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Abstract: *Defendants against whom an action has been filed for infringement of an intellectual property right (IPR) are increasingly raising the defence that they are entitled to a licence under competition law. This article examines the admissibility of such a competition law defence and the circumstances under which it may be invoked. In the author's view the fact that an IPR holder has abusively refused to grant a licence does not suffice to dismiss an IPR action. Such action only constitutes an abuse of rights and is therefore to be dismissed if the defendant has made an unconditional, reasonable and readily acceptable licence offer. The author does not, however, consider it necessary that the defendant has also anticipated the obligations stipulated in the intended contract by paying licence fees in advance. Finally, the article examines the consequences of a legitimate competition defence for the various liabilities for IP infringement.*

COMPETITION LAW IN INTELLECTUAL PROPERTY LITIGATION: THE CASE FOR A COMPULSORY LICENCE DEFENCE UNDER ARTICLE 102 TFEU

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A. INTRODUCTION

It is firmly established that the owner of an intellectual property right (IPR) may be compelled to grant a licence on reasonable terms under European (and generally also domestic) competition law, where a refusal to do so would amount to an abuse of a market-dominant position¹. Relying on this case law, defendants in IP infringement proceedings are increasingly raising the defence that they are entitled to a licence under competition law. The typical delineation of claims in these cases is as follows: the plaintiff files an action against an unlicensed user on the basis of infringement of an IPR which in turn is incorporated in a technical standard. Therefore, the plaintiff enjoys a dominant position in a given market for which the standard is essential. The defendant pleads that the plaintiff is abusing its dominant position by refusing to conclude a licence contract with the defendant on non-discriminatory and reasonable conditions. The alleged abuse may be that the plaintiff has granted licences to other parties or that the IPR is so essential to competition that it must be licensed across the board. The IP court must then decide whether it will consider this defence within the framework of the IP proceedings even where such a competition law (counter-) claim has not yet been finally determined by a competition authority or a competition law court.

In an action for damages it seems clear that the court may not disregard a counterclaim to the grant of a licence for the disputed IPR on the part of the defendant. While such a counterclaim may not preclude the IP infringement as such, it certainly affects the amount of the resulting damage: A plaintiff may only demand compensation for the use of its IPR in the amount to which the plaintiff would have been entitled if it had not refused (illegally) to grant the defendant a licence for the disputed IPR². Where a plaintiff would have been required under competition law to grant a royalty-free licence to the defendant, it would not be entitled to any compensation whatsoever due to the lack of any damage³.

However, in an action for an injunction, the argument for the IP court to consider complex competition arguments is weaker. Here, the IP court could decide the case entirely on the basis of IP law and direct the defendant

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¹ Case T-201/04 *Microsoft Corp v Commission* [2007] ECR II-3601; Case C-418/01 *IMS Health v NDC Health* [2004] ECR I-5039; Case C-241/91 P *Radio Telefis Eireann v Commission (Magill)* [1995] ECR I-743.

² See eg German Federal Supreme Court, Case KZR 40/02, 160 BGHZ 67, 82 - *Standard Spundfass*.

³ *Ibid.*

to assert its counterclaim in a separate proceeding before a competition court or by means of a complaint to a competition authority or a sectoral regulator with concurrent jurisdiction to apply competition law.

This article summarises the different approaches that national courts have taken on the admissibility of the competition law defence arising from the plaintiff's obligation to grant a licence and then analyses the circumstances in which an IP action for injunction should be dismissed. Finally, the article examines the legal consequences of a legitimate competition law defence for the various liabilities for IP infringement.

B. ADMISSIBILITY OF THE COMPULSORY LICENCE DEFENCE UNDER COMPETITION LAW

1. Approaches Taken by National Courts

(a) Admissibility per se: The UK Perspective

Some commentators argue that the fact that a plaintiff has abusively denied a licence is always *per se* a legitimate means of defence, which makes any action for injunction fail⁴. They argue that where a rightholder has to grant a licence, the bringing of an IP action itself amounted to an abuse of market power and was therefore prohibited⁵. Another argument is that, the plaintiff misused its IPR where it seeks relief for IP infringement to which the plaintiff would not have been entitled had it granted the licence Article 102 TFEU (or the domestic equivalent) required. Such an action, it is argued, would infringe the general legal principle that nobody should be entitled to demand something (in this case, to refrain from the use of a subject matter protected by an IPR) which they must immediately return (in this case by granting a licence for the IPR at issue)⁶.

This approach is consistent with existing UK case law as of the decision by the English Court of Appeal in *British Leyland*⁷ where Justice Templeman L.J. stated:

"[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

⁴ See 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 Heine-mann, "Kartellrechtliche Zwangslizenzen im Patentrecht" (2005) *Zeitschrift für Wettbewerbsrecht* 198, 200-1.

⁵ Ullrich, *supra* n 4, 342; de Bronett, *supra* n 4, 905.

⁶ A Hötte, *Die kartellrechtliche Zwangslizenz im Patentrecht* (Münster, MV Verlag, 2011), 180-1; T Kühnen, "Der kartellrechtliche Zwangslizenzseinwand und seine Berücksichtigung im Patentverletzungsverfahren", in E Keller, C Plassmann and W Tilmann (ed), *Festschrift Für Prof. Dr. Wilfried Tilmann* (Köln, C Heymanns, 2003), 513-14; M Wirtz and M Holzhäuser, "Die kartellrechtliche Zwangslizenz" (2004) *Wettbewerb in Recht und Praxis* 683, 694. In Germany this view was shared by the Düsseldorf District Court, see [2008] 10 InstGE 66, paras 87-8; [2006] WuW/E DE-R 2120, 2121.

⁷ *British Leyland Motor Corporation Ltd v TI Silencers Ltd* [1981] 2 C.M.L.R. 75.

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."⁸

According to the Court of Appeal the ordinary use of copyright would not include a use which enabled the owner of the copyright to flout European competition law⁹. In *Intel v Via*¹⁰ the Court confirmed this finding. In the view of Vice-Chancellor Sir Andrew Morritt, it was "plain that if the conduct of [the plaintiff] is contrary to Art.[102] in the aspects alleged then such illegality may constitute a defence to any liability for infringement or any remedy therefore"¹¹.

(b) Inadmissibility per se: The Dutch Perspective

The opposing view is that the existence of a mere entitlement to a licence under competition law does not permit an infringement of the IPR and therefore does not prevent the owner from enforcing his rights¹². Supporters of this view argue that as long as the user has not converted its claim into an actual licence or obtained a court order that substitutes a licence there is no ground to allow the use of the protected technology, nor to preclude enforcement of the IPR by the owner. Therefore, users could not defend themselves in an IP infringement proceeding by invoking a (counter-) claim to a licence under competition law. Instead, users would need to initiate and arrange a licence themselves in a timely manner, for example in a parallel proceeding before a competition court.

This view was shared by the Dutch Court The Hague in its decision *NL-Philips v. SK Kassetten*¹³ dated 17 March 2010 on the infringement of essential patents owned by Philips. The Court pointed out that under Dutch patent law a right to a compulsory licence would not be valid before a licence agreement has actually been concluded. The Court therefore found that a system wherein the mere existence of a claim to a licence under competition law would prevent a patent holder from enforcing its rights would not suit the compulsory licence requirement envisaged by the Dutch legislator¹⁴. Furthermore the Court stated that accepting the competition law defence

⁸ *Ibid*, para 8.

⁹ *Ibid*.

¹⁰ *Intel Corporation v Via Technologies Inc and Elitegroup Computer Systems* [2003] EWCA Civ 1905.

¹¹ *Ibid*, para 80.

¹² J 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 (ed), *Variationen im Recht* (Berlin, Berliner Wissenschaftsverlag, 2006), 97, 106-9; S Maaßen, *Normung, Standardisierung Und Immaterialgüterrechte* (Köln, C Heymanns, 2006), 257-8; M v. Merveldt, "Der Ausschluss kartellrechtlicher Einwendungen im Patentverletzungsverfahren" (2004) *Wirtschaft und Wettbewerb* 19-25. In Germany this view was shared by the Düsseldorf Court of Appeal, [2002] 2 InstGE, 168, para 27 and the Dresden Court of Appeal, [2003] GRUR, 601, 603-4.

¹³ *Koninklijke Philips Electronics N.V. v SK Kassetten GmbH & Co. KG*, Joint Cases No. 316533/HA ZA 08-2522 and 316535/HA ZA 08-2524.

¹⁴ *Ibid*. 6.20.

would also lead to legal uncertainty, as without an actual licence it would not be clear what the terms of such licence should be¹⁵. Moreover, the defence would be unnecessary for the protection of the legitimate interests of the defendant. Firstly, the defendant could have arranged for an authorisation prior to its use of the IPR, in case of urgency by receiving the grant of a licence by means of an interlocutory injunction. And secondly, the defendant could still bring a claim for damages against the rightholder with respect to any loss suffered as a result of its rejection to conclude a licence, if this rejection in fact infringed competition law¹⁶.

(c) Admissibility under Restrictive Requirements: The German Perspective

A third approach has been developed in Germany, by the Federal Supreme Court (Bundesgerichtshof). In its May 2009 *Orange-Book-Standard*¹⁷ decision the Court found that "*in principle*" a defendant against whom an action has been filed on the basis of an IPR infringement may contest the rightholder's application for an injunction on the ground that the plaintiff abuses its dominance by refusing to conclude a licence agreement¹⁸. Where a market-dominant undertaking abuses its power by refusing to grant a licence, the enforcement of the claim to an injunction under IP law would also constitute an abuse of market-power¹⁹. After all, the rightholder thereby impeded the other enterprise's access to the market, which it was actually obliged to provide by concluding a licence contract.

However, according to the Federal Supreme Court the assertion of a claim to an injunction would only constitute an abuse and thus competition law defence admissible if two formal conditions are met: Firstly, the defendant must have made an unconditional offer to the plaintiff to conclude a licence contract on conditions which the plaintiff cannot refuse without inequitably impeding the defendant or infringing the prohibition on discrimination. And secondly, the defendant, if and as long as it is already using the subject matter of the IPR, must comply with the obligations that the intended licence contract would have imposed on such acts of use²⁰. In other words, the party seeking a licence may not merely anticipate its contractual rights but must also perform its obligations resulting from a (hypothetical) licence. In particular the defendant would have to render regular accounts with respect to the use of the IPR and would have to pay the rightholder the licence fee resulting from such statement of accounts²¹.

¹⁵ *Ibid*, 6.21.

¹⁶ *Ibid*, 6.22-24.

¹⁷ Case KZR 39/06, [2009] 180 BGHZ 312, 316 - *Orange-Book-Standard*. An English translation can be found in (2010) 41 *International Review of Intellectual Property and Competition Law* 369.

¹⁸ *Ibid*, 312.

¹⁹ *Ibid*, 316.

²⁰ *Ibid*, 318-9.

²¹ *Ibid*, 319.

In its judgment the Federal Supreme Court tries to reconcile the opposing positions on the admissibility of a competition law defence as described above: The Court enables a user, in principle, to raise the defence not only against an IP action for damages but also against an action for injunction. However, unlike in the case of an action for damages, for such a defence to prevail it is not sufficient for the user to "merely" have a substantive (counter-) claim to a licence under competition law. Additionally, the defendant must meet special formal requirements that cater to the interests of rightholders and significantly restrict the scope of the defence. An action of a rightholder for an injunction will only be dismissed if the defendant has made an unconditional licence offer and has already deposited the fees resulting from such a licence.

Following the Federal Supreme Court, a strict distinction is to be made between an abuse of dominance by *refusing a licence* and an abuse by *enforcing an IPR*. The conditions for the former, widely accepted form of abuse, are not modified by the Court ruling, but are pre-supposed. All the formal requirements imposed by the Federal Supreme Court relate only to its newly developed form of abuse, the enforcement of an IPR. In this respect, the Court merely imposes *additional* conditions under which the assertion of an IPR by a rightholder that has abusively refused to grant a licence constitutes a second abuse of dominance. This second abuse necessarily presupposes the first, as the enforcement of an IPR can only be abusive if the defendant has a valid claim to a licence under competition law. The second abuse, however, does not affect the existence of the first. If the formal requirements for the abusiveness of the plaintiff's action for an injunction (second stage) are not met, the party seeking a licence can still assert all recognised rights under Article 102 TFEU (and the domestic equivalent) in relation to the plaintiff's abusive refusal to licence (first stage). The only difference that is, in this case, the party seeking a licence cannot raise its claim to a licence as a defence in an IP infringement proceeding, but has to assert its rights in a separate competition law action or countercharge. For that reason alone, the criteria laid down by the Federal Supreme Court in *Orange-Book-Standard* (unconditional offer and anticipatory performance) in no way limits the European requirements under Article 102 TFEU for the finding of an abusive refusal to licence as feared by some commentators²². Instead, *Orange-Book-Standard* has set forth a new type of abusive conduct (the enforcement of an IPR), for which there is no established case law of the European courts.

2. The Case for a Compulsory Licence Defence

(a) Considerations of Judicial Economy

The main advantage of admitting the competition law defence arising from a duty to licence results from judicial economy. A user can always assert its claim to a licence through private competition litigation. For claims under

²² See the critical remarks of Ullrich, *supra* n 4, 340-1; de Bronett, *supra* n 4, 902.

Article 102 TFEU this follows explicitly from Article 6 of Regulation (EC) No 1/2003 on the implementation of EU competition rules²³. However, private competition enforcement can be time consuming. It can take years before the licence granted by a national court order becomes legally binding. Additionally, interlocutory injunctions for the provisional conclusion of a licence contract can, in many countries, only be obtained under very restrictive conditions. In this respect, victims of an infringement of competition law are often in a weaker position than victims of an infringement of IP law. After all, Article 9 Directive 2004/48/EC on the enforcement of IPRs requires Member States to ensure that IP courts may on request issue an interlocutory injunction against an alleged infringer. For an alleged infringement of competition law no such European requirement (yet) exists for an alleged infringement of competition law.

A complaint with a competition authority sufficiently guarantee the user of the IPR timely redress. Pursuant to Article 8 of Regulation (EC) No 1/2003 the European Commission may, in case of urgency due the risk of serious and irreparable damage to competition, order interim measures. National competition authorities typically enjoy similar privileges. However, this only applies to *prima facie* findings of infringement and is, most importantly, subject to the authorities' regulatory discretion about whether to launch an investigation following a complaint at all.

As a consequence, if a licence claim based on competition law was not taken into account within the IP litigation, the defendant would run the risk that any protection granted by competition law against an abusive refusal to licence would simply come "too late" because, in the meantime, he or she would have already been prohibited from using the IPR in dispute by means of an interlocutory injunction of an IP court²⁴. In this case, the alleged infringer may still be able to claim damages for the losses suffered as a result of the rightholder's abusive refusal to grant a licence. This claim will also cover the losses caused by the injunction order. However, the forced cessation of business activities through an injunction can lead to an irreversible exit from the market that cannot always be offset through monetary compensation.

In addition, in many countries the private enforcement of competition law falls into the jurisdiction of different courts than actions for IP infringement. In these cases, the defendant's filing of a counterclaim to the grant of a licence would thus lead to an uneconomic accumulation of interdependent proceedings regarding the same matter before different courts.

The difficulties of applying for interlocutory injunctions in order to enforce competition laws that (in the lack of European harmonisation of the procedural law) exist in many countries as well as the close relationship

²³ Regulation 1/2003 [2003] OJ L1/1. According to its Article 6 "[n]ational courts shall have the power to apply Articles 81 and 82 of the Treaty".

²⁴ W Kellenter, "Der FRAND-Einwand im Patentverletzungsprozess", in M Bergermann, G Rother and A Verhauwen (ed), *Festschrift für Peter Mes* (München, C H Beck, 2009), 199, 204, 213. See also P Maume and C Tapia, "Der Zwangslizenz-einwand ein Jahr nach Orange Book Standard - mehr Fragen als Antworten" (2010) *Gewerblicher Rechtsschutz und Urheberrecht International* 923, 930.

between a plaintiff's IPR claim and the defendant's competition counterclaim will often make it appear appropriate to deal with both claims simultaneously in the framework of an IP proceeding.

A further argument for admitting competition law defences in IP litigation is the general interest in avoiding IP court decisions that contradict competition law values. As a matter of principle, IP courts should not lend countenance to claims that contradict competition law by ordering the defendant to refrain from something which the plaintiff is obliged to allow him under Article 102 TFEU. In such cases granting relief for IP infringement may also lead to contradictory court decisions if a competition court later finds that the rightholder would not have been entitled to relief had it granted the licence Article 102 TFEU required.

However, the procedural advantages of a simultaneous hearing of IP and competition law (counter-) claims end where the alleged infringer merely invokes competition law arguments to inflate and drag out the IP proceeding artificially, even though it does not really believe in or is serious about its licence request. The risk that defendants may raise baseless competition defences that merely delay IP proceedings and increase their costs should not be underestimated²⁵. The determination of the relevant market and the assessment of the plaintiff's position in it, together with the question of whether there are "exceptional circumstances"²⁶ which impose upon the plaintiff a duty to licence are substantial issues that require an economic analysis which is not called for by the task of determining whether or not the defendant infringes an IPR and which may therefore slow down IP proceedings considerably. The assessment of the conformity of licence terms with competition law can be even more complex for IP courts. In particular, the determination of the legitimate royalty can be a challenging task.

Admitting the competition law defence should not come at the cost of the effectiveness of IP proceedings. That would be at stake however, if defendants could delay decisions in the last minute by making a general and unsubstantiated reference to an alleged licence claim arising from competition law. This is a strong argument against the unconditional admissibility of the competition law defence as a result of which any abusive denial of a licence would *per se* preclude the enforcement of the IPR (see *supra*, section B 1 (a)). The risks described above instead support the approach of the German Federal Supreme Court to protect the legitimate interests of rightholders through additional requirements for the admissibility of the defence.

(b) National Differences

The aforementioned procedural considerations show that the assessment of the competition law defence can vary in each jurisdiction. In countries where parties seeking a licence can obtain competition law redress faster than IP plaintiffs can obtain an injunction, especially by way of interim relief (as is apparently the case in the Nether-

²⁵ See D Durley, "Eurodefences and Chips: 'A Somewhat Indigestible Dish': the UK Court of Appeal's Decision in Intel Corp v Via Technologies" (2003) 25 *European Intellectual Property Review* 282, 286.

²⁶ As required by *IMS Health*, *supra* n 1, para 35; *Magill*, *supra* n 1, para 50; Case C-238/87 *Volvo v Erik Veng* [1988] ECR 6211, para 9.

lands²⁷), there is little ground and justification for admitting the competition law defence. In these jurisdictions, IP courts may refer defendants alleging a claim to a licence to separate competition proceedings to enforce their claim in a timely manner. However, in countries, where speedy competition law redress is not guaranteed, admitting the competition law defence in IP litigation may be essential to protect victims of an abusive refusal to licence from also becoming a victim of an injunction.

(c) Nature of the Compulsory Licence Defence

The German Federal Supreme Court²⁸ as well as some commentators²⁹ bases the compulsory licence defence under competition law on the argument that where a market-dominant undertaking is abusing its position by refusing to licence an IPR, the enforcement of the claim to an injunction against the use of that IPR also constitutes an abuse of market-power. Accordingly, the enforcement of the IPR would be prohibited, as is the refusal to conclude the licence contract.

However, an abuse of dominance presupposes an adverse effect on competition as a whole, not only impairment to the interests of a particular competitor³⁰. In countries where speedy private competition law redress is at hand, the enforcement of an IPR may not significantly hinder the market entry of the party seeking a licence at all, since it can easily obtain a licence in a parallel proceeding³¹. Thus, to base the competition law defence on the finding of an independent abuse under Article 102 TFEU in the form of an enforcement of an IPR can lead to contradictory decisions, since the interpretation of Article 102 TFEU would ultimately depend on the effectiveness and particularities of the respective national codes of procedure. Nor has the assertion of an IPR yet been developed at a European level as an independent form of abuse under Article 102 TFEU—quite the contrary. The CJEU has noted that "*it is only in wholly exceptional circumstances that the fact that legal proceedings are brought is capable of constituting an abuse of a dominant position within the meaning of Article [102] of the Treaty*"³². The circumstances were so narrowly described because the ability to assert one's rights through the courts, and the judicial control which that entails, constitutes a fundamental right and the expression of a general principle of European law³³. It is therefore not entirely convincing to base the competition law defence arising from a duty to licence on a separate abuse of market dominance by the rightholder. That applies even more since a finding of such abuse could in itself trigger an independent fine or other penalty provided for under national competition law,

²⁷ See *supra* n 13 and accompanying text.

²⁸ See *supra* n 19.

²⁹ See *supra* n 5.

³⁰ Case T-184/01 R *IMS Health v Commission* [2001] ECR II-3193, para 145; Advocate General F Jacobs, Case C-7/97 *Oscar Bronner v Mediaprint Zeitungs- und Zeitschriftenverlag (Bronner)* [1998] ECR I-7781, para 58.

³¹ According to the District Court The Hague (*supra* n 13, 6.22-23) this seems to be the case, for instance, in the Netherlands.

³² Case T-111/96 *ITT Promedia NV v Commission* [1998] ECR II-2937, para 60.

³³ *Ibid.*

even though the "abuse" is shaped less by conduct which deviates from normal competition than by the procedural framework in the respective jurisdiction.

The more convincing argument is to base the competition law defence on a breach of the plaintiff's duty to perform in good faith³⁴. If the plaintiff is obliged to grant a licence under competition law and the defendant has declared that it will accept reasonable licensing conditions, the defendant can argue that it contradicts good faith and constitutes an abuse of rights to use the IPR to ask for an injunction. Based on the Roman law principle *dolo agit qui petit quod statim redditus est* it appears to be a general principle of present day private law that nobody can demand something by way of an injunction which, as consequence of a counterclaim by the other party, he or she will immediately have to return (here in the form of the grant of a licence). Such an action would infringe the principle of good faith as contained in Article 1:201 of the Principles of European Contract Law³⁵ and also accepted in US contract law³⁶.

The recourse to the principle of good faith in general and the *dolo petit*-objection in particular also opens up a more appropriate fine-tuning of the requirements for the competition law defence as opposed to the verification of when the enforcement of an IPR constitutes an independent abuse of dominance.

3. Interim Result

By way of conclusion, it can be noted that an obligation to grant a licence under competition law should in principle be admitted as an independent defence, provided that additional procedural requirements ensure that the interests of IP holders, in particular in relation to strategic delays of proceedings and negotiations, are sufficiently safeguarded and IP proceedings are not overloaded with competition law details, for example dealing with price stipulation for which IP courts may not be best suited. In dogmatic terms, the competition law defence should not be based on the abusiveness of the rightholder's filing of an action for infringement, but on its violation of the private law principle of good faith.

³⁴ See references *supra* n 6.

³⁵ Article 1:201 contains the following provision: "Each party must act in accordance with good faith and fair dealing".

³⁶ For further details on the scope of this principle see R Zimmermann and S Whittaker (ed), *Good Faith in European Contract Law* (Cambridge, University Press, 2000). On the scope of the principle in US law see R S Summers, "The Conceptualisation of Good Faith in American Contract Law: a General Account", in R Zimmermann and S Whittaker, *ibid*, 118-44.

C. PREREQUISITES FOR RAISING THE COMPULSORY LICENCE DEFENCE

The compulsory licence defence requires that the defendant has a personal, substantive counterclaim to the grant of a licence and that due to certain additional circumstances the enforcement of the IPR by the plaintiff appears to be incompatible with the principle of good faith.

1. Abusive Refusal to Grant a Licence on Fair and Reasonable Terms

First and foremost the defence requires that the plaintiff is infringing competition law by refusing to grant a licence. That is the case where the plaintiff enjoys a dominant market position and its refusal to grant a licence on fair, reasonable and non-discriminatory terms constitutes an “abuse” thereof. Whether a unilateral refusal to licence constitutes an abusive hindrance or discrimination under Article 102 TFEU is determined by established case law, in particular by the judgments of the CJEU in *Magill*³⁷, *Bronner*³⁸ and *IMS Health*³⁹. Given the limited purpose of this article, this will not be discussed in more detail⁴⁰.

2. Genuine, Reasonable and Readily Acceptable Licence Offer to the Plaintiff

The fact that the plaintiff has abusively refused to grant a licence cannot, however, suffice for a defendant to successfully raise a compulsory licence defence against an action for injunction. Following the approach suggested by the German Federal Supreme Court, it should also be required that the defendant must have made a genuine, reasonable and readily acceptable offer to the rightholder to conclude a licence contract⁴¹. An offer is “genuine” if the defendant remains bound to it for a reasonable period of time and is willing and able to actually perform the obligations arising from the proposed contract. The “reasonableness” of an offer depends on whether its terms and conditions fall within the limits of what the prohibition on abusive practices holds to be admissible, with the result that the rightholder cannot refuse them without infringing competition law. Finally, an offer is “readily acceptable” if it is so concrete that a simple “yes” on the part of the rightholder would result in a valid contract that covers all essential points (subject matter and scope of the licence, parties to the license, and consideration).

³⁷ *Supra* n 1.

³⁸ *Supra* n 30.

³⁹ *Supra* n 1.

⁴⁰ For a recent analyses see eg L Zhang, “Refusal to Licence Intellectual Property Rights under Article 82 in Light of Standardisation Context” (2010) 32 *European Intellectual Property Review* 402-11.

⁴¹ See *Orange-Book-Standard*, *supra* n 17, 316.

(a) *Distinction between Abuse of Dominance and Personal Licence Claim*

The requirement of a licence offer from the defendant is justified by the fact that only with such an offer does an abusive refusal to licence also lead to a substantive (counter-) claim by the defendant to the grant of a particular licence. A rightholder's action for injunction only appears to infringe the principle of good faith if the defendant has a personal counterclaim to a licence against the plaintiff which the defendant itself could immediately enforce in court. Where this is not the case, there is no sufficient nexus between the abusive conduct alleged the right claimed by the defendant in order to admit its defence.

For a personal counterclaim to a licence it is not in itself sufficient that the plaintiff has abused its dominance by a refusal to grant a licence. Subject to domestic rules on private enforcement, an infringement of Article 102 TFEU (or the domestic equivalent) normally does not automatically establish a claim for anyone to a particular licence contract. This is evident in the fact that there can be an abusive refusal to deal even if no company has ever made a concrete request for a contract which could now be identified as a victim of abuse and holder of a competition law claim. Admittedly, even a market-dominant undertaking does not have to offer licences on its own initiative. However, a refusal to licence may also result from an undertaking's public announcement or expressed policy not to grant licences at all, not to grant licences to certain customers or to grant them only pursuant to certain terms and restrictions which are incompatible with competition law⁴². Such an abusive refusal to licence does not, however, automatically confer a substantive claim to a specific licence for any potentially interested party. A personal claim to a licence only accrues in favour of identifiable victims of the abuse. They must have been individually affected by the refusal to deal. This usually requires that they themselves have unsuccessfully requested a licence from the rightholder.

Moreover, the accrual of a licence claim in favour of the defendant usually – again depending on domestic rules – also presupposes that the market-dominant rightholder cannot remedy the abuse it has committed through any other measure than by granting a certain licence to the defendant. If a dominant undertaking has several options to avoid or remedy a violation of competition law, affected parties cannot require that the dominant undertaking chooses the option that suits them most. In principle, competition law rather grants the dominant undertaking a degree of discretion with respect to how to avoid or remedy an infringement of competition law. Consequently, in Germany, for instance, the rules on the private enforcement of competition law provide that the general *prohibition* to refuse to deal only amounts to a positive *obligation* to conclude a specific contract on specific terms with a particular party and hence to a corresponding claim by this party, if no other conduct and no other contract could remedy the infringement of competition law. This is relevant in particular in the case of an alleged discriminatory licensing practice. If a dominant rightholder may remedy an alleged discrimination by terminating or ad-

⁴² That was the case for instance in German Federal Supreme Court, Case KZR 24/08, [2010] WuW/E DE-R 2963 *GSM-Wandler* (statement in firm's standard business terms); Ullrich, *supra* n 4, 344.

justing the existing licence contract with a third party on which the alleged discrimination is based, the party seeking a licence may not demand that the rightholder instead grants it a specific licence contract. In this case, the party seeking a licence could only file an action for the granting of a specific licence if, as consequence of economic or legal restraints or relevant announcements, it was reasonably certain that the rightholder cannot or will not use its option to terminate or adjust the existing contracts to end any discrimination. And even in this event the user could not claim a licence on any terms it wishes, but only on terms that are similar to the ones granted to other licensees. It follows, that even if a party seeking a licence privately enforces the granting of a licence, it cannot simply claim acceptance of a licence on its own terms, but has to limit its claim to acceptance of a licence offer on usual and reasonable terms or to the submission of a binding licence offer by the dominant undertaking⁴³.

(b) Harmonising Competition Counterclaim and Defence

If a licence (counter-) claim under competition law typically only accrues if the user requests a contract that the rightholder cannot refuse without infringing the prohibition of abuse, it is only logical to also require such an offer for the competition law defence arising from a refusal to licence. An IP action for injunction appears to contradict the principle of good faith only when an abusive refusal to licence confers the same defendant a substantive licence claim which it could readily enforce in a competition proceeding and, in addition, the defendant makes a licence offer that reflects this personal claim. If, on the other hand, the mere fact that the plaintiff infringes competition law by refusing a licence (maybe even to anyone) were to suffice for the competition law defence, the passive defence would go beyond the defendant's underlying counterclaim. The same contradiction would arise if any licence offer by the party seeking a licence would suffice for its defence, while the party could not privately enforce the granting of the same licence as plaintiff because the terms proposed are not covered by its licence claim arising from competition law. In the interest of harmonising the requirements of competition law claims with competition law defences, IP courts should require that the defendant has submitted a specific licence offer to the plaintiff containing terms which the latter could not reject without infringing the prohibition of abusive conduct.

(c) Protection of Rightholders against a Loss of Control

A further argument in favour of the defendant's obligation to make a licence offer on its own initiative is the fact that such offer reduces the risk that rightholders lose control over the use of their protected objects. This obligation forces parties who want to benefit from the competition law defence to actively contact the rightholder and to

⁴³ See for instance in relation to German law: Federal Supreme Court, Case V ZR 34/92, [1994] NJW-RR 1272, 1274.

reveal their interest in using the object at issue. This "step out of cover" requirement facilitates legal action by the rightholder as it becomes aware of the – at least planned – use of its protected objects.

Such strengthening of rightholders' legal protection against unlicensed use is justified. Rightholders do not automatically learn of the use of their rights by third parties. Nor can they, in most cases, protect themselves by technical means against acts of use in advance. They are dependant on a constant monitoring and enforcement of their IPRs. In this regard, rightholders are in a weaker position than other market-dominant undertakings that are also subject to an obligation to share assets under competition law. For example, access to physical infrastructure usually requires prior assistance by the infrastructure operator. Typically, the operator must connect the company seeking access to its network or customise its facilities for shared use. Therefore, in the case of infrastructure, the party seeking access has a vested interest in an early contact and swift negotiations with the operator, or alternatively in seeking a court order to clarify its access rights. In the case of IPR, this is different, as use is possible without any prior contact between the parties. Therefore, it is typically up to the rightholders to actively detect use of their rights and to take action against it. The weaker position of rightholders justifies, in principle, stricter requirements for any restriction of their rights to take legal action, for example through a competition law defence.

Moreover, there is a risk that users tracked down by rightholders could rely prematurely on a presumed licence entitlement under competition law and therefore refrain from intensive licensing negotiations. Given the high threshold for a duty to grant a licence under competition law, the risk of an unjustified competition law defence appears higher than the risk of a defendant actually having a claim to a licence and a court wrongly prohibiting the use of the IPR. In the latter case, the effects of the misjudgement are further mitigated by the fact, that the party seeking a licence could still recover its losses by claiming damages in a subsequent private enforcement proceeding. This is another argument for the requirement of a concrete licence offer in order to rely on the competition law defence.

(d) Exemption of the Defendant from Setting a Royalty

The requirement to make a genuine, reasonable and readily acceptable licence offer does not impose an unreasonable burden on the defendant⁴⁴. Companies that demand the right to use an invention or creation protected by IPR without consent can be expected to investigate the factual situation intensively enough to be able to draft a clear licence contract that contains usual and reasonable terms that cannot be rejected by the rightholder without infringing

⁴⁴ D Jestaedt, "Der Lizenzerteilungsanspruch Nach der BGH-Entscheidung 'Orange-Book-Standard'" (2009) *Gewerblicher Rechtsschutz und Urheberrecht* 801, 803; T Nägele and S Jacobs, "Zwangslizenzen im Patentrecht - unter Besonderer Berücksichtigung des Kartellrechtlichen Zwangslizenzinwands im Patentverletzungsprozess" (2009) *Wettbewerb in Recht und Praxis* 1062, 1073. For a contrary view see Ullrich, *supra* n 4, 348 "virtually impossible to meet this condition"; K Schöler, "Patents and Standards: The Antitrust Objection as a Defense in Patent Infringement Proceedings", in W Prinz zu Waldeck und Pyrmont, M Adelman, R Brauneis, J Drexler and R Nack (ed), *Patents and Technological Progress in a Globalized World* (Springer, 2009), 177, 189 "almost insolvable difficulties for the defendant".

ing competition law. Moreover, the user would have to make the same efforts to substantiate its claim if it were to obtain a licence through private competition enforcement.

The only difficulty in the drafting of the licence offer is likely to involve the determination of the consideration. Specifying the royalty will be particularly difficult if the rightholder has not previously granted a licence to others and refuses to quantify a fee he would expect. In this case, to determine the fee could actually prove to be a very challenging and risky task. If the party seeking a licence sets the fee too low, it runs the risk that the licence terms offered are not reasonable (as required for raising the competition law defence), since the rightholder could refuse them without infringing competition law. If the party seeking a licence sets the fee too high, however, it runs the risk that if the rightholder accepts its offer it will have to pay more than owed under competition law and/or actually expected by the rightholder.

The German Federal Supreme Court has anticipated this conflict for the defendant. To resolve the conflict the Court has eased the requirement of making a licence offer so that the defendant is not obliged to determine the licence fee within this offer. According to the court it is sufficient for the requirement of a concrete licence offer if the user makes an offer to take a licence with a clause that puts the determination of the fee in the equitable discretion of the *licensor*⁴⁵.

This approach is persuasive as it allows the party seeking a licence to fulfil its obligation of making an acceptable licence offer without taking on the economic risk of over- or underestimating the legitimate licence fee. In acceptance of the offer the burden of setting a reasonable licence fee then lies with the rightholder. While the rightholder remains completely free in its specification of the fee, under German law for example the defendant can subsequently ask a civil court to review the equitability of the rightholder's determination of the fee. If a court considers the determination inequitable because it does not obey the limits set by competition law, it can set a new, reasonable fee with retroactive effect. This system of consecutive judicial review of the rightholder's determination of the licence fee through a civil court has the further advantage of enabling the IP faced with an action for an injunction court to avoid the tedious calculation of the precise licence fee permissible under competition law. This can significantly accelerate IP proceedings in which the competition law defence is raised. The option to leave the determination of the licence fee to the fair discretion of the rightholder therefore does not only relieve the party seeking a licence but may also cater to the interests of rightholders in swiftly obtaining judicial redress.

⁴⁵ *Orange-Book-Standard*, *supra* n 17, 321.

3. Unconditional Nature of the Defendant's Licence Offer

It is also insufficient for the competition law defence to be raised if the party seeking a licence merely submits a conditional licence offer, in particular if it only offers to conclude a contract subject to the condition precedent that an IP court confirms that a valid IPR actually exists and that it is infringed by the potential licensee's use⁴⁶.

(a) Condition Precedent that a Court Confirms Existence and Infringement of the IPR

If such conditions precedent were to be accepted, admission of the competition law defence would no longer serve judicial economy: Provided that all other requirements of the defence are fulfilled, once the user has submitted a (conditional) licence offer, the rightholder's application for injunction would have to be dismissed. To this end, the IP court would not have to look and rule on the actual existence or infringement of any IPR at all. Due to the clearly fulfilled competition defence, the court could leave the question of any IPR infringement open. A court decision on the basis of such a conditional licence offer would, however, not grant the rightholder any legal certainty. At any time after its acceptance of the conditional offer, the licensee could claim that it hadn't actually infringed any valid IPR of the licensor at all and that the condition precedent for the conclusion of a licence contract had therefore not materialised. This would inevitably lead to a follow-up action to determine the effectiveness of the licensing agreement. The competition law defence would thus lose its advantage in terms of judicial economy via concentration of all legal issues in one court proceeding.

Moreover, the requirement for an unconditional licence offer enables rightholders to immediately enforce the payment of a fee without having to wait for the positive outcome of an IP infringement proceeding. The unconditional licence offer creates, if accepted, an immediately enforceable contractual claim for fees. That may counteract the rightholders' disadvantage that, if a competition law defence is granted against a claim for injunction, the only available remedy left are damages. Claims for damages, however, can only be asserted ex-post to any act of use. They do not provide monetary security for future uses. Hence, if rightholders were only left with damage claims, they would have to consecutively file one action after the next in order to obtain payment. In contrast, a contractual claim for payment can (depending on domestic contract law) typically also be enforced for future acts of use.

⁴⁶ *Ibid*, 318 regarding the infringement of the IPR.

(b) Concurrent Defence with IP and Competition Arguments

The required unconditional nature of the licence offer does not mean that the user would be barred from defending itself with, in addition to the competition law defence (on the basis of its unconditional offer), arguments concerning the existence and infringement of the IPR in question, in the event that the rightholder does not accept its licence offer⁴⁷ (if it does, the IP action loses its justification anyway). An unconditional offer is only a prerequisite for the competition law defence, which is one of a number of equitable defences that can be raised. The fact that the defendant pre-eminently attacks the existence of the IPR or challenges every use of it does not preclude its right to raise the competition law defence in the alternative. Nor does such a two-lane defence appear to be contradictory and therefore in breach of the principle of good faith⁴⁸. Companies can - even if they do not have a competition law claim to a licence - have a legitimate interest in concluding a licence contract as a precaution, even if they harbour considerable doubts about their infringement of any IPR. In particular, a licence acquired as a precautionary measure ensures the immediate lawful use of a third party's invention or work. The licence eliminates the significant risk of an abrupt prohibition of a business that is based on the use of somebody else's creation through an IP injunction. After the conclusion of a licence contract the licensee can take its time to ask a court to review whether it actually infringes any IPR of the licensor and therefore requires a licence at all. Just as it is permissible for rightholders to file an action for IP infringement rather than accepting a licence offer, defendants should also have the option to defend themselves directly against the IPR, in addition to resorting to the competition law defence.

(c) Conditions Subsequent

While a licence offer that contains a condition precedent does not suffice for the compulsory licence defence under competition law, a condition subsequent in the case that a court determines that the IPR does not exist or is not infringed by the user, should not exclude the defence⁴⁹. Such conditions are not unusual. Rightholders also have to accept them outside of competition law disputes. In economic terms, the condition equates to a licensee's right to terminate the licence in the event of the extinction of the IPR covered by the contract, which is widely recognised.

⁴⁷ The contrary has been suggested by N Kiani and H Springorum, "Aktuelles aus dem Bereich der 'Patent Litigation'" (2010) *Mitteilungen der deutschen Patentanwälte* 6, 8-9.

⁴⁸ Cf *ibid.*, 9.

⁴⁹ Kellenter, *supra* n 24, 212.

4. Anticipatory Performance of the Contract Offered?

(a) View of the German Federal Supreme Court

The German Federal Supreme Court held that a defendant can only raise the competition law defence to the application for an injunction if, in addition to having made an unconditional, readily acceptable licence offer to the rightholder, which the latter cannot refuse, the defendant also behaves as if the rightholder had already accepted its offer⁵⁰. This means that in order to rely on the competition law defence the party seeking a licence must, first, render regular accounts about the extent of its acts of use and, second, comply with the payment obligations resulting from the statement of accounts⁵¹. However, instead of making actual payments to the rightholder, the party seeking a licence may also deposit a sufficient fee in an escrow account which will be transferred to the rightholder at a later date and thus safeguards the defendant's interests in case a court subsequently finds that the IPR is not in fact infringed⁵².

This requirement of an "anticipatory performance" of the contract offered by the user has been the most intensively disputed part of the Federal Supreme Court's *Orange-Book-Standard* decision. The Court based its finding on three arguments. Firstly, the Court points to the fact that if the defendant had actually succeeded in its intent to conclude a licence agreement in the first place, it would not only be entitled to use the IPR, but would also have to pay the contractual consideration. A party seeking a licence who, prior to his licence offer being accepted, commences using the protected object in dispute may not merely anticipate its contractual rights but must also perform his contractual obligations.

Secondly, the Court argues that because of the relationship between use and payment a rightholder does not infringe the principle of good faith if it asserts claims on the basis of its IPR against anyone who, although claiming a right to use the IPR, fails to pay the consideration that a licensee would have been obliged to pay under a normal licence contract.

Third, and equivalent to the argument raised by the Dutch Court The Hague in *NL-Philips v. SK Kasetten*⁵³ under Dutch law (see *supra*, section B 1 (b)), the Federal Supreme Court referred to the fact that pursuant to German copyright law even a valid claim to a compulsory licence does not bar the copyright owner from filing an action for an injunction. Even a copyright holder that is obliged to grant a licence under copyright law would only have to do so subject to the payment of a fee. Accepting a compulsory licence defence under competition law without any requirement of ongoing payment would thus leave the rightholder worse off than would a compulsory

⁵⁰ *Orange-Book-Standard*, *supra* n 17, 319.

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ *Supra* n 13.

copyright licence, since it would have to assert its claim to payment subsequent to the acts of use instead of being able to grant consent to the use subject to a fee.

In addition, it could be argued that the requirement of an anticipatory licence performance by the defendant also protects rightholders from any "abuse with the abuse" on the part of defendants, since the requirement reduces the risk that IP lawsuits are artificially inflated or delayed with competition law arguments, even though the defendant is not really serious about its request for a licence.

However, even in light of all these arguments, the author is not convinced that the requirement of anticipatory performance as endorsed by the Federal Supreme Court and welcomed by some commentators⁵⁴ is in fact necessary and proportionate for the protection of the interests of rightholders. In the author's view the requirement should be abandoned for the following reasons elaborated below.

(b) Limited Protection of Rightholders through Anticipatory Performance

The greatest risk for a rightholder is that third parties could use the protected subject matter at their own initiative without prior informed consent and/or without willingness to negotiate a licence contract. The requirement of anticipatory performance, i.e. that the defendant must have deposited licence fees even before a contract was concluded, would only reduce this risk, if payment were to be demanded immediately, commencing from the date of the user's knowledge of the existence of the IPR and its illegal use⁵⁵. Yet even the Federal Supreme Court does not call for such an early start of the payments - for good reason. For a competition law defence to be successful and an injunction to be dismissed, it is sufficient, at least under German civil procedure law, if the conditions of the defence are fulfilled during the course of the pending IP proceedings⁵⁶. Consequently, alleged infringers may still wait until the rightholder files an action for injunction against them before they make an unconditional licence offer and deposit licence fees in order to validate a competition law defence and make the action void. In this case, a user may still have to bear the plaintiff's legal costs, but it would be spared a final injunction. Because this option allows users to sit back and wait for a court filing before they start to deposit any fees, the requirement of anticipatory performance does not significantly contribute to the protection of rightholders against concealed use of their IPRs.

⁵⁴ P Tracy and S Lawrance, "Doing Things by the (Orange) Book: How to Avoid an Injunction for Unlicensed Use of Standard/Essential Patents" (2009) 4 *Journal of Intellectual Property & Practice* 607-9; P Tracy and H Hopson, "Rules of the Orange Book" (2010) 218 *Patent World* 12-4; Hötte, *supra* n 6, 174, 199; Kellenter, *supra* n 24, 220, 222; Jestaedt, *supra* n 44, 805.

⁵⁵ This was suggested by for instance Nägele and Jacobs, *supra* n 44, 1072; Maume and Tapia, *supra* n 24, 924.

⁵⁶ Düsseldorf Court of Appeal, *supra* n 6, para 148.

(c) *Sufficient Protection through Damage Claims*

In effect, the requirement of anticipatory performance merely protects the rightholder from having an injunction fail on the grounds of a competition law defence while not yet having secured any payment of a licence fee in the absence of a licence contract.

However, in this respect, however, no further protection of rightholders is actually required. With regard to acts of use prior to the accrual of the user's competition law claim to a licence (that is for the period until the user has first requested a licence (see *supra*, section C 2 (a)), the rightholder is entitled to full compensation under an IP law based claim for damages. For all uses after the accrual of the counterclaim, the rightholder can still claim damages amounting to the sum which would have been due as usual licence fees if the defendant had been granted authorisation to use the IPR in question. This applies even if, after the licence request (and a possible dismissal of the action for injunction), no licence agreement is concluded. This follows from the fact that if an unlicensed user of an IPR does not pay any royalty, the rightholder is entitled to of damages (amounting to a reasonable licence fee), even if the user is entitled to the grant of a licence under competition law⁵⁷.

Since rightholders can claim a reasonable licence fee via IP litigation at any time, even if no contract has (yet) been concluded and the user is entitled to a licence under competition law, it does not appear necessary to further strengthen the position of rightholders through the requirement of an anticipatory licence performance for the competition law defence to be raised against a claim for injunction. Admittedly, if the only remedy available to rightholders were damages, they would find it more difficult to persuade users to conclude licences on terms which assure reasonable income streams⁵⁸. However, this consequence of admitting a competition law defence is already outweighed by the prerequisite that in order to raise the defence the defendant must have made a readily acceptable licence offer on reasonable terms. As a consequence of this condition, an anticipatory licence performance does not provide any significant additional advantage to the licensor as compared to its existing damage claim.

If the only remedy available to rightholders were damages (because a competition defence bars an injunction), they would be worse off than with anticipatory licence performance only in so far as they could (and should) only claim payment *ex-post* after the acts of use, instead of obtaining a fee from the very start of the use of their IPR. The fact that damages can only be claimed after the acts of use can make a considerable difference, particularly if the user becomes insolvent in the meantime. This disadvantage was central to the (contrasting) findings of the Dutch Court The Hague⁵⁹ and the German Federal Supreme Court⁶⁰. The courts pointed out that admitting the competition law defence against injunctions could worsen the legal position of rightholders because normally the

⁵⁷ Ullrich, *supra* n 4, 344. In Germany this was confirmed by the Federal Supreme Court in *Standard-Spundfass*, *supra* n 2, 82.

⁵⁸ P Treacy and S Lawrance, *supra* n 54, 607.

⁵⁹ *Supra* n 13.

⁶⁰ *Supra* n 17.

latter could make the granting of a licence conditional on the acceptance of a licence fee. That condition would guarantee the rightholder a contractual payment claim for any use of its IPR that he could immediately enforce in court. In contrast, if the competition law defence were admitted without any requirement for ongoing payment, it is feared that the rightholder would always have to "chase after" the user with its damage claim in order to receive remuneration *after* use has been made of its IPR⁶¹. In addition, claims for damages could also fall short of contractual payment claims since the former require *inter alia* evidence of the length and intensity of use, while in the case of a licence contract, the amount of the payment due would be clear from the outset⁶². For these reasons the Dutch Court rejected the competition law defence *per se*, whereas the Federal Supreme Court, while accepting the defence in principle, tried to offset the disadvantages following from it for rightholders (ex-post assertion of payment claim) by requiring that the defendant deposit the licence fees it would owe under a licence contract.

However, upon closer examination, rightholders can actually be expected to accept the aforementioned disadvantages of their remaining damages claims as compared to a contractual payment claim⁶³.

It must not be overlooked that the rightholder itself has the full and sole power to create the conditions for an immediate contractual payment claim: All it has to do is fulfil its competition law obligation and accept the unconditional, reasonable and readily acceptable licence offer, which the defendant must submit in any case, according to the first formal requirement for the competition law defence (see *supra*, section C 2). If the rightholder does not agree with the defendant's offer, it can and must put forward its own counteroffer with conditions that do suit its interests. If the terms of this counteroffer are within the limits set by competition law, the allegation of abuse and thus the basis for the competition law defence would collapse and the IP injunction would have to be granted. That applies irrespective of whether the defendant subsequently accepts the rightholder's counteroffer or not.

Considering that the dominant rightholder can both obtain an ex-ante payment claim and eliminate the competition law defence by simply accepting a competitive licence offer or by making a reasonable counteroffer itself, which it is anyway obliged to do under competition law, there is no reason why the rightholder should, on top of that, be guaranteed actual performance of the disputed contract in an amount that is in any event sufficient⁶⁴. If the competition law defence required the defendant to deposit the highest royalty amount that the rightholder could claim under competition law, there would be little incentive left for dominant rightholders to comply with their competition law obligations by offering a licence on usual terms voluntarily. In many cases, they could expect higher payments from filing an action for injunction in order to put pressure on the unlicensed user to make a licence offer and to deposit the maximum admissible licence fee.

⁶¹ Jaecks and Dörmer, *supra* n 12, 108; P Treacy and S Lawrance, *supra* n 54, 607.

⁶² Kellenter, *supra* n 24, 208.

⁶³ S Barthelmeß and N Gauß, "Die Lizenzierung standardessentieller Patente im Kontext branchenweit vereinbarter Standards unter dem Aspekt des Art. 101 AEUV" (2010) *Wirtschaft und Wettbewerb* 626, 634; Kühnen, *supra* n 6, 523-4.

⁶⁴ In case of doubt as to the amount owed the German Federal Supreme Court recommends to deposit an amount "which, in any event, is sufficient", *Orange-Book-Standard*, *supra* n 17, 322.

It seems as if the German Federal Supreme Court, when delineating its second formal requirement (anticipatory performance), was not aware yet of the full scope of its first condition (unconditional, reasonable and readily acceptable licence offer). By making not just any offer suffice for a competition law defence, but demanding that the defendant offer a clear contract on terms which the rightholder cannot reject without infringing the prohibition on abusive conduct, rightholders are already adequately protected from insincere licence requests and delays in subsequent contract negotiations. Further protection is not needed. The criterion of anticipatory performance only creates unnecessary problems and legal uncertainty. That is true in particular regarding the amount to be deposited where no data is available on the value of the IPR and with respect to the redemption in case the licence contract is not concluded or it turns out that the defendant has never infringed any IPR. More seriously, the possibility of anticipatory performance may also send out the wrong message. Users may assume that the deposit of a licence fee is sufficient to legalise the pre-contractual use of an IPR. This is likely to lower inhibitions against such use even further⁶⁵, although cases in which licences have to be granted for competition law reasons are rare. This may well turn the protection for rightholders as intended by the Federal Supreme Court on its head.

(d) Injunctions Solely to Enforce Payment May Contradict the Principle of Good Faith

The Federal Supreme Court argued that a rightholder was not infringing the principle of good faith as the dogmatic basis for the competition law defence⁶⁶, if it asserts IP claims against a user who, although claiming a right to use the IPR, fails to pay the consideration that a licensee would be obliged to pay⁶⁷. However, this argument is also unconvincing. The finding might be true in relation to a claim for *damages*. However, the filing of an action for *injunction* does contradict the principle of good faith if the plaintiff is obliged to grant a licence and the user has merely not paid yet (due to lack of a contract), but is willing and able to do so. After all, with an injunction the plaintiff is seeking a much harsher while at the same time less adequate remedy than damages in order to enforce a purely monetary interest rather than a legitimate claim not to use its IPR. Where a rightholder is under an obligation to grant a licence, it is clear that it must ultimately allow use of its protected object. Thus, with an action for injunction the rightholder cannot pursue any interest other than to obtain royalties. But this particular goal can in fact not be achieved through an injunction as it does not secure any payment. Therefore, an action for injunction may already be in bad faith in terms of proportionality, since with its damage claim the rightholder has a milder but more effective remedy at hand to enforce its monetary interests. In any case, an action for injunction can infringe the *dolo-petit*-rule as manifestation of the general principle of good faith (see *supra*, section B 2 (c)). Although the user has not paid any licence fees so far, this does not change the fact that the rightholder, with its

⁶⁵ D Hötte, "Anmerkung zu Orange-Book-Standard" (2009) *Multimedia und Recht* 689, 690.

⁶⁶ See *supra*, section B 2 (c).

⁶⁷ *Orange-Book-Standard*, *supra* n 17, 318.

demand to refrain from use, is requiring something it must return immediately in the form of the grant of a licence if the user is entitled to a licence under competition law. The actual payment of the fee is only the *consequence* of a licence contract but is not required for its completion. Just as even a dominant rightholder does not have to offer a licence at its own initiative, a party seeking a licence does not have to pay any fees at its own initiative. For this reason, a user cannot be denied the *dolo-petit*-defence on the grounds that, as long as it is not paying, it itself is acting in breach of contract.

5. Interim Result

As an interim result it can be concluded that for the competition law defence to be raised it does not suffice that the defendant has a substantive counterclaim to a licence under competition law. In addition, the defendant must have submitted an unconditional, reasonable and readily acceptable licence offer containing terms which the rightholder could not reject without infringing competition law. However, IP courts need not go so far as to also require anticipatory performance of the intended licence contract. In particular the payment of fees which the defendant would owe if its licence offer were accepted does not appear necessary for the protection of the legitimate interests of rightholders.

D. CONSEQUENCES OF A LEGITIMATE COMPULSORY LICENCE DEFENCE

As for the legal consequences of a legitimate competition law defence, a distinction must be made between the period until the defendant's licence (counter-) claim first accrued and the period until the defendant submitted an unconditional, reasonable and readily acceptable licence offer to the plaintiff.

Subject to the domestic rules on private enforcement, a user typically obtains a claim to a licence under competition law only at the moment at which the user is personally affected by the dominant rightholder's refusal of a licence. That usually follows from the fact that the user has personally requested a licence. With regard to all acts of use prior to such request, the infringer is liable to the full amount of damages as provided for in Article 13 of Directive 2004/48/EC on the enforcement of IPRs⁶⁸, including for any loss of profit or any moral prejudice. For those early acts of use the court may also issue an order for delivery of infringing goods and for an account of profits.

⁶⁸ Directive 2004/48 EC [2004] OJ L 195/16.

During the period from the accrual of the licence claim until the submission of an unconditional, reasonable and readily acceptable offer that fulfils all formal requirements for a competition law defence, the user can still be subjected to an injunction. The user can, however, claim compensation for any losses suffered from an injunction on the basis of its own competition law claim for damages as a result of the rightholder's abusive non- or delayed granting of a licence. Furthermore, from the moment the competition law claim for a licence accrues, the user is not liable for full damages anymore but only, required to pay the usual, reasonable licence fee (see *supra*, section C 4 (b)).

Once the user has submitted an offer complying with all formal requirements of the competition law defence, an injunction against him must be dismissed. Likewise, due to the lack of any damage, there also cannot be any claim for compensation. Both are true regardless of whether or not the rightholder accepts the defendant's licence offer.

E. CONCLUSIONS

For reasons of judicial economy and in order to protect victims of abusive conduct from IP injunctions, a defendant against whom an action has been filed on the basis of infringement of an IPR should be allowed the defence that the rightholder is abusing a dominant position by refusing to conclude a licence contract on fair and reasonable terms with the defendant. However, this compulsory licence defence should not be based on the assumption that the enforcement of a claim to an injunction in itself constitutes an abuse of dominance. The defence should rather be based on the so-called *dolo petit* principle, according to which it infringes the principle of good faith (in the form of an abuse of rights) as recognised in European contract law, if a rightholder claims injunctive relief despite the fact that it would be obliged to grant a licence under competition law.

The fact that a rightholder has abusively refused to grant a licence is a necessary (and in fact the most important) but not the only prerequisite for successfully raising such a competition law defence. In addition, the defendant must have made an unconditional offer to the rightholder to conclude a licence contract to which the defendant remains bound and which the rightholder cannot refuse without infringing the prohibition on abusive conduct, in particular on discrimination and exploitation. The defendant's offer must be in final form and ready for acceptance, so that a simple "yes" on the part of the rightholder would result in a valid contract that covers all essential points. With respect to the licence fee, however, it is sufficient for the defendant to offer the licensor specification of the amount of the fee at its equitable discretion (which may then be subject to judicial review in a separate court proceeding).

Further prerequisites do not appear necessary for the protection of the legitimate interests of rightholders. In particular the admissibility of the compulsory licence defence under competition law should not depend on whether the defendant has also anticipated the obligations stipulated in the intended licence contract by submitting

regular accounts regarding the extent of its use and paying the licence fees which became due as a result of such use. Such requirement, as suggested by the German Federal Supreme Court, causes both unnecessary uncertainty and legal disputes without providing any significant additional protection for the rightholder.