to the detriment of consumers.*'<sup>986</sup> Therefore, it can be noted here that the ECJ furthered the 'new product' condition set in *Magill* into the development of a secondary market.<sup>987</sup> The ECJ further indicated that refusal to license could be considered unlawful when such a refusal might exclude potential competition on a secondary market.<sup>988</sup> Moreover, a licence seeker must have the intention to produce new products or services that are not provided by the IPR holder in that market, given that there is possible consumer demand on such goods or services.<sup>989</sup>

It was, thus, recognised by the ECJ that a refusal to license by a dominant business could be sufficiently measured as abusive under Article 102 TFEU, ex Article 82 EC, when specific requirements are fulfilled. First, the IPR in question is crucial for carrying on a specific business. Second, the refusal prevents the production of a new product that might have consumer demand. Third, there are no objective justifications for the refusal

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<sup>983</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

<sup>984</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28

<sup>985</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [45]

<sup>986</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [48]

<sup>987</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [239]

<sup>988</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [43]

<sup>989</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [49]

to license, and finally, the conduct might exclude all competition in a secondary market.<sup>990</sup> Accordingly, the Court in *IM Health* has created a narrower or a rather stricter approach to the new product condition, as it made duplication of an IPR insufficient for a compulsory licence.<sup>991</sup>

Moving on to the approach adopted by the Commission, it is important to recap that the Commission has established in the case of *Microsoft* a different approach to the standards that have been previously introduced by the ECJ. Although the Commission has referred to *Volvo v Veng* and *Magill* to highlight that refusal to supply cannot be considered on its own as abusive conduct, the Commission still stressed that there are exceptions to this principle.<sup>992</sup> Accordingly, the Commission has introduced an ‘entirety of circumstances’ test when it attempted to narrow down the definition of ‘exceptional circumstances’ to a case-by-case approach.<sup>993</sup> The Commission has identified three exceptional requirements for finding a refusal to license by a dominant undertaking as abusive under Article 102 TFEU.<sup>994</sup> The first requirement suggested that the refusal to supply must introduce a threat of excluding competition in the relevant market. The second requirement indicated that such a risk must be due to the indispensability of the product or service to carry on businesses in that market. The last requirement implied that the refusal to supply should have an adverse impact on technical development, as well as consumers’ interests.<sup>995</sup>

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<sup>990</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [38] and [44]-[45]

<sup>991</sup> Order of the President of the Court of First Instance, Case T-184/01 *R IMS Health Inc v Commission* [2001] ECR II-3193, 125

<sup>992</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, paras 550-551 and 557

<sup>993</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 712

<sup>994</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 712

<sup>995</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, paras 573-577

The Commission has touched on the basic requirements of indispensability, elimination of competition and no objective justifications, yet the new product test appears not to be a matter of concern for the Commission.<sup>996</sup> Moreover, the indispensability test in previous case law such as *Bronner* and *IMS Health* does not necessitate maximum access to the market when there are other available solutions and even if they are less beneficial.<sup>997</sup> Nonetheless, the Commission has used a liberal approach to the indispensability test as it disregarded the possibility of other solutions mainly because they are less advantageous. Furthermore, the requirement of the elimination of competition in *Microsoft* appears to be inconsistent with previous case law. As indicated earlier, the ECJ had already tightened the *Magill's* test in *IMS Health* to the elimination of 'all' competition. Nevertheless, the Commission has undertaken a lenient approach as opposed to the existing case with its requirement of the 'risk of eliminating competition'.<sup>998</sup>

Another inconsistency that can be pointed out here is the Commission's lenient approach to the previously established requirement of objective justifications. This inconsistency can be seen when Microsoft argued that it had refused to disclose its information due to objective justifications to protect its multibillion R&D investments in its software and technology, yet the Commission rejected Microsoft's reasons for its refusal to disclose its information. The Commission stated that the essence of IPRs is to protect both the right holder's moral rights and guarantee a reward for efforts made on creativity, but such creativity must be motivated for the interest of the public.

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<sup>996</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C(2004)900 final, para 554 and 670

<sup>997</sup> C-418/01 *IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG* [2004] C.M.L.R 28, at [28]

<sup>998</sup> *Microsoft Case* (Case COMP/C-3/37.792) [2004] C (2004)900 final, at [589]

Therefore, the Commission tackled Microsoft's arguments by applying a new incentives trade-off test.

The Commission's lenient approach to compulsory licensing and access to indispensable IP can lead to products' imitation which can have a negative effect on incentives to innovate and invest.<sup>999</sup> Such a lenient approach to compulsory licensing may increase competition, yet it can harm the economy as it discourages the investment in future R&D.<sup>1000</sup> Moreover, the inconsistencies highlighted in this chapter can lead individuals to lose their trust in the legal system in question.

In addition to the above, the ECJ in the recent case of *Huawei v ZTE* has referred to existing case law such as *Volvo v Veng*, *Magill* and *IMS Health* to highlight that the an IP holder can be found, in exceptional circumstances, in breach Article 102 TFEU by bringing IP infringement proceedings.<sup>1001</sup> The ECJ further pointed out that according to the three requirements of abuse that are found in *Volvo v Veng*,<sup>1002</sup> a dominant undertaking can be found abusing its dominant position if it participates in abusive conduct different than those that govern regular competition.<sup>1003</sup>

Indeed, the ECJ recognised that the abuse of IPRs of this case must be distinguished from other existing case law as *Huawei v ZTE* revolves around the FRAND commitment, as well as the concept of standardisation;<sup>1004</sup> the use of a SEP here is vital to all competitors. Therefore, it can be argued that the ECJ remained consistent with previous

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<sup>999</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal 37-67

<sup>1000</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal 37-67

<sup>1001</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [46] and [47]

<sup>1002</sup> C- 238/87 *Volvo AB v Erik Veng (UK) Ltd* [1989] C.M.L.R 122, at [8]-[10]

<sup>1003</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [73]

<sup>1004</sup> C- 170/13 *Huawei Technologies Co Ltd v ZTE Corp* [2015] 5 C.M.L.R 14, at [48]

case law regarding the requirement of 'indispensability as a SEP can automatically inherit the indispensability criterion due to its context. However, the ECJ has referred to the legitimate expectations of standard users as the second criterion for the 'exceptional circumstances' test used in the case of *Huawei v ZTE*. This new framework for the 'exceptional circumstances' test has never been featured in previous refusal to license case law. Moreover, the Court did not assess the other 'exceptional circumstances' requirements established in previous case law, such as whether the SEP has stopped the appearance of a new product or whether the conduct had eliminated competition or was likely to eliminate competition.

Accordingly, it can be argued that oversight of the requirements of 'new product' and 'elimination of competition' showcase contradictions in the reading of the 'exceptional circumstances' test. Although, the Court may have intended to omit these requirements to differentiate between SEPs and other types of IPRs, the Court could have provided more explicit justifications and reasoning within its ruling for the deviations from previous case law. However, the ECJ has merely stated that this case can be distinguished from existing case law due to the legitimate expectations of standard users.

Overall, there has been a prominent development throughout EU case law for the determination of breach of EU competition law under Article 102 TFEU. The cases of *Volvo v Veng* and *IMS Health* and then *Magill* focused on concerns of the duplication and imitations. Then, the Commission appears to take this issue less seriously when it introduced the idea of technical development as a justification for a compulsory licence even when technical development does not necessarily indicate a distinctive new

product. It is therefore argued here that the Commission appears to have prioritised competition over inventor's incentives to innovate.

## VII. CONCLUSION

The rule of law doctrine calls for legal certainty, but consistency in decision making is one of the key elements for achieving this. The indicated gradual shift of the application of the 'exceptional circumstances' test indicates that decision making at an EU level has adopted, through-out EU case law development, a more aggressive application of Article 102 TFEU which portrays the over-inclusivity of competition law regime in refusal to license cases.<sup>1005</sup> It can, thus, be argued that dominant undertakings might avoid certain practices that are pro-competitive only due to fears of having it being considered as abusive by EU competition authorities. It is believed that the essence of IPRs is sometimes diluted by the purely economic approach adopted by EU competition authorities in refusal to license cases.<sup>1006</sup> This can mainly be seen in FRAND commitments where economic approach would fulfil the demands of the participants in the patent pool rather than the essential right holder. However, the rule of law doctrine calls for respecting fundamental rights and one being IPRs, and thus, the current over-inclusivity of the EU competition law regime is disfavoured from a rule of law perspective as it could undermine the essence of IPRs.

As a potential solution to the over-inclusivity of the EU competition law regime, it is to be argued here that the EU competition authorities and judicial system could have been

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<sup>1005</sup> R Whish and D Bailey, *Competition Law*, (7<sup>th</sup> edn., Oxford University Press, 2012) 193

<sup>1006</sup> Case C-418/01 IMS Health GmbH & Co OHG v NDC Health GmbH & Co KG [2004] C.M.L.R [27]

more attentive on consumer welfare, rather than the examination of what is better for rivals and then consumers. This approach could have been more sensible, given that both radical innovation and market breakthrough are most advantageous to consumer welfare.

Moreover, this chapter aimed at highlighting that there will be an inevitable significant adverse impact on incentives to invest and innovate with the new attitude that has been introduced by EU competition authorities regarding the presumption of the illegality of refusal to license.<sup>1007</sup> As a result, the position of dominant undertakings has been weakened as can be seen in recent cases of abusive refusal to license and FRAND violations, given that the current application of Article 102 TFEU has a softer approach towards dependent undertakings, but without clear guidelines. In the innovation sector, the presumption of illegality of the refusal to supply or license gives license seekers power to go above their position in the market as already seen and discussed in the case of *Microsoft*. Therefore, as a potential solution, the presumption of legality of the refusal to license or supply is desirable whereby the license seekers must be the ones to rebut such a presumption. Such an attitude is also favourable from a rule of law approach, as it can strengthen the protection of IPRs and, in return, encourage incentives to innovate.

Further, inconsistencies can be seen when the approach of the Commission is compared against its Guidelines. The Guidelines have stressed the importance of equal treatment and maximising consumer welfare. Nonetheless, the Commission's non-involvement following ETSI's decision in *DVSI* has portrayed that the circumstances that are not

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<sup>1007</sup> M Angelov, 'The Exceptional Circumstances Test: Implications for FRAND Commitments from the Essential Facilities Doctrine under Article 102 TFEU' [2014] 10(1) European Competition Journal, 37-67

related to the requirements of an actual licence can add discrimination against an undertaking. In other words, ETSI's decision portrayed that the holder of a product that is better quality which had offered its product on FRAND term was discriminated against. Such issues lead to legal uncertainty, especially given that the Commission did not get involved following ETSI's decision. It can be noted that the approach of competition authorities has been progressively becoming more aggressive towards dominant businesses that hold an essential facility and holders of an essential IP within the standard-setting process.

The challenges that arise in the progressive and over-inclusive EU competition law regime can conflict to some degree with some of the main principles of the rule of law doctrine, such as legal certainty, predictability and consistency in decision-making. On top of the inconsistencies that progressed with time in EU case law as highlighted throughout this chapter, the application of Article 102 TFEU and the interpretation of 'exceptional circumstances' test has also been aggressively expanding whereby a proprietor can now be found abusing its dominant position for bringing IP infringement claims. This can be problematic from a rule of law perspective, as the CFREU already covers matters related to access to justice and courts. Therefore, it is odd that Article 102 TFEU has now expanded to the point where EU competition authorities can apply their exceptional circumstances test to intervene with such matters that are already covered under other areas of law such as the CFREU.

A legal system that fully adheres with the rule of law needs to offer protection against arbitrary use of power to those subject to the law. Moreover, a legal system that fully adheres with the rule of law and its elements such as legal certainty must allow individuals to regulate and manage their conduct with certainty. In order to provide

legal certainty, decisions must be made based on rules that are available to the public. Indeed, legal certainty can vary depending on various elements, nonetheless, legal certainty often provides the basis of how the law progresses and how it is made, construed and applied in coherence with the rule of law. Accordingly, it is to be argued here that the new interpretation of Article 102 TFEU where IPR holders can be found abusing their dominant position by bringing of IP infringement proceedings does not necessarily fully adhere with legal certainty and the rule of law, as such an interpretation was not made available to the public prior to the decision made in *Huawei v ZTE*. This decision did not give the right holder in this case the chance to fashion their conduct according the rules that are made available to them at that time. Therefore, as a potential solution, it is to be argued that the interpretation of Article 102 TFEU should be limited and must not expand to cover other matters covered in other areas such as the CFREU.

To conclude, international treaties left the door open for EU competition authorities to achieve a balance between competition and IP which had implications at a regional level. Nonetheless, the exceptional circumstances test under Article 102 TFEU for finding an abuse of a dominant position has also had implications on domestic courts within the EU. The following chapter assesses the admissibility and administration of EU competition law defence in IP infringement proceedings brought before domestic courts and the implications of *Huawei v ZTE* on the interpretations adopted by national courts in regards to the applicability of Article 102 TFEU in finding an abuse of dominance by bringing IP infringement claims.

## CHAPTER SIX

### THE ADMINISTRATION OF EU COMPETITION LAW IN IP-RELATED MATTERS BY NATIONAL COURTS: THREE CONTRASTING CASE STUDIES

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#### I. INTRODUCTION

As technology and innovation are evolving, it is inevitably becoming more challenging for the law to keep up with these changes. The previous chapter has argued that EU competition law and the tests adopted for establishing an abuse of dominance are aggressively expanding leading to, arguably, instability and some degree of legal uncertainty. A striking matter of concern here is that the finding of an abuse of dominance under Article 102 TFEU could give room for the free-riding of innovation which would be inconsistent with the rule of law element of fundamental human rights with regards to respecting property rights.

As it has been indicated in the previous chapters, competition law concerns can be raised under Article 102 TFEU when there are doubts regarding the legality of the practices undertaken by dominant businesses.<sup>1008</sup> In some circumstances, potential licensees commence use of the IPR without obtaining authorisation from the right holder and in other circumstances, they commence use of the IPR after making a mere offer to the right-holder to license the IPR in question. These circumstances can be particularly seen in FRAND commitments as standard implementers have become

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<sup>1008</sup> T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601; C-418/01 *IMS Health v NDC Health* [2004] ECR I-5039; C-241/91 *P Radio Telefíc Eireann v Commission (Magill)* [1995] ECR I-743

accustomed to assuming the automatic right to a licence, in particular following *Huawei v ZTE*.

Therefore, IP infringement proceedings are being increasingly raised against ‘infringing’ users, whereby users bring competition law defences to argue that they should have been granted a licence in the first place. In other words, a plaintiff files an IP infringement proceeding against the defendant who is an unlicensed user, and then the defendant argues that the right holder is abusing its dominant position with its refusal to license. Consequently, IP courts are left to determine whether competition law defence to a compulsory licence can be admissible in IP infringement proceedings, although a competition law counter-claim was not settled before a competition authority or court.<sup>1009</sup>

This chapter examines the interpretations of Article 102 TFEU that are adopted by the jurisdictions of the UK, Germany and Netherlands before *Huawei v ZTE*. This study is then followed by an analysis of the striking implications of the decision in *Huawei v ZTE*. This discussion focuses on the three named jurisdictions due to the interesting contrasts in the approaches taken for administering EU competition law in their jurisdictions. It must be mentioned here that the UK of Great Britain and Northern Ireland has three legal systems which consist of England and Wales, Scotland and Northern Ireland, yet Competition Law Act 1998 applies to all these mentioned legal systems<sup>1010</sup>. For the purpose of this thesis, it is being referred to as the UK competition law.

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<sup>1009</sup> T. Hoppner, ‘Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU’ 7[2] European Competition Journal 297-322, at 297

<sup>1010</sup> Competition Law Act of 1998, S. 76 states that this Act applies to England, Wales, Scotland and Northern Ireland

## II. THE ROLE OF NATIONAL COURTS IN APPLYING EU COMPETITION LAW

As mentioned previously, prior to 2004, the Commission had the sole authority to enforce antitrust rules. Nonetheless, a major reform has been introduced whereby both national competition authorities and the European Commission can now directly apply EU competition rules. Moreover, the national competition authorities of EU Member States and the European Commission cooperate as they do their independent investigations via the European Competition Network. The cooperation between national competition authorities and the European Commission has led to more than 2000 inspections and more than 1000 decisions by the end of 2017.<sup>1011</sup>

With regards to EU competition law, Regulation 1/2003 provided national courts with a great enforcement role of Articles 101 and 102 TFEU.<sup>1012</sup> Both the Commission and national competition authorities have the role of initiating investigations, yet the Commission has the added role of ensuring that national competition authorities apply EU competition rules in a uniform manner which ultimately makes the European Commission the main enforcer of EU competition rules. It must also be mentioned that the Commission assists national courts to make sure that the application of Article 102 TFEU is consistent throughout the EU. As a matter of fact, national courts must provide the Commission with a copy of any decision where the national court has applied Article 102 TFEU. Moreover, national courts can ask the Commission for an opinion as per Article 15(1) Regulation 1/2003<sup>1013</sup>. Also, Article 15(3) of the same regulation allows the

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<sup>1011</sup> European Court of Auditors, 'Enforcement of EU competition policy' September 2018 <  
[https://www.eca.europa.eu/Lists/ECADocuments/BP\\_COMPETITION/BP\\_COMPETITION\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/BP_COMPETITION/BP_COMPETITION_EN.pdf)>  
accessed on 15<sup>th</sup> September 2019

<sup>1012</sup> Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty

<sup>1013</sup> Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, Article 15(1) states the following: *"In proceedings for the application of Article 81 or Article 82 of the Treaty, courts of the Member States may*

Commission to submit its comments to national courts as *amicus curiae*.<sup>1014</sup>

Additionally, the Commission offers a grants programme to train judges of national courts in EU competition law, as well as judicial cooperation between domestic judges.

In addition to the above, although domestic judicial authorities can ask for the Commission's opinion as per Article 15(1) Regulation 1/2003, this does not away the right or obligation of domestic courts to refer questions to the CJEU for a preliminary ruling under Article 267 TFEU. Once a preliminary reference is made to the CJEU, the CJEU interpretation of EU law which would bind the domestic court, as opposed to the Commission's opinion which would not bind the national court. Moreover, if a question is referred to the CJEU, the Court will provide a preliminary ruling concerning the correct interpretation of EU law, as well as the validity of EU acts, while the Commission's opinion can be provided not only legal matters, but also factual and economic issues.

Further to the above, domestic courts are required to provide the Commission with a written copy of any judgement passed at a domestic level when it involves the application of Article 102 TFEU as per Article 15(2) Regulation 1/2003. As a matter of fact, these rulings have to be passed to the Commission "without delay after the full

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*ask the Commission to transmit to them information in its possession or its opinion on questions concerning the application of the Community competition rules."*

<sup>1014</sup> Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, Article 15(3) states the following: "*Competition authorities of the Member States, acting on their own initiative, may submit written observations to the national courts of their Member State on issues relating to the application of Article 81 or Article 82 of the Treaty. With the permission of the court in question, they may also submit oral observations to the national courts of their Member State. Where the coherent application of Article 81 or Article 82 of the Treaty so requires, the Commission, acting on its own initiative, may submit written observations to courts of the Member States. With the permission of the court in question, it may also make oral observations. For the purpose of the preparation of their observations only, the competition authorities of the Member States and the Commission may request the relevant court of the Member State to transmit or ensure the transmission to them of any documents necessary for the assessment of the case.*"

written judgement is notified to the parties.”<sup>1015</sup> These rulings are then published, in the original language, for public access in an online database to portray the role of domestic courts as enforcers of EU competition law.<sup>1016</sup>

Overall, national courts play a significant part in the enforcement of EU competition law, as well as its development. Accordingly, the following sections aim to critically assess how domestic courts have applied and enforced EU competition law prior to the case of *Huawei v ZTE* and then assess the implications of this case on the domestic legal regime of three jurisdictions as examples to the administration of EU competition law by domestic courts.

### III. COMPETITION LAW DEFENCE PRIOR TO *HUAWEI V ZTE*

This section explores the jurisdictions of the UK, Germany and Netherlands as examples to the application of Article 102 TFEU by domestic courts across the EU prior to the case of *Huawei v ZTE*.

#### A) The UK Perspective

To start off with, this subsection examines the admissibility of EU competition law in IP infringement proceedings brought before the UK legal system. Namely, this section analyses the approaches adopted by the UK courts prior the ECJ’s ruling in *Huawei v ZTE*.

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<sup>1015</sup> Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, Article 15(2)

<sup>1016</sup> Commission, ‘Application of antitrust law by national courts- Overview’ <<https://ec.europa.eu/competition/court/antitrust.html>> accessed on 5<sup>th</sup> September 2019

Indeed, a right holder would be participating in abusive practices with a refusal to license that does not adhere to the principles set in Article 102 TFEU or the relevant domestic law. It has been suggested that an action for an injunction within IP infringement proceedings should automatically fail when a right holder had abusively refused to license.<sup>1017</sup> It has been portrayed in the previous chapter that a refusal to license can be considered as an abuse of a dominant position in 'exceptional circumstances' under Article 102 TFEU. Moreover, abuse of a dominant position can also occur when the right holder brings an IP infringement proceedings in exceptional circumstances under Article 102 TFEU.<sup>1018</sup> It is believed by some that right holders misuse their dominant position when IP infringements are sought, given that such proceedings would not have been brought in the first place had a right holder granted a licence as per Article 102 TFEU or the relevant national law.<sup>1019</sup>

The arguments mentioned above appear to be consistent with existing UK case law. For example, in the judgement made by the English Court of Appeal in *British Leyland*.<sup>1020</sup> The judgement confirmed that the IPR owner would be abusing its dominant position by attempting to impose unrelated conditions on a trader that is in desperate need for a licence to trade. It has been indicated by Justice Templeman that, in such circumstances, the IPR holder will not be granted the requested injunction against the

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<sup>1017</sup> H. Ullrich, 'Patents and Standards: A Comment on the German Federal Supreme Court Decision Orange Book Standard' (2010) 41 International Review of Intellectual Property and Competition Law 337, 342; G de Bronett, 'Gemeinschaftsrechtliche Anmerkungen zum "Orange- Book-Standard"-Urteil des BGH' [2009] Wirtschaft und Wettbewerb 899, 905; A Heinemann, 'Kartellrechtliche Zwangslizenzen im Patentrecht' [2005] Zeitschrift für Wettbewerbsrecht 198, 200–01.

<sup>1018</sup> H Ullrich, 'Patents and Standards: A Comment on the German Federal Supreme Court Decision Orange Book Standard' (2010) 41 International Review of Intellectual Property and Competition Law 337, 342, at p. 342; G. de Bronett, 'Gemeinschaftsrechtliche Anmerkungen zum "Orange- Book-Standard"-Urteil des BGH' [2009] Wirtschaft und Wettbewerb 899, 905

<sup>1019</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] European Competition Journal 297-322

<sup>1020</sup> *British Leyland Motor Corporation Ltd v TI Silencers Ltd* [1981] 2 CMLR 75.

user.<sup>1021</sup> The Court has further highlighted that the owner's right to use copyright does not mean that the copyright's holder can breach EU competition law.<sup>1022</sup>

This finding has also been confirmed in *Intel v Via*<sup>1023</sup> concerning patents that have been considered essential to the chipsets market before the England and Wales Court of Appeal (Civil Division). Lawrence Collins J allowed Via to appeal the case before the Court of Appeal, but only in respect to whether competition law defence can be raised for the market division term following Via's reference to *British Leyland*.<sup>1024</sup> It was stipulated by Vice-Chancellor Sir Andrew Morritt in the appealed case that the user could raise competition law defence when the conduct of the right-holder breaches Article 102 TFEU.<sup>1025</sup>

The Court of Appeal in *Intel v Via* had first to examine whether a sufficiently pleaded case has been put forward by Via. The allegations put forward should also satisfy the Court that Intel's refusal to license is, in fact, breaching Article 102 TFEU. The Court of Appeal referred to three ECJ's decisions of *Volvo v Veng*<sup>1026</sup>, *ITT Promedia v Commission*<sup>1027</sup> and *Magill*<sup>1028</sup> in order to determine whether Intel had abused its dominant position with its refusal to license to Via.<sup>1029</sup>

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<sup>1021</sup> *British Leyland Motor Corporation Ltd v TI Silencers Ltd* [1981] 2 CMLR 75, para 1 stated the following: [I]f English legislation . . . is used or abused by [the plaintiff] in a way and by means of activities which themselves create a breach of the Treaty of Rome, then [the plaintiff] may not be able to obtain all the relief to which they would otherwise be entitled. If, for example, ... the owners of English copyright were only prepared to grant a licence on terms which created, or helped to create, a breach of Community law, this court, I apprehend, would not grant an injunction against an infringer who desperately needed a licence for his business purposes and was willing to pay a reasonable royalty for the privilege.

<sup>1022</sup> *British Leyland Motor Corporation Ltd v TI Silencers Ltd* [1981] 2 CMLR 75, at [8]

<sup>1023</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905.

<sup>1024</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [30]

<sup>1025</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [80]

<sup>1026</sup> *Volvo v Veng* [1988] E.C.R. 6211

<sup>1027</sup> *Promedia v Commission* [1998] E.C.R. II-2941

<sup>1028</sup> *Magill (RTE and Others v European Commission)* [1995] ECR I 743, 823 para 50

<sup>1029</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [36]

The ECJ in *Volvo v Veng*<sup>1030</sup> had recognised that, initially, the owner of an IPR appears to have the full entitlement to prevent others from manufacturing or using the IPR.<sup>1031</sup> However, the right holder does not always enjoy this exclusive right due to competition law concerns. The ECJ in *ITT Promedia v Commission*<sup>1032</sup> held that, in some circumstances, a dominant undertaking might not be allowed to act or take certain measures even when they are not abusive conduct due to competition law concerns. Consequently, the exercise of IPRS by dominant undertakings, in some circumstances, can be challenged based on competition law even when similar conduct would be considered lawful had it been undertaken by a non-dominant business.<sup>1033</sup>

The Court of Appeal then highlighted that the test that is to be used to assess abuse of dominance is ‘the exceptional circumstances’ test; it referred to *Magill*<sup>1034</sup> in support of this approach.<sup>1035</sup>

The Court of Appeal had to identify from the two broad principles made by the ECJ in *Volvo v Veng* and *ITT Promedia v Commission* the exceptional circumstances where a dominant undertaking can be found breaching EU competition laws. However, it has been indicated by the Court that it is challenging to determine such circumstances because the ECJ's jurisprudence on this issue is still in a state of instability.<sup>1036</sup> It is

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<sup>1030</sup> *Volvo v Veng* [1988] E.C.R. 6211

<sup>1031</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [36]; *Volvo v Veng* [1988] E.C.R. 6211, at 6235 [8]

<sup>1032</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [36]; *Promedia v Commission* [1998] E.C.R. II-2941, at 2987 [139]

<sup>1033</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [36]; *Promedia v Commission* [1998] E.C.R. II-2941, 2887 para 139

<sup>1034</sup> *Magill (RTE and Others v European Commission)* [1995] ECR I 743, 823 at [50]

<sup>1035</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905, at [37]

<sup>1036</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2002] EWCA Civ 1905 [32] Lawrence Collins J states that “the jurisprudence of the European Court of Justice is in the course of development it is dangerous to assume that it is beyond argument with real prospect of success that the existing case law will not be extended or modified so as to encompass the defence being advanced.”

interesting to note that the Court of Appeal had highlighted that such instability in ECJ's jurisprudent makes it more challenging for national courts to determine the circumstances of when a dominant undertaking can be found in breach of EU competition law. The rule of law doctrine can be referred to here to highlight that stability in the EU jurisprudence is essential so that individuals can manage their affairs effectively.<sup>1037</sup> It is not argued here that the EU legal framework must offer an absolute degree of legal stability, given that this can create a rigid legal structure that could be inconsiderate to the possible changes in social practices and norms.<sup>1038</sup> However, it is argued that the EU legal framework must provide general greater legal stability due to the ethical significance which ensures that similar cases are to be dealt with equally.<sup>1039</sup>

Clearly, the Court of Appeal had allowed the appeal and permitted reference to be made to the ECJ's decisions with some level of hesitation or caution. Generally, IP courts have already carefully dealt with a number of cases that are concerned with 'Euro-defences'<sup>1040</sup> in order to avoid extra expenses and long trials.<sup>1041</sup> Lawrence Collins J had highlighted that Euro-defences usually raise questions of different laws which makes it inappropriate for a summary determination.<sup>1042</sup> Additionally, it has been stipulated by Lawrence Collins J that reference to the EU Court should not be made prior to dealing

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<sup>1037</sup> H Hart and A Sacks, 'The Legal Process: Basic Problems in the Making and Application of Law' in W Eskridge and P Frickey (eds), *Hart and Sacks the Legal Process: Basic Problems in the Making and Application of Law* (Westbury: NY: Foundation Press, 1994)

<sup>1038</sup>S Lindquist and F Cross, 'Stability, Predictability and the Rule of Law' <https://law.utexas.edu/conferences/measuring/The%20Papers/Rule%20of%20Law%20Conference.cros%20lindquist.pdf> accessed in 28 September 2018

<sup>1039</sup>S Lindquist and F Cross, 'Stability, Predictability and the Rule of Law' <https://law.utexas.edu/conferences/measuring/The%20Papers/Rule%20of%20Law%20Conference.cros%20lindquist.pdf> accessed in 28 September 2018

<sup>1040</sup> Euro defences are competition law defences that are usually based on Article 102 TFEU

<sup>1041</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2003] EWCA Civ 1905; at [32] and [35]

<sup>1042</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2003] EWCA Civ 1905; at [32] and [35]

with all relevant facts by the national court.<sup>1043</sup> In other words, Lawrence Collins J stressed that competition law defences should not be assessed until all relevant factors of IP infringement have been first assessed. Regardless, the Court had allowed the appeal based on Article 102 TFEU and thus, has put the attention back on Euro-defences.<sup>1044</sup>

## B) The German Perspective

This subsection examines the approach adopted by German courts regarding the admissibility of EU competition law in IP infringement proceedings prior to the decision of the ECJ in *Huawei v ZTE*. Namely, it assesses the requirements provided in the landmark decision of the *Orange-Book-Standard*.<sup>1045</sup>

The German Federal Supreme Court (Bundesgerichtshof) had adopted another approach when dealing with competition law defences in IP proceedings as can be seen in its *Orange-Book-Standard*<sup>1046</sup> of May 2009. The Court here had highlighted that a user could challenge IP infringement proceedings with a competition law defence under Article 102 TFEU. The user can also request an injunction on the grounds that the right holder had abused its dominant position with its refusal to reach a licensing agreement.<sup>1047</sup>

Two forms of abuse were identified by the Court. The first form of abuse is the abusive refusal to license. The second form of abuse is the enforcement of a claim with an action

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<sup>1043</sup> *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2003] EWCA Civ 1905, at [35]

<sup>1044</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] *European Competition Journal* 297-322

<sup>1045</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*. An English translation can be found at <https://www.ie-forum.nl/backoffice/uploads/file/IEForum/IEForum%20uitspraken/Octrooirecht/EN%20Translation%20BGH%20Orange%20Book%20Standard%20-%20eng.pdf> accessed 18 December 2018

<sup>1046</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

<sup>1047</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

for injunction against a user.<sup>1048</sup> The enforcement of IPRs as a form of abuse has been first introduced in the *Orange-Book-Standard*, as it has never been established before that point by any of the EU courts.<sup>1049</sup> Therefore, it could be safe to argue that the ECJ in *Huawei v ZTE* was influenced by the German's administration of Article 102 TFEU. As we know, national courts play an important role in influencing the development of international or regional law.

The Court automatically assumes that the first form of abuse exists when there is abusive enforcement of an IPR. If a user has a lawful claim to a licence under Article 102 TFEU, then the Court considers the enforcement of an IPR as abusive. Generally, the German Court indicated that a competition counter-claim to a licence should not be brought in IP infringement proceedings, as this must be done via an independent competition law action.<sup>1050</sup> However, the Court identified a specific set of conditions that can be met for the admissibility of a competition law defence before a German court.<sup>1051</sup>

The Court outlined two conditions for the finding of abusive enforcement of an IPR. First, the user should make an unconditional offer to the right holder for the conclusion of a licensing agreement between both parties. Second, the user must complete the commitments and obligations that arise with the use of the patent as if a licence agreement has been formed between both parties.<sup>1052</sup> In such circumstances, the user should predict the contractual rights of the 'hypothetical' licence and implement the

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<sup>1048</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

<sup>1049</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] *European Competition Journal* 297-322

<sup>1050</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] *European Competition Journal* 297-322

<sup>1051</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

<sup>1052</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

obligations that have not yet taken place by an actual contract.<sup>1053</sup> The main focus point is that the user must render regular accounts and arrange payment of appropriate fees to the right holder for the use of the IPR in question.<sup>1054</sup>

It can be noted that although the Federal Supreme Court allowed the user to raise a defence against both an action for injunction and an IP action for damages, yet the defendant should still meet some specific requirements that tailor to the right holder's interests in order to obtain a defence against an action for damages. Thus, a competition law counter-claim to a licence is not sufficient on its own and without providing an unconditional offer to the proprietor and the rendering of accounts.<sup>1055</sup>

On the one hand, some commentators have emphasised that the conditions set by the Court in the *Orange-Book-Standard* add limitations to the application of Article 102 TFEU in circumstances of abusive refusal to license.<sup>1056</sup> This is because a standard user holds the burden of identifying and presenting the conditions of a licence, as well as ensuring that these conditions do not leave the door open for further negotiations. In addition, the interests of a SEP owner must be met to the extent that the owner does not have the right to reject such an offer without committing an abuse.<sup>1057</sup> The standard user is expected here to begin instantly fulfilling these conditions, but without having yet identified the true prospective of the licensing agreement.<sup>1058</sup>

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<sup>1053</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

<sup>1054</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

<sup>1055</sup> Case KZR 39/06, [2009] 180 BGHZ 312, 316—*Orange-Book-Standard*.

<sup>1056</sup> H. Ullrich, 'Patents and Standards: A Comment on the German Federal Supreme Court Decision *Orange Book Standard*' [2010] 41 *International Review of Intellectual Property and Competition law*, at 340–41.

<sup>1057</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) *ECLR* 365–375; Ullrich, *IIC* 2010, 337, 344 *et seq.*; Frohlich, *GRUR* 2008, 205, 213.

<sup>1058</sup> *Ibid*

On the other hand, some have argued that the *Orange Book* decision gives users room to manoeuvre negotiation processes by permitting the use of a SEP by potential licensees prior to obtaining an actual licence from the proprietor for such a use.<sup>1059</sup> Moreover, it has been indicated that SEP holders are unlikely to be in abuse here since the standards are used by them, and therefore, SEP holders are forced by what is called a no challenge-clause.<sup>1060</sup>

### C) The Dutch Perspective

This section examines the approach adopted by the Dutch courts in IP infringement proceedings prior the ECJ's ruling in *Huawei v ZTE*. It will be noted below that the approach adopted by Dutch courts have emphasised the importance in ensuring legal certainty under Dutch patent law.

Some commentators have argued that a right holder should be able to enforce the rights associated with IPRs and thus, infringements of IPRs are not permitted even when a user has a claim for a licence under EU competition law.<sup>1061</sup> It has been further highlighted that users should not be allowed to challenge IPR infringement proceedings by simply initiating a counter-claim to a licence under EU competition law unless a user

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<sup>1059</sup> It was highlighted that some users may await an injunction to be raised against them before they arrange appropriate payments; see T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] European Competition Journal 297-322

<sup>1060</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375

<sup>1061</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] European Competition Journal 297-322; Jaecks and T Dörmer, 'Der wettbewerbsrechtliche Anspruch auf Lizenzerteilung, die eigenmächtige Nutzung von Immaterialgüterrechten und die prozessualen Folgen' in K Boesche, J Füller and M Wolf (eds), *Variationen im Recht* (Berliner Wissenschaftsverlag, 2006), 97, 106–09; S Maaßen, Normung, Standardisierung Und Immaterialgüterrechte (C Heymanns, 2006), 257–58; M van Merveldt, 'Der Ausschluss kartellrechtlicher Einwendungen im Patentverletzungsverfahren' [2004] Wirtschaft und Wettbewerb 19–25.

has transformed the claim into a concrete licence.<sup>1062</sup> Accordingly, supporters of this view have argued that users should seek a licence within an appropriate period of time in a parallel proceeding before a competition court.<sup>1063</sup>

These aforesaid views also appear to be consistent with the approach of the Dutch Court when dealing with competition law defences in IP infringement proceeding. This can be seen in the judgement of The Hague in *NL-Philips v SK Kasetten*<sup>1064</sup> regarding infringement proceedings of SEPs brought by Philips against SK Kasetten. It was held by The Hague Court that SK Kasetten had infringed various SEPs that belong to CD and DVD technology. Therefore, the Court concluded that a compulsory licence would not be issued prior to the conclusion of a licensing agreement between both parties. SK Kasetten referred to the German's *Orange-Book-Standard*, but the Dutch Court was quick to reject the argument. This is because the Court saw that users could then rely on competition law defences even when a user had not sought a licence under FRAND terms before commencing the use of the SEP.<sup>1065</sup> The Court of The Hague, thus, held that the German approach to EU competition law would not be applicable under Dutch patent law.<sup>1066</sup>

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<sup>1062</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] European Competition Journal 297-322

<sup>1063</sup> T. Hoppner, 'Competition Law in Intellectual Property Litigation: The Case for Compulsory Licence Defence Under Article 102 TFEU' 7[2] European Competition Journal 297-322

<sup>1064</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands for translation of relevant sections of the case, please see <https://www.eplawpatentblog.com/eplaw/2010/03/nl-philips-v-sk-kasetten-frand.html>

<sup>1065</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.22] states that: "[b]efore engaging in its trade in discs, or from the moment that it was aware or reasonably should have been aware that by doing so it was infringing, SK should have requested Philips for a license under FRAND-terms".

<sup>1066</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands

The main three reasons as to why the competition law defence was rejected by the Court include the following: First, the system of compulsory licencing was laid down by Dutch laws so that it can be applied only when patent rights are unenforceable.<sup>1067</sup> Second, Philips is the actual right-holder whereby SK Kasetten only wishes to use the SEP in question. Therefore, SK Kasetten should have sought a licence from Philips prior to the bringing of infringing goods to the market, or once it has been identified and/or could have been reasonably identified by SK that its use was infringing Philip's rights.<sup>1068</sup> The Dutch court considered that German's *Orange-Book-Standard* would create legal uncertainty, especially since the interests of potential licensees are adequately protected under Dutch laws by the opportunity to acquire a compulsory licence before a court in a parallel proceeding. Third, the Dutch Court noted that the *Orange-Book-Standard* would be unsuccessful even if it were to be applied, given that SK Kasetten had admitted that no payment had been secured in relation to royalties as per the requirement set in the *Orange-Book-Standard*.<sup>1069</sup>

In the case at hand, the Court saw the proprietor would be incapable of enforcing the rights associated with its IP if an infringer would always assume the automatic right for a compulsory licence. The Dutch Court highlighted that compulsory licences can only be issued following the conclusion of licensing terms between both parties or a court's order.<sup>1070</sup> Although the Court emphasised on the fact that there are some exceptions to this general principle by which compulsory licences can have a retroactive effect,

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<sup>1067</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.20]

<sup>1068</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.22]

<sup>1069</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands

<sup>1070</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kasetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands

these exceptions were not applicable in the case at hand.<sup>1071</sup> Moreover, the Court rejected SK Kassetten's argument in order to avoid legal uncertainty,<sup>1072</sup> given that the licensing terms are still unclear without the conclusion of an actual licence.<sup>1073</sup> The Court had, thus, stressed that a compulsory licence could not be issued prior to the determination of a licensing agreement between both parties.<sup>1074</sup> This approach is desirable from a rule of law standpoint as it ensures a higher degree of legal certainty as well as the enforcement of adequate IP protection which also falls in line with Article 17(2) of the Charter.

Moreover, a defendant that is facing IP infringement proceedings brought by a proprietor that had genuinely infringed competition laws could seek other means of protection under Dutch law. Some examples of such protection include the fact that the defendant could still seek authorisation from the proprietor before commencing use. The defendant can also seek an interlocutory injunction in matters of urgency for the granting of a licence. Additionally, the defendant can also claim damages against the proprietor for any losses caused by the right holder's abusive refusal to license.<sup>1075</sup> It can, thus, be noted that under Dutch law the potential licensee's rights are still protected and safeguarded via other means than the mere entitlement to a compulsory licence or the 'automatic' acceptance of a competition law defence in IP infringement proceedings..

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<sup>1071</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.22]- [24]

<sup>1072</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.21]

<sup>1073</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.21]

<sup>1074</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands

<sup>1075</sup> Joint cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524 *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & co. KG* [2010] District Court The Hague, The Netherlands, at [6.22]– [24].

The Dutch's approach appears to add an extra layer of clarity to the protection of IPRs which seems to be consistent with the ideal of the rule of law and its main objectives. Indeed, the inadmissibility of competition law defences in IP infringement proceedings may lengthen the process and increase the costs, yet it eliminates the 'automatic' admission of a competition law defence, and thus, could be more consistent with the ideal of the rule of law. This is because it allows the right holder to enforce the rights associated with the IPR. It also allows the right holder to protect its IPR against unauthorised use by users that did not seek consent from the right holder or authorisation from a court or relevant authority. Needless to say, this approach also protects licence seekers against genuine abusive refusal to license as they can still seek damages for any losses suffered due to the abusive refusal to license. Therefore, it can be argued that this approach fits with the rule of law element of equality before the law.

The above mentioned does not mean that Court does not recognise 'specific circumstances'<sup>1076</sup> that could apply for a specific case. SK Kasetten could have been granted a compulsory licence by the Dutch Court had SK Kasetten sought negotiations with Philips and Philips had completely refused to license. An example of this situation can be seen when a FRAND defence was allowed in the Dutch case of *LG Electronics v Sony*<sup>1077</sup> due to the ongoing negotiations between both parties.

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<sup>1076</sup>G. Kuipers, D. Groenveld and O. Lamme 'A further perspective on Apple v Samsung: How to successfully enforce Standard Essential Patents in the Netherlands' 222, 224-25 (*Berichten industriell eigendom*, 2012) <[https://www.debrauw.com/wp-content/uploads/NEWS%20-%20PUBLICATIONS/artikel1\\_Kuipers-Groeneveld-Lamme.pdf](https://www.debrauw.com/wp-content/uploads/NEWS%20-%20PUBLICATIONS/artikel1_Kuipers-Groeneveld-Lamme.pdf)> accessed 27 March 2018

<sup>1077</sup> Case KG ZA 11-269 *G Electronics v Sony* [2011] District Court of The Hague, The Netherlands; G. Kuipers and others, 'A Further Perspective on Apple v Samsung: How to Successfully enforce Standard Essential Patents in the Netherlands' (*berichten industrielle eigendom*, August 2012) 222 [https://www.debrauw.com/wp-content/uploads/NEWS%20-%20PUBLICATIONS/artikel1\\_Kuipers-Groeneveld-Lamme.pdf](https://www.debrauw.com/wp-content/uploads/NEWS%20-%20PUBLICATIONS/artikel1_Kuipers-Groeneveld-Lamme.pdf) accessed 18 December 2018

Moreover, the *Philips'* principle was further examined in the case of *Samsung v Apple*.<sup>1078</sup> This case established that the *Philips'* principle is inapplicable when a SEP holder is aware of the unlicensed use by the user and has still allowed it. The *Philips'* principle has also been inapplicable if the pursuit of an injunction took place during the ongoing negotiations between both parties.<sup>1079</sup> The Court indicated that such conduct is abusive and against the principles of pre-contractual good faith, because the user may feel pressured by the injunction to agree on a licence that does not adhere with FRAND terms.<sup>1080</sup>

It appears that the Dutch Court has taken a careful attitude towards the admissibility of Article 102 TFEU in order to avoid legal uncertainty. This also adds an extra layer of protection towards the rights of patent holders so that IPR infringements do not take place with the mere entitlement to a competition law defence. This approach is favourable from a rule of law approach, given that such a complex matter should be dealt with extreme caution in order to ensure that both parties are protected and that patent rights are not prevented from being rightfully enforced. Businesses are provided with a sense of security as their rights are protected from the risk of a mere claim of a compulsory licence under competition laws and thus, further encourage innovation in the Dutch market. It appears that the Dutch Court has been cautious by adopting strict

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<sup>1078</sup> Joint Cases 400367/HA ZA 11–2212, 400376/HA ZA 11–2213 and 400385/HA ZA 11–2215 *Samsung v Apple* [2012] District Court of The Hague, The Netherlands.

<sup>1079</sup> Joint Cases 400367/HA ZA 11–2212, 400376/HA ZA 11–2213 and 400385/HA ZA 11–2215 *Samsung v Apple* [2012] District Court of The Hague, The Netherlands

<sup>1080</sup> Joint Cases 400367/HA ZA 11–2212, 400376/HA ZA 11–2213 and 400385/HA ZA 11–2215 *Samsung v Apple* [2012] District Court of The Hague. For further discussion on the case, see also G. Kuipers, D. Groenvelt and O. Lamme 'Netherlands: A Further Perspective on *Apple v Samsung*: How to Successfully Enforce Standard Essential Patents (SEPs) in the Netherlands' (mondaq.com 11 September 2012) <http://www.mondaq.com/x/196082/Patent/A+further+perspective+on+Apple+v+Samsung+How+to+successfully+enforce+Standard+Essential+Patents+SEPs+in+the+Netherlands> accessed on 11 November 2018

criteria for admitting competition law defence in IP infringement proceedings in order to ensure that legal certainty exists under Dutch law.

It is important to mention here that the Netherlands, despite its small size, has been ranked third place out of one hundred and thirty in the 2017 Global Innovation Index.<sup>1081</sup> The fact that the Netherlands appears to block EU distribution of infringing products effectively is the reason as to why the Dutch market is so important for many international corporations.<sup>1082</sup> Therefore, it can be argued that this approach provides more legal certainty and attempts to fulfil the legal expectations of undertakings in regards to their rights and obligations as right holders. Moreover, right holders would be better situated in predicting the outcomes of their actions when they bring IP infringement claims before a Dutch court.

#### IV. INTERIM RESULTS

It can be noted that prior to the *Huawei* decision national courts had different approaches regarding the mere question of whether competition law defences are admissible in IP infringement proceedings despite them being essential to a market standard. Competition law defences, in some EU Member countries, can fall under a very strict set of conditions as seen by the approach adopted by the Dutch Court.<sup>1083</sup> In other jurisdictions, such as the UK, competition law defences are generally admissible in court in order to avoid long and expensive trials and to protect users against abusive conduct by IP holders, but only after examining all relevant factors of the case.<sup>1084</sup> The

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<sup>1081</sup> S. Dutt, B. Lanvin and S. Vincent 'The Global Innovation Index 2017' (wipo.int, 2017) p. 18 [http://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2017.pdf](http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2017.pdf) accessed 11 November 2018

<sup>1082</sup> W. Maas 'The Patent Litigation Law Review: Netherlands' (thelawreviews.co.uk, November 2018) <https://thelawreviews.co.uk/chapter/1151089/netherlands> accessed 11 November 2018

<sup>1083</sup> Joint Cases No 316533/ HA ZA 08-2522 and 316535 HA ZA 08-2524 *Koninklijke Philips Electronics NV v SK Kassetten GmbH & Co. KG* [2010] District Court The Hague, The Netherlands

<sup>1084</sup> As seen in *British Leyland Motor Corporation Ltd v TI Silencers Ltd* [1981] 2 CMLR 75 and *Intel Corporation v Via Technologies Inc* and *Elitegroup Computer Systems* [2003] EWCA Civ 1905

German's *Orange-Book-Standard* highlighted that competition law defences can be accepted if certain conditions are fulfilled. However, the *Orange-Book-Standard* can lead to legal uncertainty, given that the competition law defences are admitted in IP proceedings despite the fact that licensing terms have not been established by both parties. Moreover, it can be argued that right holders should have the right to enforce their rights provided under IP. Therefore, the bringing of IP infringement proceedings against allegedly 'infringing' user should not be considered as an abuse of a dominant position as contemplated by the German court, because under the rule of law perspective everyone should have the right to access courts to resolve a conflict.

On top of the above, potential licensees can still seek damages for the refusal to license before a competition court as seen in the interpretations of Article 102 TFEU by the Dutch court. It can, thus, be argued that potential licensees should not commence use of infringing products prior to obtaining a licensing agreement. If a licensing agreement cannot be reached due to a genuine abusive refusal to license, then the potential licensee should seek a competition court for a compulsory licence as well as damages that have been suffered due to the abusive refusal to licence. Accordingly, the rights of potential licensees are still reserved without allowing users to continue using the IPR without a licence, or at least, rendering accounts. It is understandable that some economists might argue that this may hinder competition and delay economic benefits. Nonetheless, the rule of law highlights that law is supreme and thus, an appropriate legal procedure must be followed before any economic benefits can surface.

How are Member States impacted by EU law? The question is not only difficult to answer but is also politically sensitive. It is a politically sensitive question because it is concerned with how the EU law has an impact on domestic sovereignty. Nevertheless,

the impact of EU law on the national Member States is crucial, from the perspective of the rule of law as it has an impact on citizens and businesses regarding determining the rights and obligations. In cross-border exchange and trade, the differences existing between EU Member countries in the admissibility of EU competition defences can raise questions of concern. This is because undertakings might become hesitant altogether in investing in a market so that they do not lose the economic value of their IPRs. It has been indicated in Article 9 of the Directive 2004/84/EC on enforcement of IPRs that the substantive law on IPRs is weak which can, thus, cause reduction of the investments made in innovation and creation.<sup>1085</sup> Therefore, this matter must be addressed urgently for the sake of greater degree of legal certainty and consistency in the enforcement of IPRs across the EU Member States to avoid loss of confidence within the EU business circle.

It is important to reach a level of harmonisation of the substantive enforcement of IPRs at a regional level by providing national courts a clear set of guidance, as well as requiring the licence seeker to submit a licence offer to the licence holder which includes terms and conditions that cannot be rejected by the right-holder without abusing its dominant position. If a right holder was to be found to be in breach of competition laws with its refusal to licence, then it makes sense to require the defendant to make a licence offer to the right holder, particularly before commencing the use of the IPR, that cannot be rejected without breaching competition law, whereby the potential licensee would not be capable of using a competition law defence without having made such an offer. It also does not make sense to use a competition law defence in IP infringement proceedings without having provided an unconditional offer

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<sup>1085</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights [2004] OJ157/45, Article 9

to the right-holder. This is particularly important as right holders should be given a chance to reach a voluntary agreement with the potential licensee on reasonable terms.

This uniform application would also be desirable from a rule of law perspective to protect right holders from differences in the approaches adopted by a different set of judgements made by various national courts within the EU market. This would also be highly beneficial to multinational businesses operating in different countries within the EU as it provides a layer of clarity in regards to when a competition law defence can actually be raised by a defendant who is using the IPR without the right holder's consent.

It is important in the following section of this chapter to examine the impact of the recent decision made by the ECJ in *Huawei and ZTE* on the UK, Germany and Netherlands in respect to refusal to licence and competition law defences in IP infringement proceedings.

## V. COMPETITION LAW DEFENSE AFTER HUAWEI V ZTE

As indicated in the previous chapter, *Huawei v ZTE* has left some unanswered questions to be addressed by domestic courts within the EU.<sup>1086</sup> Therefore, this section critically examines the approaches adopted by the UK, Germany and Netherlands in IP infringement proceedings post-*Huawei*. It aims to evaluate the impact of the decision in *Huawei v ZTE* on domestic courts and highlight how the courts had to adapt in order to remain consistent with EU case law.

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<sup>1086</sup> Some of these questions have been highlighted in section V of Chapter Five

#### A) The UK Perspective

This subsection examines the approach of the UK, mainly the courts of England and Wales in addressing the unanswered questions following *Huawei v ZTE* as well as highlight competition law implications following Brexit in a no-deal scenario.

Inevitably, the *Huawei* decision of the ECJ has influenced UK case law. This influence can be seen in the case of *Unwired Planet v Huawei*.<sup>1087</sup> The Claimant, Unwired Planet, is a company that grants licences to companies in the sector of telecommunication equipment. Unwired Planet has a global patent portfolio which was essential to the telecommunication standards set by the ETSI. The ETSI had required its participants to commit to licensing their essential patents on FRAND terms.<sup>1088</sup> Unwired Planet sued Huawei, Samsung, and Google for infringement of six patents from their portfolio, five of which were allegedly SEPs.<sup>1089</sup> The Court had allowed Huawei to present its competition law defence, but only following the determination of whether Unwired Planet's offer was FRAND or contrary to Article 102 TFEU.<sup>1090</sup>

The High Court of Justice decided that Unwired Planet did not abuse its dominant position when it 'prematurely' sought proceedings for an injunction.<sup>1091</sup> The Court further decided that Unwired Planet did not infringe EU competition law with its refusal to license. Thus, it was held that Huawei had infringed valid patents, given that it

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<sup>1087</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat) [2017] R.P.C 19

<sup>1088</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat) [2017] R.P.C 19, [4]

<sup>1089</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat) [2017] R.P.C 19, [1]

<sup>1090</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 at [17] and [18]

<sup>1091</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [17]

refused to accept a FRAND licence that was presented by the SEP holder.<sup>1092</sup> Indeed, although Unwired Planet is a dominant undertaking, it was decided by the Court that this position had not been abused.<sup>1093</sup> The decision was supported by the fact that the defendant was unwilling to take a licence on FRAND terms and thus, Unwired Planet did not breach EU competition law.<sup>1094</sup> Ultimately, an injunction for infringements of patents was granted on June 2017.<sup>1095</sup> The value of the claim was over one billion pounds,<sup>1096</sup> and the Court decided that a final injunction to restrain infringement of these SEPs should be granted.

Indeed, the High Court of Justice had referred to the inconsistencies between the Commission's Press Release and the *Orange Book Standard* which resulted in questions referred to the ECJ in the case of *Huawei v ZTE*. The High Court of Justice indicated that Commission's Press Release suggested that the bringing of an action by the SEP holder would always result in a breach of Article 102 TFEU when the defendant was willing to negotiate.<sup>1097</sup> Therefore, Huawei's claims could be dismissed if the Court followed the Commission's Press Release. Whereas, Huawei could have been granted an injunction in the case of *Huawei v ZTE* as the requirements set in the *Orange Book Standard* were

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<sup>1092</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat) [2018] 4 C.M.L.R 17 [18]

<sup>1093</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat); [2018] 4 C.M.L.R 17 [17]

<sup>1094</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat); [2018] 4 C.M.L.R 17; [2017] R.P.C 19, at [23]

<sup>1095</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat) [2018] 4 C.M.L.R 17 [17]

<sup>1096</sup> The Claimant's solicitors advised that the value of the claim was over £1 Billion. See Enyo Law, 'Representative Cases' (enyolaw) <https://www.enyolaw.com/cases/1/enyo-law-acted-for-unwired-planet-llc-in-significant-claim> accessed on 16 September 2018

<sup>1097</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [718]

not fulfilled by ZTE; ZTE presented an unconditional offer rather than a conditional offer as well as it did not provide any royalties to Huawei.<sup>1098</sup>

The High Court of Justice has further stated that the ECJ's decision in *Huawei v ZTE* has been incomplete in a material way.<sup>1099</sup> This is because the ECJ has justified its conclusion via the existence of legitimate expectations of standard implementers, whilst disregarding the enforceability of FRAND undertaking.<sup>1100</sup> However, according to the High Court of Justice has satisfied itself that a FRAND undertaking is enforceable in court irrespective of competition law. The High Court of Justice indicated that this approach does not only set the rights of users but also their obligations which appear to have been neglected by the ECJ as highlighted by the analysis of *Huawei v ZTE* in *Unwired Planet International v Huawei*.<sup>1101</sup>

Regardless, the High Court of Justice has provided an outline of its interpretation of the case of *Huawei v ZTE*.<sup>1102</sup> According to the English Court, the 'willingness to conclude a licence on FRAND terms' refers to a general willingness.<sup>1103</sup> The fact that proposals are a requirement does not mean that it is necessary to examine whether the offers were really FRAND or not. The Court has further indicated that a standard user should not act with 'impunity' as this could amount to abuse even if the user submits to the required procedure when it brings a competition law claim. Notably, the Court has referred to

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<sup>1098</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [718]-[719]

<sup>1099</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [723]

<sup>1100</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [722]

<sup>1101</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [723]

<sup>1102</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [744]

<sup>1103</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Chancery Division Pat) [2018] 4 C.M.L.R 17 [708]

the fact that abuse of a dominant position would only be established if the claimant had persisted in seeking an injunction to restrain the defendants from using the SEPs, even if the defendants have provided an absolute commitment to accept any licence that was based on FRAND terms as per the principles of *Huawei*<sup>1104</sup> were applied. However, the Court decided that the determination of abuse depends on an examination of a case-by-case basis. Ultimately, the Court found that the claimant had not abused its dominant position.<sup>1105</sup>

This judgement is important as it can be seen that the English court has reached this conclusion based on the ‘general willingness’ aspect. The Court had suggested that the bringing of action without prior notice does not automatically constitute an abuse of dominant position which is a different perspective than one adopted in *Huawei* by the ECJ. From a rule of law perspective, it appears that the English Court here has eliminated a substantial amount of vagueness on the subject matter, but still has left the door open for the determination on a case-by-case basis. Regardless, this case can be highly persuasive in future cases with similar facts. It is interesting to note that the High Court of Justice has been critical about the ECJ’s decision in *Huawei v ZTE* which resulted in the elimination of significant vagueness for the interpretations of the ECJ’s decision under UK’s administration of EU law.

Recently, the judgement of the High Court of Justice has been appealed by Huawei, nevertheless the Court of Appeal dismissed the appeal on October 2018.<sup>1106</sup> One of the arguments that were presented by Huawei in the appeal case was in respect to whether

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<sup>1104</sup> C-170/13 *Huawei Technologies Co Ltd v ZTE Corp* EU:C:2015: 477, [2015] Bus. L.R. 1261

<sup>1105</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2017] EWHC 2988 (Pat); paras 630, 670, 712, 744, 755, 784, 791.

<sup>1106</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344

Unwired Planet is entitled to an injunction despite the fact that Unwired Planet did not fulfil the principles set by the ECJ in *Huawei v ZTE*. The ECJ in *Huawei v ZTE* had described that competition law would be breached if a SEP holder did not provide a notice prior to a claim for an injunction as well as an offer to licence on FRAND terms. However, it was determined by the Court of Appeal that the ECJ in *Huawei v ZTE* did not lay down obligatory steps for the determination of abuse of a dominant position in case of non-compliance with these steps. Instead, the judgement provided a positive duty to inform the user prior to the commencement of proceedings. The Court of Appeal considered that depending on the content and nature of the circumstances of the case at hand, Unwired Planet had given sufficient notice.<sup>1107</sup>

Moreover, it was acknowledged by the Court of Appeal that this is a new and developing area of law and thus, different approaches adopted by courts are unavoidable. The Court of Appeal highlighted that it is important to reach an internationally acceptable approach as case law progresses with time.<sup>1108</sup> Indeed, the Court of Appeal decision has set a blueprint for the way that SEPs should be licensed to standard implementers. Clearly, this judgement has adopted a rational and sensible approach that safeguarded SEP holders' rights that operate in the UK market. Although the Court of Appeal highlighted that *Huawei v ZTE* provides a clear-cut principle of the SEP holder's obligation to provide a prior notice to the 'infringing' user, yet the Court of Appeal has confirmed that Article 102 TFEU cannot be automatically triggered even if the conditions set in *Huawei v ZTE* are not fulfilled by the SEP holder.<sup>1109</sup> This is because the assessment of abuse must take into account all circumstances of the case at hand. From

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<sup>1107</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344, [258]

<sup>1108</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344, at [206]

<sup>1109</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344 [232]

a rule of law perspective, this decision provides more legal certainty to undertakings and highlights the importance of adhering with the essence of IPRs as it has prevented the free-riding of innovations.<sup>1110</sup> It must be mentioned, however, a SEP holder's non-compliance of the conditions set in the ECJ's decision of *Huawei v ZTE* will remain a high risk if litigation was to take place before courts of other EU Member States.

#### B) Potential Competition Law Implications Following Brexit in a No-deal Scenario

It can be noted from the aforementioned that competition law defences under Article 102 TFEU are, per se, admissible in UK courts once all relevant facts have been dealt with by a national court. Nevertheless, UK courts, post-*Huawei*, must now assess on a case-by-case basis whether a SEP holder abuses its dominant position by seeking an injunction against an 'infringing' user in order to remain consistent with EU case law.

It is important to mention here that Brexit may have an effect on competition policy of both the EU and UK. For example, it has been indicated that UK competition authorities may have to examine antitrust infringements independently. This independent control most likely would not be embraced by various industries, because it could lead to legal uncertainty as well as extra costs.<sup>1111</sup> It is important to note that EU competition law under Article 101 and 102 TFEU will remain to be applicable post-Brexit on agreements or practices of UK undertakings that have a link with the EU in the same way that agreements or practices of Asian and US undertakings are subject to EU competition

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<sup>1110</sup> *Unwired Planet International Ltd v Huawei Technologies Co Ltd* [2018] EWCA Civ 2344 [54] it was highlighted by the Lord Kitchen in the Appealed case that *"Just as implementers need protection, so too do the SEP owners. They are entitled to an appropriate reward for carrying out their research and development activities and for engaging with the standardization process, and they must be able to prevent technology users from free-riding on their innovations. It is therefore important that implementers engage constructively in any FRAND negotiation and, where necessary, agree to submit to the outcome of an appropriate FRAND determination"*.

<sup>1111</sup> R. Whish, 'Brexit and EU Competition Policy' [2016] 7(5) *Journal of European Competition Law & Practice* 297-298

law. Moreover, in a no-deal scenario, EU companies operating in the UK would have to comply with UK competition law following Brexit.<sup>1112</sup> Although the Commission would still be capable of investigating and imposing fines on an international UK business, the Commission will no longer have the authority to commence on-site explorations in the UK or request the Competition and Market Authority to act on its behalf. The Commission would have to make written requests to UK undertakings for information, as it currently does with many undertakings outside the EU.<sup>1113</sup>

Mainly, UK authorities will feel the effect of this when enforcing competition law. EU competition law and UK competition law are similar to one another, given that Section 60 of the Competition Act 1998<sup>1114</sup> states that UK competition rules must remain consistent with EU competition case-law. However, the technical notice of 13 September 2018 sets out that UK competition law system in the event of a 'no-deal' scenario will put the supremacy of EU law to an end. In such a scenario, future decisions

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<sup>1112</sup> Ashurst, "'No deal' Brexit: what UK competition law might look like" (ashurst.com 17 October 2018) <https://www.ashurst.com/en/news-and-insights/legal-updates/no-deal-brexit-what-uk-competition-law-might-look-like/> accessed on 31 October 2018

<sup>1113</sup> P. Willis and R. Eccles, 'Brexit: Competition law implications' (twobirds.com 10 October 2018) <<https://www.twobirds.com/en/news/articles/2016/uk/competition-law-implications-of-a-brexit>> accessed on 27 October 2018

<sup>1114</sup> The Competition Act of 1998, Section 60 states the following:

*"(1) The purpose of this section is to ensure that so far as is possible (having regard to any relevant differences between the provisions concerned), questions arising under this Part in relation to competition within the United Kingdom are dealt with in a manner which is consistent with the treatment of corresponding questions arising in Community law in relation to competition within the Community.*

*(2) At any time when the court determines a question arising under this Part, it must act (so far as is compatible with the provisions of this Part and whether or not it would otherwise be required to do so) with a view to securing that there is no inconsistency between—*

*(a) the principles applied, and decision reached, by the court in determining that question; and*

*(b) the principles laid down by the Treaty and the European Court, and any relevant decision of that Court, as applicable at that time in determining any corresponding question arising in Community law.*

*(3) The court must, in addition, have regard to any relevant decision or statement of the Commission.*

*(4) Subsections (2) and (3) also apply to—*

*(a) the Director; and*

*(b) any person acting on behalf of the Director, in connection with any matter arising under this Part.*

*(5) In subsections (2) and (3), "court" means any court or tribunal.*

*(6) In subsections (2)(b) and (3), "decision" includes a decision as to—*

*(a) the interpretation of any provision of Community law;*

*(b) the civil liability of an undertaking for harm caused by its infringement of Community law."*

of the Commission or European courts would no longer be binding on the Competition and Market Authority and UK courts.<sup>1115</sup> Therefore, Section 60 of the Competition Act 1998 would end up being repealed in the event of a no-deal scenario and thus, there is the possibility that the UK could change the substantive and procedural rules on competition law.<sup>1116</sup> It must be mentioned that the UK made contributions to EU competition law over the years.<sup>1117</sup> In a no-deal scenario, the UK is unlikely to have influence or make contributions to EU competition law and thus, it could be unable to help UK companies that operate in the EU market.

Although UK courts will not be able to refer questions to the ECJ to ensure consistency in interpretations which can lead to divergence, gaps in law may take some years before they emerge due to the existing similarities of the substantive provisions. Another important effect of Brexit, in a no-deal scenario, could be seen in the field of private enforcement of competition law. This is because undertakings will not be able to depend on EU infringement decisions in order to bring follow-on claims for damages in the UK. Nonetheless, these claims can still be possible in the UK with respect to judgements conducted prior to Brexit.<sup>1118</sup>

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<sup>1115</sup> Department for Business, Energy & Industrial Strategy, 'Guidance: Merger review and anti-competitive activity if there's no Brexit deal' (gov.uk, 13 September 2018) <<https://www.gov.uk/government/publications/merger-review-and-anti-competitive-activity-if-theres-no-brexit-deal/merger-review-and-anti-competitive-activity-if-theres-no-brexit-deal>> accessed on 27 October 2018

<sup>1116</sup> Competition Law Act of 1998, S. 76 states that this Act applies to England, Wales, Scotland and Northern Ireland

<sup>1117</sup> G. Monti, 'The United Kingdom's Contribution to European Union Competition Law' [2017] 40(5) Fordham International Law Journal 1444-1472

<sup>1118</sup> Department for Business, Energy & Industrial Strategy, 'Guidance: Merger review and anti-competitive activity if there's no Brexit deal' (gov.uk, 13 September 2018) <<https://www.gov.uk/government/publications/merger-review-and-anti-competitive-activity-if-theres-no-brexit-deal/merger-review-and-anti-competitive-activity-if-theres-no-brexit-deal>> accessed on 27 October 2018

### C) The German Perspective

The few German decisions following *Huawei v ZTE* are not necessarily favoured by standard implementers. As a matter of fact, standard implementers have often,<sup>1119</sup> but not all the time,<sup>1120</sup> been considered in breach of conduct, as well as the principles set in *Huawei v ZTE*.

The abovementioned can be seen in a long and interesting decision from Mannheim Regional Court.<sup>1121</sup> Although the patent in question was not presented to the SSO during the standard-setting process, it was declared as essential to ETSI following the standard-setting process by the International Patent Evaluation Consortium. Thus, the Court decided that the patent holder did not breach the duty to disclose the patent as a SEP, given that the patent owner had only become a member of the ETSI following the standard-setting process.<sup>1122</sup>

In this case, the claims brought by the standard users for a compulsory licensing on the basis of Article 102 TFEU, Section 19 of the German Act against Restraints of Competition and the *Huawei v ZTE* principles were rejected by the Court. It was held by the Court that the defendants were *unwilling* to license. Although the SEP owner had informed one of the 'alleged' infringers about the infringement taking place after seeking IP infringement proceedings which can be considered late as per the principles

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<sup>1119</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Saint Lawrence v Deutsche Telekom* [2015] Mannheim Regional Court 2 O 106/14 (No English version of the case could be found for this case. Therefore, I had to refer to the summary on the case by P. Picht who is Affiliated Research Fellow in the Max Planck Institute's Department of Intellectual Property and Competition Law.); LG Düsseldorf, 3 November 2015, 4a O 144/14.

<sup>1120</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; In favour of the implementer, e.g. OLG Düsseldorf, 13 January 2016, I-15 U 65/15, 15 U 65/15.

<sup>1121</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Saint Lawrence v Deutsche Telekom* [2015] Mannheim Regional Court 2 O 106/14.

<sup>1122</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Saint Lawrence v Deutsche Telekom* [2015] Mannheim Regional Court 2 O 106/14

of *Huawei v ZTE*, yet the standard user still did not portray any willingness to take a licence even one year following the lawsuit. In addition, the second standard user had declared vague willingness to accept a licence three month following the lawsuit. This three months' period was considered as unreasonable by the Court. Moreover, the Court saw that the standard users have only communicated proposals to have royalties decided by a third party, but they did not deliver any precise, clear and binding offers to the plaintiff.

Finally, it was decided that the standard users' conducts were insufficient, mainly due to the fact that they did not provide financial security for royalties. Therefore, it was considered by the Court irrelevant whether the royalty set by the SEP owner has met FRAND standards or not.<sup>1123</sup> It can be noted that the principles set in *Huawei v ZTE* were not narrowly applied by the German Court in the case at hand. It is also interesting to see that Court had considered that the SEP owner did not abuse its dominant position by bringing IP infringement proceedings against the standard implementers as they did not provide any financial securities. This approach ensures that free-riding of innovation could be unacceptable under German patent laws which is favourable from a rule of law perspective.

In another significant decision following the ruling of *Huawei v ZTE*, LG Düsseldorf has decided that since the lawsuit was brought before the Court prior to the *Huawei v ZTE* ruling, then principles set in *Huawei v ZTE* are not applicable here and the SEP owner meets the requirements of the case law available at that time. Therefore, the Court held that implementers must respond to the licensing offer delivered by the SEP owner

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<sup>1123</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Saint Lawrence v Deutsche Telekom* [2015] Mannheim Regional Court 2 O 106/14

even if the offer made by the SEP holder was not FRAND.<sup>1124</sup> The Court had further highlighted that users must render account and provide suitable financial security, even in the circumstances when the user's first<sup>1125</sup> counter-offer was rejected by the SEP holder. Therefore, the Court has decided to grant an injunction as well as damages in favour of the SEP holder, given that the standard implementer did not render accounts.<sup>1126</sup>

Nonetheless, the Düsseldorf Upper Regional Court had suspended the execution of the judgement as it decided to examine whether the SEP holder's offer was FRAND as per the *Huawei v ZTE* requirements.<sup>1127</sup> It was decided by the Court that the framework of *Huawei v ZTE* is applicable to transitional cases.<sup>1128</sup> Therefore, the FRANDness of the offer presented by the SEP owner had to be examined before the German Courts despite the fact that the case has been a transitional case.<sup>1129</sup>

Interestingly, the outcome of the case could have differed following the decision of the appealed case. As a matter of fact, the Higher Regional Court has decided that the offer presented by Sisvel had been unFRAND.<sup>1130</sup> Nevertheless, it was also decided by the Court that the standard implementers must render accounts despite the fact that the

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<sup>1124</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Sivel v Haier* [2015] LG Düsseldorf 4a O 144/14, [149].

<sup>1125</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Sivel v Haier* [2015] LG Düsseldorf 4a O 144/14, [156].

<sup>1126</sup> G. Nolte, Panasonic R&D Centre Germany GmbH, Lev Rosenblum and Witney LLP, 'Injunctions in SEP cases in Europe' (2017) < [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2984193](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2984193) > accessed 4<sup>th</sup> November 2018

<sup>1127</sup> G. Gabison, 'A two-dimensional approach to non-discriminatory terms in FRAND licensing agreements' (bu.edu) < <https://www.bu.edu/jostl/files/2018/03/3-Gabison-Online-Version.pdf> > accessed on 1<sup>st</sup> November 2018; *Sisvel v Haier* [2017] OLG Düsseldorf No. I-15 U 66/15

<sup>1128</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Sisvel v Haier* [2017] OLG Düsseldorf No. I-15 U 66/15

<sup>1129</sup> P. Picht 'The ECJ rules on standard-essential patents: thoughts and issues post-Huawei' [2016] 37(9) ECLR 365-375; *Sisvel v Haier* [2017] OLG Düsseldorf No. I-15 U 66/15

<sup>1130</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw.4ipcouncil.com/german-court-decisions/olg-dusseldorf/sisvel-v-haier-olg-dusseldorf-1> accessed on 4<sup>th</sup> November 2018; *Sivel v Haier* [2017] Case No. I15 U 66/15, [34]

SEP owner has breached EU competition laws.<sup>1131</sup> Both parties ended up settling the matter, and thus, the Court did not have to make a decision about the injunction.<sup>1132</sup>

It would have been interesting had the Higher Regional Court provided a decision about the injunction as this would have helped assess whether concerns of EU competition law would have overridden IPRs or vice versa. Nevertheless, the Court did identify that standard users must render regular accounts even if the SEP owner has breached EU competition law. Therefore, this case has still provided some useful German guidelines in ensuring that standard implementers should not free-ride SEP owners' innovations as they must still render accounts despite SEP owners breaching EU competition law.

#### D) The Dutch Perspective

As mentioned earlier in this research, the Dutch courts have adopted a strict approach when dealing with competition law defences brought in IP infringement proceedings. However, following the case of *Huawei v ZTE*, SEP holders must now fulfil certain criteria before they can seek IP infringement proceedings, otherwise, they could be found abusing their dominant position.

The Dutch Court has provided its first judgement post-*Huawei* in a case between *Archos SA v Royal Philips NV* of 2017.<sup>1133</sup> The SEP holder did not fulfil the principles of *Huawei*

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<sup>1131</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw.4ipcouncil.com/german-court-decisions/olg-dusseldorf/sisvel-v-haier-olg-dusseldorf-1> accessed on 4th November 2018; *Sivel v Haier* [2017] Case No. I15 U 66/15, [75] and [175]

<sup>1132</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw.4ipcouncil.com/german-court-decisions/olg-dusseldorf/sisvel-v-haier-olg-dusseldorf-1> accessed on 4th November 2018; *Sivel v Haier* [2017] Case No. I15 U 66/15, [47]

<sup>1133</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] Rechtbank The Hague C/09/505587 <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018. (The case is not available in an English version)

v ZTE. This has put the proprietor at risk of being found abusing its dominant position under Article 102 TFEU.<sup>1134</sup> Nevertheless, Philips sought IP infringement proceedings against Archos on three SEPs patents declared essential to a mobile communication standard. Archos raised a competition law defence to counter-argue that Philips did not comply with the principles set in ECJ's *Huawei v ZTE* decision as Philips has a duty to offer a licence. The Court has rejected Archos's arguments.<sup>1135</sup> This is because both parties had participated in negotiating a licensing agreement prior to Philips seeking IP infringement proceedings against Archos and Philips had declared its willingness to license its SEP to any user on FRAND terms.<sup>1136</sup> To be more specific, Philips made an offer to license the SEP to Archos in 2015 whereby both parties have commenced the negotiation process. Archos then indicated that Philips would have to take the matter to court if Philips does not agree with a licence that does not exceed a few thousands of euros.<sup>1137</sup> Suddenly, Archos decided to make a new counter-offer to Philips merely due to the fact that Philips had sought IP infringement proceedings against Archos.<sup>1138</sup>

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<sup>1134</sup> <sup>1134</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] Rechtbank The Hague C/09/505587 <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

<sup>1135</sup> W. Maas and M. Rijks, 'Netherlands' *The Law Reviews Intellectual Property Review Edition 6* (Netherlands, June 2017) < <https://thelawreviews.co.uk/edition/the-intellectual-property-review-edition-6/1143674/netherlands> > accessed on 1<sup>st</sup> November 2018

<sup>1136</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

<sup>1137</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.3]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

<sup>1138</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.3]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

In this case, the Court had to determine whether Philip's licensing offer was FRAND and whether the specific licensing costs determined by Archos were FRAND. It was noted by the Court<sup>1139</sup> that Archos holds the burden of proof as Philips had brought declaratory proceedings. Archos claimed it could prove that the offer presented by Philips was unFRAND based on public information and it did not attempt to shift the burden of proof on Philips.<sup>1140</sup>

It was highlighted by the Court that FRAND is a range<sup>1141</sup> and thus, the offer provided by the SEP holder and the counter-offer provided by the user does not have to be identical.

It was also indicated by the Court that the majority of the negotiations between both parties was undertaken prior to the *Huawei v ZTE* decision. The Court identified that legal principles that can be derived from prior case law such as *Philips v SK Kassetten* and the German *Orange-Book-Standard* had required users to make the initiative to provide a FRAND licence offer, rather than the SEP holder.<sup>1142</sup> This meant that the Court had identified that the decision of *Huawei v ZTE* provided an opportunity to start new

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<sup>1139</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.2]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

<sup>1140</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.2]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

<sup>1141</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.4]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

<sup>1142</sup> 4IP Council, 'Case Law post CJUE ruling *Huawei v ZTE*' (caselaw.4ipcouncil.com) <http://caselaw4ipcouncil.com/dutch-court-decisions/archos-v-philips-rechtbank-den-haag> accessed on 5th November 2018; *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.3]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018

negotiations between Philips and Archos. The Court, thus, examined Archos and Philip's expert reports, but the Court was ultimately not convinced by Archos's report.<sup>1143</sup> Accordingly, the Court deemed that Archos was not open for negotiations and thus, Philips did not breach Article 102 TFEU.<sup>1144</sup>

It can be noted that the framework of *Huawei v ZTE* had an impact on Dutch courts as it had opened the opportunity for both parties to commence new negotiations. Nevertheless, the principles set in *Huawei v ZTE* were examined with some reluctance by the Dutch court as it had still referred to legal principles prior to the ECJ's decision in *Huawei v ZTE*. The Dutch case of *Philips v SK Kassetten*, in itself, is drastically different from the ECJ's decision. The case of *Philips v SK Kassetten* had set the legal principle that standard users must provide the licensing offer on FRAND terms and not vice versa in order to ensure legal certainty and the protection of the SEP owner under Dutch patent laws, whereas, the ECJ's decision clearly identifies that the SEP holder must provide the licensing offer had the standard user portrayed its willingness to accept a licence. From a rule of law perspective, this can cause complications and legal uncertainty due to a sudden change in the approach that must be adopted by Dutch courts when assessing the admissibility of EU competition law in IP infringement proceedings.

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<sup>1143</sup> Taylow Wessing, 'First Dutch ruling on SEPS and FRAND since *Huawei v ZTE*' (lexology.com 8 February 2017) <https://www.lexology.com/library/detail.aspx?g=5f77e6af-a887-44e3-b319-1ff7135b4eed> accessed 1<sup>st</sup> November 2018

<sup>1144</sup> *Archos SA v. Royal Philips NV* [2017] C/09/505587 Rechtbank The Hague, at [4.3]. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2017:1025> accessed on 1<sup>st</sup> November 2018; EPLaw, 'EPLAW Patent Blog: NL- Archos v Koninklijke Philips/ FRAND' (eplay.org, 14 February 2017) <http://eplay.org/nl-archos-v-koninklijke-philips-frand/> accessed 18 December 2018

## VI. CONCLUSION

Questions regarding the admissibility of competition law defences have become no longer the main point of concern following *Huawei v ZTE*. This is because domestic courts across the EU must now ensure consistency with EU case law, given the primacy of EU law.<sup>1145</sup> Therefore, competition law defences could now be subject to the automatic admission in IP infringement proceedings, as national courts of EU Member States must now assess whether the bringing of IP infringement proceedings, in itself, could be a breach of EU competition law. As can be noted from the study above, the case of *Huawei v ZTE* could have a drastic impact on the procedures that have already been adopted by national courts across the EU when dealing with IP infringement proceedings prior to the ECJ's new framework set in *Huawei v ZTE*.

The decision of *Huawei v ZTE* has provided helpful and practical guidance in regards to FRAND licensing negotiations, yet it has still left some uncertain areas that have to be addressed by national courts post-*Huawei*. Moreover, UK courts have criticised the ECJ's decision, and thus, the UK court established in the final judgement of *Unwired Planet v Huawei* that only one element of the *Huawei v ZTE* framework is mandatory which is the obligation of the SEP owner to notify the implementer before commencing IP proceedings. This judgement has, therefore, presented a flexible and a rational approach when examining the process of negotiations by looking into the 'general willingness' of standard implementers on a case-by-case basis, as opposed the rigid set of criteria outlined in *Huawei v ZTE* that may not fit the circumstances of different cases.

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<sup>1145</sup> Europa, 'Precedence of European Law' (eur-lex.europa.eu, 1<sup>st</sup> October 2010) < <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3AI14548> > last accessed on 4<sup>th</sup> November 2018

The case of *Unwired Planet v Huawei* has highlighted the importance of examining not only the legitimate expectations of standard implementers as opposed to the ECJ approach in *Huawei v ZTE*. The High Court of Justice, as well as the Court of Appeal of England and Wales, have highlighted the importance of examining the legitimate expectations of SEP owners that invested in research and developing their innovation and have gone as far as engaging in the standardisation process. The approach adopted by the High Court of Justice and the Court of Appeal of England and Wales have emphasised the importance of ensuring that the essence of IPRs which is to 'protect' and 'reward' innovation by not allowing the free-riding of SEPs. This fits well with the rule of law approach<sup>1146</sup> and the high level of IPRs' protection ensured under Article 17(2) of the Charter as well as Directive 2004/48 on the Enforcement of Intellectual Property Rights.

It can be noted from above discussions that issues were raised following *Huawei v ZTE* ruling. It is clear that some national courts, such as the UK and Netherlands, have been reluctant when applying the principles of the *Huawei v ZTE*. Germany still considers the fact that standard implementers must render accounts despite any EU competition law concerns, and in return, this ensures that standard users do not free-ride IPRs. Clearly, national courts have been stricter in finding an abuse of a dominant position as opposed to the ECJ in *Huawei v ZTE*.

The ECJ's new framework in *Huawei v ZTE* has left some unanswered questions that had to be addressed by domestic courts, yet this matter of law is complicated and the circumstances differ from one case to the other. Nevertheless, inconsistencies in the

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<sup>1146</sup> from a substantive point of view to the rule of law doctrine, individuals could lose their trust in law without a high level of IPRs protection.

application of law between the EU Member States can divert investors from investing within the EU market. Of course, competition law is essential for the benefit of consumers, economic growth and prospect, as well as ensuring an effective competitive structure. However, this should be achieved without compromising the right to effective IPRs protection. Indeed, innovation is evolving day after day and thus, it is becoming more challenging for the law to keep up with these changes. Nevertheless, it cannot be stressed enough that it is essential to ensure that the impact of EU competition laws on patent law should not go as far as allowing for the free-riding of innovation. As a matter of fact, this would also fit in with the rule of law doctrine as it ensures a high level of IPRs' protection, given that one of the elements of the rule of law is respecting property rights as part of the fundamental human rights.

Therefore, it is essential to set clear legal principles imposing the standard users to render accounts even if the SEP owner was indeed abusing its dominant position under Article 102 TFEU with its abusive refusal to license on FRAND terms. This is because the standard users have the opportunity to seek litigation in order to compel the SEP owners to license their SEPs on FRAND terms. Moreover, it is crystal clear now that standard users can use competition law defences in IP infringement proceedings which ensures additional protection of the standard users' rights. Therefore, it is essential now for both IP specialists and EU competition law specialists to provide guidelines that outline not only the duties and responsibilities of SEP owners but also to identify the means of ensuring that their innovation is adequately protected and rewarded against standard users that act with impunity. Is it possible to achieve a clearer set of guidelines and legal principles in order to ensure the uniform application and administration of EU

competition law and to identify and/or limiting the scope of the application of Article 102 TFEU on IP-related matters?

## CHAPTER SEVEN

### GENERAL CONCLUSIONS AND RECOMMENDATIONS

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The aim of this thesis has been set to identify the best solution for the sake of legal certainty regarding EU competition intervention on IP-related matters, in particular, patents and SEPs. The research commenced by looking into existing literature which was followed by the exploration of the protection preserved in international agreements, namely TRIPS, as well as EU treaties and relevant case law. The study was designed to examine the effectiveness of the EU legal system in protecting IP holders against unauthorised use and whether competition law intervention has undermined the essence of IPRs, especially following recent case law. This research was underpinned by the investigation of international obligations which was then followed by the analysis of selective EU case law, as well as the administration of Article 102 TFEU by national courts across three Member States, the UK, Germany and the Netherlands.

This thesis posed the following research questions:

1. What role does the rule of law doctrine play in this field of law? Are the basic elements of doctrine fully met by the EU legal system when a dominant undertaking is found abusing its dominant position under Article 102 TFEU?
2. What role do international agreements play with regard to abusive or anti-competitive conduct by IP holders? What is the position of the EU towards the direct effect of international agreements?
3. What are the requirements of 'the exceptional circumstances' test used by EU judicial and competition authorities to determine abusive conduct under Article

102 TFEU? Is the framework of this test consistently applied and interpreted throughout EU case law?

4. How do national courts apply and interpret Article 102 TFEU pre and post-*Huawei v ZTE*?

Initiating with the literature review in chapter two, competition law experts have called for major reforms to Article 102 TFEU in order to better distinguish good and bad competition. Further, some IP commentators have been opposed to the idea of the compulsory licensing system as a remedy to anti-competitive or abusive conduct due to the unclear and inconsistent application of Article 102 TFEU. Whereas, some competition law commentators have contemplated that the mere exclusive rights conferred to IP holders had obstructed the establishment of a comprehensive compulsory licensing system.

Some economic contributors have called for the inclusion of consumer welfare as the primary objective of a competition law intervention and thus, adopted a perspective of social obligations in this context. Moreover, some economic experts have presented a competition-oriented theory incorporating an economic perspective on IP-related matters, and some have adopted the essential facilities doctrine as a theory to indicate that compulsory licensing may be necessary when access to the facility is essential. On the one hand, some have adopted an incentive balancing test to argue that compulsory licensing should only be granted when the benefits outweigh the negatives. On the other hand, some IP experts have argued that the right to issue a voluntary licence has become more of an obligation following the over inclusivity of competition law interventions.

Several critics have adopted a business community perspective to argue that extreme intervention and overregulation can impair the confidence of investors to further invest in innovation. This business community approach has even called for patent and competition law officials to work together at early stages, so that competition experts govern alongside IP specialists the granting of an IP status. This proposed strategy is aimed at providing more legal certainty. Furthermore, IP specialists have argued that IP owners have been facing challenges in predicting, controlling, managing and even understanding how to plan for the future which has led to this research adopting the rule of law doctrine to call for a predictable legal system for the sake of right holders.

Chapter three has examined the rule of law doctrine and its elements, given that dominant undertakings can find it challenging to predict the outcome of their conduct, especially when there are existing inconsistencies regarding EU competition law intervention. Despite potential challenges that may arise with the substantive approach to the rule of law, this thesis has, nonetheless, adopted a substantive outlook to the doctrine. The substantive approach in this research has emphasised the element of respecting fundamental rights, as well as other generally recognised elements of the doctrine including access to courts, equality before the law, clearly defined and enforceable law, legal certainty and predictability, as well as consistency in the law and non-retroactivity. This chapter has aimed to accentuate that given that compulsory licensing is retroactive by nature, it is essential to provide a high degree of legal certainty and foreseeability of competition law intervention so that the essence of IPRs is kept well preserved within the EU legal system.

Chapter four has looked at international agreements and the principle of consistent application of these agreements. Most predominantly, Article 13 of the TRIPS

Agreement provides right holders with the expectations that limitations to exclusive rights should be confined to only special cases that do not unreasonably prejudice their legitimate interests. Meeting right holders' legitimate expectations and interests aligns with the rule of law doctrine as it provides a predictable degree of IP protection. This attitude would also ensure that the rule of law element of respecting fundamental rights is not undermined by an unclear retroactive competition law intervention that unreasonably restricts the exclusive rights conferred to IP holders.

Following the exploration of international obligations in chapter four, EU case law has been critically assessed in chapter five. The findings of this chapter aimed at contributing to existing knowledge by addressing the issues that arise with a competition law intervention against the rule of law doctrine as per the following:

To start with, a refusal to license by a dominant undertaking, in itself, does not amount to an abuse of dominance under Article 102 TFEU. The EU legal system sets a few 'exceptional circumstances' that must be adjoined with the refusal to license for the conduct of an undertaking to be considered as an abuse of dominance. In other words, a dominant undertaking is not obliged to license its IPR to a third party as a general rule. An exception to this general rule is the presence of the cumulative 'exceptional circumstances' that can be summarised as the following:

1. A third party is denied access to an 'indispensable' product or service.
2. There is potential consumer demand for a new product that is prevented from emerging due to the refusal to license.
3. Competition is likely to be eliminated.
4. There are no objective justifications for the refusal to license.

The refusal to license amounts to an abuse of dominance under Article 102 TFEU if the set of requirements mentioned earlier are met. The EU legal system, nevertheless, has left a gap in the law, most likely intentionally, so that other requirements could be identified as ‘exceptional circumstances’ in future case law. In *IMS Health*, for example, the ECJ used the word ‘sufficient’ instead of ‘necessary’ to highlight the circumstances of when a refusal to license would breach Article 102 TFEU. Therefore, the ECJ has left a gap in law as to the requirements that can be considered ‘sufficient’ for the finding of an unlawful refusal to license. It may well be intentional that the ECJ has used the word ‘sufficient’ instead of ‘necessary’ to highlight the circumstances of abusive conduct so that it can keep the door open for future prerequisites to be added to the ‘exceptional circumstances’ test.

However, unnecessary gaps in law could lead to legal uncertainty which could deviate from the rule of law. One of the rule of law elements is clearly defined and enforceable law. The research, thus, calls for the need of identifying the circumstances that are ‘necessary’ to conclude an abusive refusal to license under Article 102 TFEU. It is to be argued here that the circumstances of when a refusal to license a patent or SEP would breach Article 102 TFEU should be more explicitly defined to ensure legal certainty and better adherence with the rule of law. This leads to the first recommendation as the following:

*Recommendation 1*

More transparent and explicit guidelines regarding the circumstances that are 'necessary' to conclude an abusive refusal to license under Article 102 TFEU. The identified circumstances that constitute an abusive refusal to license would help create more legal certainty and predictability, as right holders can rely on them to identify their obligations and rights.

In addition to the fact that gaps in law could lead to legal uncertainty, legal certainty is also impacted by the inconsistent application and interpretation of the law by a judicial system. In the context of this research, consistency in law as one of the rule of law elements is set to achieve legal certainty, but this has not been fully met by the EU judicial and competition law authorities. As a matter of fact, the 'exceptional circumstances' test in EU case law has showcased a high degree of inconsistency in its interpretation and application of Article 102 TFEU. The ECJ, for instance, relaxed its exceptional circumstances test in *Magill* with its follow-on innovation approach as opposed to the test that had been initially used in *Volvo v Veng*. The ECJ in *Magill* had portrayed that a compulsory licence may now be granted if the production of a new product outweighs the right holder's incentives to innovate, as well as if the conduct excludes competition and there are no justifiable reasons.

Indeed, the ECJ had then tightened the exceptional circumstances test in *Bronner* where it presented an element of probability with its insertion of the requirement of 'likely to exclude *all* competition' as opposed to the requirement of 'exclude competition' that

had been previously introduced in *Magill*. Moreover, the ECJ had also tightened the test previously used in *Volvo v Veng* by recognising in *IMS Health* that the mere duplication of an IPR is insufficient grounds for a compulsory licence. The ECJ had also reinforced *Bronner*'s requirement of 'likely to exclude all competition' in *IMS Health*. Additionally, the Commission had also endeavoured to narrow down the exceptional circumstances test to a case-by-case approach when it introduced the 'entirety of circumstances' test in *Microsoft* as opposed to the 'exceptional circumstances' test established by the ECJ in previous case law. Nevertheless, there has still been inconsistency in EU case law. This unconformity can be seen, for example, when the Commission deviated in *Microsoft* from the preceding case of *IMS Health* as it did not examine the new product requirement when it decided to interfere due to competition law concerns.

The Commission also deviated from previous case law and loosened the requirement of the 'elimination of all competition' previously found in *Bronner* and *IMS Health* to the 'risk of eliminating competition' in *Microsoft*. Additionally, the Commission had diverged in *Microsoft* from the requirement of 'no objective justifications' formerly established in *Bronner* and *IMS Health*. This shift can be noted when the Commission overlooked Microsoft's argument that it had refused to license due to the objective justifications of protecting its multibillion R&D investment in its software and technology.

The Commission departure from preceding case law also resulted in its parting from its own Guidance Paper. The Guidance has stated that a compulsory licence may discourage inventors from investing in future innovations in the circumstances of easy access to technology. However, the Commission saw in the case of *Microsoft* that Microsoft would be inclined to invest in future innovations due to the competitive

pressure of a compulsory licence. Such deviations from previous case law and the Guidance Paper raise concerns regarding the fulfilment of the expectations of right holders and treating market competitors equally. This argument is supported by the ECJ acknowledgement in the case of *Expedia Inc v Autorite de la concurrence*, referred to in chapter four, that the Commission is bound by its published guidance in order not to breach the principle of legitimate expectations and equal treatment.

In addition to the above, let us not forget that the GC in the appealed case of *Microsoft* appears to have also weakened the ‘exceptional circumstances’ test. The GC, for instance, allowed improved but similar products to enter the market as opposed to the requirement set in *IMS Health* which had previously considered duplications of products and services as insufficient grounds for a compulsory licence.

Further inconsistencies in EU case law can also be seen in the recent case of *Huawei v ZTE* where the ECJ initiated a new ‘exceptional circumstances’ test within the scope of SEPs. The Court had suggested that FRAND commitments create legitimate expectations amongst rivals that they are always going to be granted a licence. Although the ECJ could have intentionally deviated from the criterion of ‘indispensability’ due to the context of a SEP, the ECJ did not explicitly state the reasons or distinctly justify its departure from previous case law. The vaguely justified departure can raise concerns regarding the rule of law element of consistency in law and decision making.

The above mentioned takes us to recommendations 2, 3 and 4 as the following:

*Recommendation 2*

The need to maintain consistency in EU decision-making as much as possible to ensure legal certainty and predictability.

*Recommendation 3*

The Commission is to be bound by its Guidance on the Enforcement of Priorities in Applying Article 82 EC Treaty to Abusive Conduct by Dominant Undertakings to ensure better coherence with the principles of legitimate expectations of right owners and equal treatment of market competitors.

*Recommendation 4*

The assessment of the compulsory licensing intervention should not be based on the competitive pressure it has on IP holders. Instead, competition law intervention must be based on the assessment of whether a compulsory licence, in itself, would provide easy access to technology and whether it would have an impact on the right holder's incentives to innovate. This recommendation is based on the fact that right holders have invested in R&D their innovations, and thus, easy access should be frowned upon.

As can be noted from the arguments mentioned above, the development of the 'exceptional circumstances' test used by the ECJ, GC and the Commission has been inconsistently applied as EU case law progressed. Such inconsistencies do not necessarily align with the consistency in law as one of the rule of law elements. We must remember that consistency in case law is one of the prerequisites to legal certainty which leads us quickly back to the rule of law. Legal certainty augments to the confidence of the public in the judicial process. Moreover, there is a close connection

between the consistency of case law and the individuals' rights to a fair trial. Therefore, the research supports the argument that consistency in decision-making must be maintained as much as possible. There is also a need to clearly state the reasons for deviations from preceding case law if divergences were to take place in future case law. Without reasonable justifications for such nonconformities, it could be alarming that this area of law is in a state of instability, yet excessive fines are being imposed when a dominant undertaking is found to be abusing its position in the market under Article 102 TFEU. This observation leads us to recommendation 5 as follows:

*Recommendation 5*

Deviations from previous case law should be avoided unless absolutely necessary. Although departure from existing case law can sometimes be critical to bridge a gap between law and society, there is still a need to clearly outline specific reasons for divergences from preceding case law especially if this might be applicable to future cases.

The abovementioned remark takes us to the other rule of law element of non-retroactive law. The Commission in *RE Google Search (Shopping)* and *Google Android* cases has imposed two of the highest fine ever on dominant undertakings regarding breaches of EU competition law. The imposition of severe fines can be problematic when illegality of conduct is unclear ex-ante to the sanctions imposed. To impose such fines, the EU legal system must provide legal certainty and predictability via the consistent application and interpretation of Article 102 TFEU, as well as a clear set of guidelines as to abusive conduct. This method would ensure that individuals can predict when their conduct could be considered unlawful to gain the opportunity of evading

high fines. Without consistent application and interpretation of the law, as well as clearly defined law, the imposition of high fines could be in contradiction of non-retroactive law as a rule of law element. If there are pressing reasons to use retroactive law, then the legal system must at least provide individuals with predictability as to when retroactive sanctions could be applied.

Correspondingly, it is argued here that individuals should be able to plan their future and predict the outcome of their conduct with clear guidance as to abusive conduct, as well as the consistent decision-making to give individuals the opportunity to avoid high sanctions. Legal predictability could be achieved, for example, when the Commission follows its own Guidance to prevent easy access to technology and ensure legal predictability. The EU judicial system should also aim to consistently apply and interpret Article 102 TFEU in its decision making so that the individuals can plan and predict the outcome of their projected conduct. Without legal predictability and certainty, the imposition of high retroactive sanctions should be avoided. This remark can be summarised in recommendation 6 as the following:

*Recommendation 6*

No high sanctions should be applied if the illegality of abusive conduct is unclear ex-ante to the fines imposed.

Moving on to the equality before the law as one of the rule of law elements. Equality before the law would require EU courts and competition authorities to treat market competitors equally. However, the ECJ in *Huawei v ZTE* had only examined the

expectations of standard users, instead of both standard users and SEP owners, which can raise concerns regarding the equality before the law between market competitors.

Indeed, there might be genuine competition law concerns, but equally, there are also genuine IPRs concerns which are accompanied by the need to ensure that the essence of IPRs is not undermined with an over-inclusive competition law intervention. We must remember that competition law intervention on IP matters should only be applied in *exceptional circumstances* which can indicate that it is to be applied in *rare* and *special* circumstances.

Thus, the research suggests that the EU legal system must not neglect the expectations of IPR holders with the so-called 'exceptional circumstances' test. This study also indicates that the examination of the legitimate expectations of right holders should be clearly highlighted and balanced against the expectations of other market participants during EU decision-making to achieve a better-reasoned balance between IPRs and competition law. By doing so, this could ensure better adherence to the rule of law element of equality before the law.

It can be noted from the above that the elements of the rule of law doctrine interconnect with one another. Without fulfilling these requirements, it could lead to legal uncertainty and legal unpredictability. In the context of this research, IPR holders could lose their trust in the EU legal system which might lead to a decline in investments within the EU market. This undesirable outcome could occur as IPR holders require a high degree of predictability and certainty, particularly given that they would need to invest in existing and future innovations.

The need for a high degree of predictability in IP protection leads to the rule of law element of respecting fundamental rights. In *Huawei v ZTE*, the ECJ had identified the

legitimate expectations of third parties to be always granted a FRAND licence but neglected legitimate expectations of SEP owners to enjoy a high level of IP protection. Respect of fundamental rights falls under the substantive aspect of the rule of law, and without high protection for IPR, the respect of fundamental rights as one of the rule of law elements could be undermined. This argument is also supported by the fact that the High Court of Justice and the Court of Appeal of England and Wales have criticised the ECJ's decision of *Huawei v ZTE* in *Unwired Planet v Huawei*. It was contemplated by both courts that the ECJ had justified its conclusion via the existence of legitimate expectations of standard users, whilst disregarding the enforceability of FRAND undertakings and the legitimate expectations of SEP owners. Respect for fundamental rights would call for the enforceability of FRAND undertaking regardless of any competition law concerns. Furthermore, Article 13 TRIPS also supports the fact that courts must assess the legitimate interests of right holders in order not to add unreasonable limitations or restrictions on exclusive rights. Therefore, recommendation 7 below calls for the need of addressing the legitimate expectations of right holders within the EU decision making to ensure equality before the law and furthering the respect for fundamental rights.

*Recommendation 7*

The urgent need for examining the legitimate expectations of right owners alongside the legitimate expectations of licence seekers in EU decision-making clearly to achieve a better-reasoned balance between IPR and competition law. This would also fit in with Article 13 of the TRIPS Agreement which can lead to better compliance with international obligations on refusal to license as abuse of dominance.

The abovementioned recommendation has also led to the following recommendation to policy and law makers for compliance with international obligations on refusal to license as abuse of dominance as following:

*Recommendation 8*

Full compliance with international obligations can be a complex matter due to various reasons some of which may be the type of the treaty, the behavior involved, the scope and context. Moreover, there is no clear understanding of the Member States and the EU's obligations towards international treaties which also has an impact on compliance with international obligations. Additionally, the nature and scope of the TRIPS Agreement on abusive conduct is not clearly laid down which could be one of the main reasons as to why its provisions are not taken so seriously.

Nevertheless, it is to be recommended, to address these issues above, that policy makers should incorporate the TRIPS provisions within their domestic legal systems so that the provisions of the TRIPS are taken more seriously whereby the expectations of right holders could be better met.

Another aspect of EU framework that could have an impact on the respect for fundamental rights as one of the rule of elements is limitations added to access to justice. Under the rule of law doctrine, individuals should be able to access the courts and enjoy effective judicial protection. Nevertheless, in *Huawei v ZTE*, the ECJ had widely interpreted Article 102 TFEU as it did not give much consideration to procedures, rules and remedies that were already well-established in other treaties. The recent framework of the interpretation of Article 102 TFEU has somewhat overlooked matters

already covered under the CFREU, such access to courts and effective judicial protection under Article 47.

Individuals in legal disputes should have the right to access justice to resolve such conflicts without the risk of being found abusing their dominant position under one Article that, arguably, goes beyond its scope to cover other areas of established law. This thesis, therefore, argues that an IP holder should have the right to access court in case of a dispute to ensure adherence to the rule of law. Limitations to access to court by right holders should not be introduced at this stage, given that the finding of abusive refusal to license is currently in a state of instability and inconsistency. Recommendation 8 features this comment as the following:

*Recommendation 9*

Article 102 TFEU should not go beyond its scope to cover access to justice, especially not at this stage, as the finding of abusive conduct is still in a state of instability.

Consequently, the requirement of the rule of law and the aim to foster improvements have received increased attention at a national level. Some national courts have aimed to provide further legal certainty when administering EU competition law. On the one hand, any judicial system usually aims to interpret and apply the law in a way that helps the law reach its set out objective. On the other hand, the law on its own must prove clear, predictable and consistent legislation to contribute to the rule of law; a judicial system can provide better interpretation and consistent application of the law if the law is clearly drafted and worded without ambiguity or contradictions.

The development in EU case law does not, in itself, contradict the proper management of justice. The changes in society may require a new interpretation of the law that can bridge an existing gap between law and society by overruling a precedent. Nevertheless, the departure from existing case law is a challenging task and should only occur when it is truly essential to do so. A judge must also provide convincing and specific reasons for departing from settled case law to avoid decisions that are arbitrary, and that could have a negative impact on the individuals' rights to fair trial.

Some EU Member States have faced some challenges following the inconsistent application of Article 102 TFEU by EU competition authorities and courts. As a matter of fact, the ECJ's decision in *Huawei v ZTE* had an impact on the administration of EU law in the jurisdictions of the UK, Germany and Netherlands. Therefore, chapter six has examined the approaches adopted by national courts in the three named jurisdictions prior- *Huawei v ZTE*, and it has then explored the implications of this decision on the domestic administration of potential EU competition law intervention on IP matters.

Prior to *Huawei v ZTE*, national courts have usually assessed whether or not it wishes to accept EU competition law as a defence in IP infringement proceedings. The UK, for example, had highlighted that EU competition law defence would only be admissible following the examination of all relevant factors regarding IP infringement allegations. The UK had also highlighted that competition law defences are to only be admissible in court to avoid protracted and expensive trials. The UK judicial system's approach of examining all relevant factors regarding IP infringement claims prior to competition law counter-claims is, arguably, consistent with the rule of law as it highlights that the law is supreme and an appropriate legal procedure must follow in order to ensure a high level of IP protection. This approach also portrays competition law as a secondary

matter of concern in IP infringement proceedings as EU competition law defences might be examined by the court to avoid lengthy and expensive trials but after the scrutiny of IP infringements allegations.

*Recommendation 10*

The need for the EU judicial system to make clear that national courts are to first examine all relevant factors regarding IP infringement claims before the scrutiny of competition law defences.

Moreover, the Dutch Court of The Hague, prior to *Huawei v ZTE*, had adopted a similar approach in the sense that it had strictly interpreted and applied Article 102 TFEU in the case of *NL-Philips v SK Kasetten*. The Court had explicitly stated that it had undertaken a strict viewpoint to provide legal certainty and predictability for right holders. The Dutch Court has also highlighted that licence seekers are offered adequate protection as they can still access parallel proceedings before a competition court.

Whereas, the German approach in its *Orange-Book-Standard* has been seen as problematic, given that it was the first to introduce the enforcement of action for an injunction as a potential abuse of dominance. It can be said that the German approach had influenced the ECJ to confirm the same position in its preliminary ruling of *Huawei v ZTE*. Nevertheless, the German approach has been seen as problematic particularly by the Dutch courts as it provides standard users with room to manoeuvre negotiations by merely relying on competition law defences.

Notably, the UK and Dutch legal systems, pre-*Huawei v ZTE*, have provided more legal certainty and predictability as to the administration of Article 102 TFEU compared to

the approaches adopted by the ECJ, GC and the Commission. This is because the UK and Dutch judicial systems have aimed to examine whether IP infringement has occurred prior to the scrutiny of competition law defences or even admitting a competition law counter-claim in IP infringement proceedings. Nevertheless, the ECJ's decision in *Huawei v ZTE* did have an impact on the administration of EU competition law by domestic courts. Competition law defences are now, arguably, automatically admissible in IP infringement proceedings whereby national courts must assess whether the bringing of IP infringement proceedings, in itself, amounts to an abuse of dominance under Article 102 TFEU. Although the decision of *Huawei v ZTE* has provided helpful guidance regarding FRAND licensing negotiations, some uncertain areas are still left unanswered regarding the framework of *Huawei v ZTE*.

It is, for example, unclear whether all right holders are always required to notify licence seekers prior to the bringing of IP infringement proceedings or whether this requirement is confined to SEPs. This study calls for the need of evaluating the 'general willingness' of licence seekers before determining an EU competition law intervention. The research also supports the argument that the *high* burden of proof should fall on licence seekers to rebut the assumption of otherwise lawful refusal to license. Licence seekers should also provide evidence of their communicated genuine interest for a licence and that the right holder's refusal had been abusive. Moreover, limitations to the exclusive rights of IP must be addressed with great caution in order to provide legal certainty and predictability via the consistent application and interpretation of the law.

Domestic courts have addressed some of these questions. As a matter of fact, the UK has been notably reluctant in applying the framework of *Huawei v ZTE* in order to evade the free-riding of innovation. The final judgement of *Unwired Planet v Huawei*, for

example, had identified that the only one element of the *Huawei v ZTE* that is to be mandatory is the SEP holder's obligation to notify the implementer of the alleged infringement prior to the bringing of IP infringement proceedings. The UK judicial system has also presented a flexible and rational approach when examining the process of negotiations by looking into the 'general willingness' of standard implementers, as opposed to the rigid criteria outlined in *Huawei v ZTE*. The inflexible framework of *Huawei v ZTE* may not fit the circumstances of each case. Moreover, it has been stressed in the case of *Unwired Planet v Huawei* that it is important to particularly examine the legitimate expectations of SEP owners as they have invested in research and developing their innovation and has gone as far as engaging in a standardisation process. Accordingly, recommendation 10 stresses the following:

*Recommendation 11*

The need for the EU judicial system to adopt an approach similar to the one adopted by the UK judicial system by means of looking into the '*general willingness*' of licence seekers as opposed to a strict set of requirements established in the framework in *Huawei v ZTE*.

The approaches adopted by both the High Court of Justice and Court of Appeal of England and Wales have emphasised the importance of safeguarding the essence of IPR which is to 'protect' and 'reward' innovation by not allowing the free-riding of IPR. This approach fits better with the rule of law doctrine as it offers a higher degree of IP protection as per Article 17(2) CFREU and Directive 2004/48 on the Enforcement of IPR. The administration of EU competition law by the jurisdiction of the UK ensures respect for fundamental rights is not jeopardised by unequal treatment before the law. This

argument is supported because UK Courts have assessed the legitimate expectations of right holders alongside the legitimate expectations of licence seekers. The need to safeguarding the essence of IPR has led to recommendation 11 as the following:

*Recommendation 12*

Free-riding of innovation should be completely prohibited, and competition law defences should not be admissible in court if the ‘infringing’ user has not rendered accounts once the user has become reasonably aware of the infringing act.

In regards to the question raised in the title of this research, ‘what is the best solution for legal certainty?’ It can be argued that the ECJ, GC and the Commission should measure the legitimate expectations of right holders in cases of refusal to license patents or SEPs, as opposed to just examining the legitimate expectations of licence seekers. As a matter of fact, the implementation of an EU framework that similar to the UK pre and post-*Huawei v ZTE*, as well as the Dutch’s approach pre-*Huawei v ZTE* would help improve legal certainty. The UK judicial system, post-*Huawei v ZTE* has emphasised that competition law should not give room for licence seekers to free ride on innovation or undermine the essence of IPR. The Dutch approach, pre-*Huawei v ZTE* stressed the need to ensure a higher degree of IP protection via the strict interpretation of EU competition law. Both of these approaches lead us back quickly to the rule of law as it ensures equality before the law between competition and IP concerns, as well as respect for fundamental rights by not undermining the essence of IPR.

The balance between IPR and competition law could be addressed via the uniform application of competition law, particularly regarding IP-related matters. Alternatively,

the challenges existing between both areas of law could also be sufficiently addressed via major reforms to Article 102 TFEU. Noticeably, the Commission's Guidance Paper is not enough on its own as reforms to Article 102 TFEU, given that the Commission has deviated from its own Guidance.

Therefore, it can be argued that the reform of Article 102 TFEU might be a mission that has still not been fully accomplished by the EU legal system. It is to be contemplated here that the reforms of Article 102 TFEU would have to identify the central objective of this Article. In other words, the core objective of a competition law intervention needs to be identified: is it to protect against potential consumer harm or to protect competitors?

The identification of the main objective could lead to an outcome in EU decision making that could differ drastically. Let us say that the primary objective of a competition law intervention is to prevent potential consumer harm, the EU judicial and competition officials would then have to examine potential consumer harm in their decision making clearly. However, if the objective of a competition law intervention is mainly focused on economic benefits, then this could jeopardise the rule of law doctrine, given that the law must be clearly defined and enforceable before any economic benefit can surface. Therefore, recommendation 12 below stresses the need to commence major reforms to Article 102 TFEU.

*Recommendation 13*

Further reforms to Article 102 TFEU are urgently needed to outline its objectives clearly; is the primary aim of a competition law intervention on IP matters to protect competitors or consumer welfare?

In addition to the need to openly identify the objective of a competition law intervention, there is also an urgent need for major reforms to Article 102 TFEU that identify the scope and limitations of Article 102 TFEU. There must be clear guidelines as to the measures used to assess the imposition of a competition law intervention and the outline of requirements for finding abusive refusal to license. The research stresses that, currently, Article 102 TFEU is over-inclusive as it covers matters already covered under 47 CFREU, such as access to justice and the right to an effective remedy. If the scope and limitations of Article 102 TFEU remain vaguely identified, individuals could lose their trust in the EU system which could ultimately lead to potential economic challenges and the decrease of incentives to innovate within the EU market. Moreover, the researcher argues that there is a need to achieve better uniformity of regulating refusal to license as an abuse of dominance under EU competition law. Consequently, recommendations 13, 14 ,15 and 16 emphasise the following:

*Recommendation 14*

Directive 2004/48 aims to harmonise the minimum measures, procedures and remedies for the enforcement of IPRs as it makes available permanent and preliminary injunctions. In addition, Article 3 states that remedies must be proportionate and aim to evade being barriers to trade. However, Member States still enjoy the independence of enforcing and regulating their legal procedures. Such independence can act as an obstacle to the uniformity of regulating refusal to license as an abuse of dominance under EU competition law and can, thus, have a significant impact on disputes concerning enforcement actions. Therefore, the researcher

argues that it is important for EU institutions to establish a regulation which sets down the legal procedures on enforcing and regulating IPRs.

*Recommendation 15*

Further reforms to Article 102 TFEU are urgently needed to identify the scope and limitations of Article 102 TFEU. The application of Article 102 TFEU needs to be limited to exceptionally special cases. The interpretation of the Article also need to be limited so that it is not interpreted in a way that goes beyond its scope to cover matters related of established law.

*Recommendation 16*

The application and interpretation of the ‘exceptional circumstances’ test should ensure better adherence to international obligations falling under Article 13 TRIPS regarding meeting the legitimate interests of right holders. The interests of right holders would be better preserved by disallowing easy access to technology and potential free riding of innovation.

*Recommendation 17*

Competition law defences should not be automatically admissible in the EU judicial system in order to provide a higher degree of IPR protection and prevent the free-riding of innovation. We must remember that licence seekers have the prerogative to seek the judicial system for a court order for authorisation to use of a patent or

SEP. Moreover, the licence seekers could then also claim damages for any harm caused by a genuine abusive refusal to license. This approach is derived from the Dutch's administration of Article 102 TFEU pre-*Huawei v ZTE*. Licence seekers should not always assume the right for a licence and commence use prior to authorisation from the right holder, or at least, the user must render accounts once it has been reasonably identified that such use infringes existing IPR.

The drastic development throughout EU case law, starting with *Volvo v Veng* and ultimately *Huawei v ZTE* could be necessary to ensure an effective competitive structure, but the underlying reasons must be clearly outlined in EU decision-making. Moreover, it cannot be denied that the interpretation of Article 102 TFEU has become over-inclusive, but this can be problematic. How can one Article cover matters related to access to justice under one test: the so-called 'exceptional circumstances' test? Let us not forget that the term 'exceptional circumstances' indicates that the test is to be applied only on *special* and *rare* cases. If EU competition law intervention remains to expand in the same style, we might have to consider renaming the 'exceptional circumstances' test to a merely 'competition law' test. EU competition law is, arguably, built on a significant degree of uncertainty. EU decision making on IP-related matters, currently, can be categorised by a significant degree of unconformity that could be improved to better meet some of the rule of law elements. Nonetheless, legal uncertainty in EU competition law as it stands today can be improved if the EU judicial system adopted an approach similar to the UK and Dutch judicial systems whereby an IP remains enforceable regardless of any competition law claims.