# Contract-related antitrust law and IP based on the example of R & D agreements

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# Einleitung

We usually become aware of antitrust law in the context of major price fixing or merger control. In the field of IP rights, abuse control under antitrust law is a well-known issue when it comes to asserting standard-essential patents. Apart from judicial litigation, antitrust law also plays a significant role for the drafting of IP agreements, for example.

## 1. To which extent is antitrust law relevant for IP agreements?

IP rights grant monopolies which are standardized by law. Proprietors of such rights are entitled to generally make use of those rights excluding all other market players. For example, the proprietor of an IP right is allowed to prohibit the use by third parties, or exploit the right by granting licenses. In contrast, antitrust law intends to protect unhindered competition and, thus, generally inhibits monopolies and agreements restricting competition; this results in a conflict of interests with IP law. Thus, antitrust law is relevant for IP agreements in that it sets limits in terms of competition law.

## 2. Which framework has to be complied with in terms of antitrust law?

The antitrust framework which needs to be adhered to is addressed in Art. 101 et seqq. of the TFEU on a European scale and in the German Act against Restraints of Competition (Competition Act) on a German scale. Additionally, there are block exemption regulations for certain categories of agreements, for example regarding technology transfer or research and development agreements, stipulating important specifications for the field of IP agreements.

### 2.1 Art. 101 TFEU/Sec. 1 et seqq. German Act against Restraints of Competition

Art. 101 (1) TFEU and/or Secs. 1 et seqq. Competition Act prohibit agreements which restrict competition, i.e. the "classic" ban on cartels. To put it simply: These provisions prohibit, inter alia, agreements which (intend to) cause a hindrance to, limitation on or distortion of competition. Classic examples are agreements between competitors regarding prices or an allocation of market segments, but may also include the exchange of sensitive information between competitors. Note that agreements restricting competition on IP rights are not necessarily subject to the ban on cartels, since such agreements may be privileged due to the matter of protection of the IP right in question. The privilege is applicable to cases in which the agreement relevant in terms of antitrust law is closely connected to the relevant IP right. The less the agreement pertains to the protected subject matter, the less a privilege may apply.

The ban on cartels is directly relevant for IP rights in the context of their contractual exploitation, particularly in the context of licensing. However, the ban on cartels is also relevant for the drafting of agreements, for example in the context of a transfer of IP rights.

## 2.2 Art. 102 TFEU / Sec. 19 German Act against Restraints of Competition

Art. 102 TFEU and Sec. 19 Competition Act pertain to the abuse of a dominant market position. With respect to IP, these provisions are predominantly relevant for exercising industrial property rights. Even though the enforcement of an industrial property right per se does not generally constitute an abuse of a dominant market position, according to the case law of the European Court of Justice (ECJ, judgment dated April 29, 2004, C 148/01 – IMS/Health), it may indeed be an abuse if the proprietor of an IP right has a particularly powerful market position. This is especially the case if the proprietor‘s patents are essential for an established standard (cf. ECJ, judgment dated July 16, 2015, C 170/13 – Huawei/ZTE).

But even during the drafting of an agreement, the ban on abusing a dominant market position may become relevant, for example in case of provisions which clearly benefit one contractual party, which may qualify as exploitation, or which make it difficult or impossible for the other contractual party to access a certain market.

## 2.3 Block exemption regulations

Block exemption regulations define certain types of agreements to be no cause for concern in terms of antitrust law. To be precise, block exemption regulations are only relevant if the ban of cartels according to Art. 101 TFEU was to be applicable on the merits. In such cases, based on the possibility of exemption provided for in Art. 101(3) TFEU, exemption regulations legitimize various types of agreements which, per se, are subject to antitrust law, because their effect is considered a promotion of technological or economic progress.

The following exemption regulations are primarily relevant for drafting agreements in the field of IP:

(a) **Commission Regulation (EU) No. 316/2014 of March 21, 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements (Technology Transfer Exemption Regulation):** In the field of IP, the Technology Transfer Exemption Regulation is particularly relevant for license agreements on “technological rights” (including patents and utility models). In this context, it primarily focuses on manufacturing licenses, i.e. the transfer of protected technology to a licensee who, by this transfer of technology, is enabled to produce certain products. Thereby, the Technology Transfer Exemption Regulation

especially differs from the Vertical Exemption Regulation (see below) which covers common distribution agreements, for example, in which the grant of rights of use of industrial property rights is required in parallel. Due to their diverse effects, license agreements are generally deemed to promote competition, which makes it the purpose of the Technology Transfer Exemption Regulation to restrict agreements only to the extent to which this is required in order to keep competition functioning.

(b) **Commission Regulation (EU) No. 1217/2010 of December 14, 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of research and development for agreements (R &D Exemption Regulation):** The R & Exemption Regulation is applicable to various forms of agreements on research and development (R & D), for example agreements on joint R & D with subsequent joint exploitation, without joint exploitation, or even paid-for research and development. The R & D Exemption Regulation serves to safeguard competition in the field of research and prevails over the Technology Transfer Exemption Regulation to the extent to which licenses are granted in the agreement to be exempted. The R & D Exemption Regulation is particularly relevant in that R & D agreements include provisions on existing and contributed industrial property rights and, as the case may be, accompanying know-how. Research and development often take place on the basis of said IP rights and said know-how. Furthermore, provisions on corresponding rights arising from joint R & D projects are relevant.

(c) **Commission Regulation (EU) No 330/2010 of April 20, 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices (Vertical Exemption Regulation):** The Vertical Exemption Regulation applies to agreements between companies operating on different levels of the production or distribution chain on the purchase or sale of goods or services. It is relevant to the field of IP because it also covers cooperation projects or agreements on IP rights which are required in addition to a distribution agreement, for example. The Vertical Exemption Regulation is very relevant in practice because of its broad scope, but it is supplementary to other exemption agreements as far as the subject of the agreement is governed by a different block exemption regulation. The Vertical Exemption Regulation can be differentiated from the Technology Transfer Exemption Regulation based on the focus of the agreement in question, i.e. based on the question of whether it is essentially a distribution agreement or a license agreement on industrial property rights for production.

The block exemption regulations basically have the same structure. First, the terms relevant for the block exemption regulation are defined, then the exemptions are organized according to the merits. Some of the exemptions (e.g. exemptions in the R & D Exemption Regulation) are subject to additional conditions which the agreement has to meet. Additionally, the block exemption regulations determine thresholds regarding the market shares of the involved companies.

Furthermore, every block exemption regulation includes a clause so-called hardcore restrictions. These are lists of various arrangements in the context of an agreement which render the exemption void for the entire agreement. Excluded restrictions – being defined as well – are invalid, but generally do not affect the validity of the remainder of the agreement.

## 3. Consequences of a violation of antitrust law

According to both regulations, a violation of antitrust law results in the invalidity of the agreement. Regarding EU Law, this legal consequence results from Art. 101(2) TFEU, regarding German Law from Sec. 134 German Civil Code. Generally, only arrangements which actually violate antitrust law are invalid instead of the entire agreement. This is different in cases in which separating the invalid part from the remainder of the agreement is not possible; in such cases, the entire agreement becomes invalid. This is usually the case, whereas partial invalidity is extremely rare. In terms of German law, Sec. 139 German Civil Code provides a stipulation under which the entire agreement is invalid in case of doubt. Hence, a severability clause, which intends to exclude the invalidity of the entire agreement, may often not be desirable.

Moreover, violations of antitrust law are also subject to penalties. The most significant form of penalties are fines: Violations of antitrust rules and regulations laid down in TFEU are subject to a fine of up to 10 % of the total turnover in the preceding business year, according to Art. 23 of Council Regulation (EC) No 1/2003. German law provides corresponding rules on fines in Sec. 81 ECA. Additionally, claims for damages against the parties to an agreement which violates antitrust law are possible under civil law.

## 4. R & D agreements

Research and development agreements are of considerable economic importance in Europe, not only for the companies involved. Research and development include various types of co-operation, ranging from paid research and joint research and development activities within the meaning of a cooperation to the establishment of joint ventures by the involved parties. Such agreements are not only concluded horizontally between companies on the same economic level of the distribution or production chain, but may also be concluded vertically, for example with a supplier. Often, several companies as well as non-commercial research facilities such as universities are involved in research and development projects. Thus, when drafting R & D agreements, keeping the parties and their positions in mind is recommended.

### 4.1 Purpose

The purpose of the R & D Exemption Regulation is to promote research competition – which is deemed desirable – and the innovations stemming from it, and only restrict agreements on research where it is inevitable.

For this purpose, the R & D Exemption Regulation provides a body of rules which allow the parties to an R & D agreement to handle the restrictions under antitrust law.

## 4.2 Important provisions – Checklist

Usually, research and development settings are characterized by two parties with different know-how and patents wanting to develop a new product together. For example, one of the companies has a development idea, the implementation of which requires involving a second company, and the first company intends to be the sole party entitled after the conclusion of the joint research and development project, if possible.

In such settings, questions that usually need to be taken into account are: Which company contributes which industrial property rights to the joint project? How should accompanying know-how be treated? Which party is to obtain the rights in the results of the cooperation?

Hence, when drafting research and development agreements, the following aspects are particularly significant:

The ownership of existing rights and rights arising from the joint project:

- First, the parties should clarify who is the proprietor of the rights contributed to the project.

- Additionally, the agreement must include rules on the ownership of the rights which will arise in the context of the research and development project. Here, laying down detailed rules is recommended.

Provisions on rights of use of existing rights and rights arising from the joint project:

- Rights to use **already existing rights** are to be granted to the involved parties to the extent to which this is necessary for carrying out the joint project.

- With respect to **rights which arise from the cooperation**, the condition for exemption stipulated in Art. 3(2) R & D Exemption Regulation is to be observed as well. All parties need to be granted access to the results, including the rights which arose from the joint project (potential know-how included). This may also mean that licenses which must not be restricted to a mere use for further research and development have to be granted for such rights. If royalties are agreed upon, they must not be so high that, in fact, they prevent access to the results.

Exploitation of the results:

The parties may jointly exploit the results of their joint project, but they do not have to do so. First, it has to be considered in the context of the exploitation that it does not only cover the manufacture or distribution of the contractual items, or the application of the contractual technology, but also the assignment of intellectual property rights, or the grant of licenses for them, or the transfer of know-how which is required for the manufacture or application. Against this background, the following rules need to be observed in particular.

- If the parties have **not agreed on a joint exploitation** of the results, the parties have to grant each other access to their know-how to the extent to which this is required for the purpose of exploitation. This also is a condition for exemption pursuant to Art. 3(3) R & D Exemption Regulation.

- If **joint exploitation is agreed upon**, it may only relate to IP rights or know-how resulting from the joint project which are inevitable for exploitation. This is another condition for exemption pursuant to Art. 3(4) R & D Exemption Regulation.

The following aspects also need to be considered when drafting a research and development agreement:

- The parties should agree on the operational steps of the cooperation. Stipulating major intermediate steps, or intermediate goals, in the agreement is recommended as it helps avoid disputes about these steps, or goals, between the parties later on.

- The same holds true for the duration of the joint project. Including a timeline in the agreement is recommended as well as it provides the cooperation project with a time frame during which the parties (are to) carry out various steps. Usually, the time frame is determined when the intermediate steps/ goals are determined.

- The agreement must not include any provision which constitutes a core restriction within the meaning of Art. 5 R & D Exemption Regulation (such as a contractual agreement by which selling prices of the contractual items are determined). Provisions which are not exempted according to Art. 6 R & D Exemption Provision are to be avoided, too.

4.3 Freistellungsdauer

## 4.3 Duration of exemption

The duration of the exemption depends on whether or not the parties to the agreement are competitors.

- If the parties are **not competitors**, the duration of the exemption is 7 years as of the beginning of the exploitation pursuant to Art. 4(1) R & D Exemption Regulation. The beginning of the exploitation is defined as the date on which a contractual item or contractual service is first put into circulation. In this context, a specific contractual determination is recommended; in this way, reconstructing the date of the beginning of the exploitation is possible later.

  Even when the 7 years have expired, the agreements continue to be exempted if the common market share of the parties does not exceed 25 %.

- If the parties are **competitors**, the duration of the exemption also is 7 years as of the beginning of the exploitation, but subject to the condition that the common market share of the parties did not exceed 25 % at the date of the conclusion of the agreement.

So, when drafting agreements relating to industrial property rights, keeping antitrust law in mind is recommended. Even in settings in which the applicability of provisions under antitrust law is not obvious, these provisions may still have considerable consequences.





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