

Bird & Bird & Selection of recent court decisions affecting IP licensing in Europe



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Introduction

- **Recent court decisions at EU-level**
 - Software protection and exhaustion
 - Online e-books sales
 - Patent licenses and competition law issues
 - Trademarks and selective/exclusive distribution
- **Recent EU legislative developments**
 - Copyright and the "best-seller" clause



Bird & Bird & Recent court decisions at EU-level

UsedSoft (C-128/11) - CJEU - 2012

Exhaustion and legal protection of computer programs

Clause: *"With the payment for services, you receive, exclusively for your internal business purposes, for an unlimited period a non-exclusive non-transferable user right free of charge for everything that X develops and makes available to you on the basis of this agreement."*

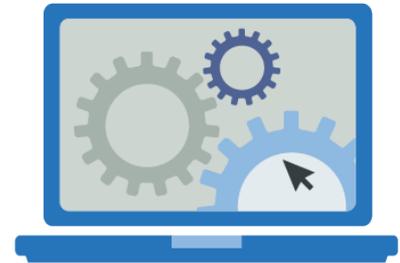
Issue: is the distribution right of a copy of a computer program exhausted where the acquirer has made a copy, with the right holder's consent, by downloading the program from the internet?

Response: yes, downloading a software & entering into a license agreement granting the right to use the copy for an unlimited period in return for payment of a fee = a sale → **exhaustion**

Conclusion: Clause ≠ effective

Lessons drawn

Next: Tom Kabinet, C-263/18 : digital exhaustion of e-books?



Tom Kabinet (C-263/18) – CJEU - 2019

Online e-books sales



Online service consisting in a virtual market for ‘second-hand’ e-books

Issue: does the supply of an e-book, by downloading and for permanent use, qualify as a communication to the public or as a distribution to the public?

Response: Dir. 2001/29 → intangible medium → communication to the public → no exhaustion

Difference with UsedSoft:

- Dir. 2009/24 (lex specialis) does not distinguish between immaterial and material copies
- Exhaustion of distribution right also encompasses immaterial copies

Economics

Conclusion: copyright holders do not lose the right to control subsequent exploitation of their content over the internet

Genentech (C-567/14) – CJEU - 2016

Patent royalties due when patent is revoked or not infringed

Clause: *"Licensee shall pay a running royalty for the duration of the agreement, equivalent to X% of the net sales of the finished products by licensee."*

Issue: what in the event of the revocation or non-infringement of the licensed patent?

Contrary to art. 101(1) TFEU? (prohibition of agreements that could constitute restrictions to competition)

Response: no, provided that the licensee has the right to terminate the agreement by giving reasonable notice

Rationale

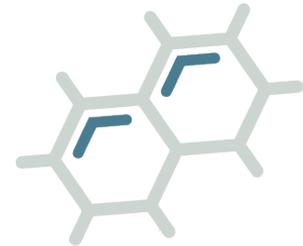
Conclusion: Clause = effective

Lessons drawn



GSK (C-307/18) – CJEU – 2020 - reverse payments/pay-for-delay

- Agreements between originators and generics to postpone generic entry on the market and share monopoly rents likely violate competition law where reverse payments occur (originator to generic) **without** justifiable explanation.
- Reverse payment settlements are capable of being contrary to **both** :
 - Article 101(1) TFEU (prohibition of agreements that could constitute restrictions to competition) and
 - Article 102 TFEU (abuse of dominance)
- What to include in the “relevant market”?
- Case now reverts to UK Competition Appeal Tribunal



GSK (C-307/18) – CJEU - reverse payments/pay-for-delay

- When is a restriction likely to be considered "by object"?

*Where the value transferred (pecuniary/non pecuniary) is such that there is **no explanation other than** the commercial interest of the parties not to engage in competition on the merits, **unless** the parties can prove **sufficient pro-competitive effects** to give rise to reasonable doubt that there is a sufficient degree of harm to competition.*

*Not sufficient to argue that there is a **genuinely uncertain dispute** or that the settlement is within the scope of the patent rights.*

- When are generics considered "potential competitors"?

*Generic companies can be "**potential competitors**" provided they have a **firm intention** to enter the market and do not face **insurmountable barriers**. **Interim injunctions are not insurmountable** and the scale of a reverse payment is indicative of potential competition.*

Patent settlement agreements – how to avoid antitrust risk...

- Competition law compliance check prior to signature
- If possible, eliminate transfers of value from originator
- It is not the job of competition authorities to assess strength or weakness of any patent dispute between the parties
- Provide strong quantifiable evidence of consumer welfare efficiencies
- "Reverse payment settlement" strategy may be an abuse of dominance
- Grey zones remain
- GSK has prepared the way...now awaiting other CJEU appeals : Servier (C-176/19P) and Lundbeck (C-591/16P)

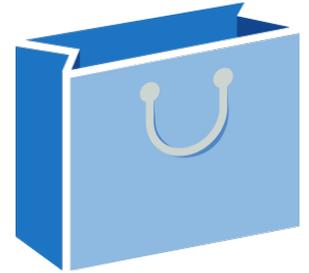
Coty (C-230/16) – CJEU - 2017

Selective distribution and online market restrictions

Prohibition to authorized distributors in a selective distribution system of luxury goods from using – in a discernable manner – third-party platforms for the internet sale of the contract goods, in order to preserve the luxury image of the contract goods.

- Restriction of competition pursuant to art. 101(1) TFEU?

NO,
lawful if *Metro* (C-26/76) criteria are met



- Conclusion: Clause = effective
- Marketplace bans
- Scope of the decision: only luxury products? Other restrictions in online environment?
- Review of Vertical Block Exemption Regulation

Reviewing distribution agreements: spot check

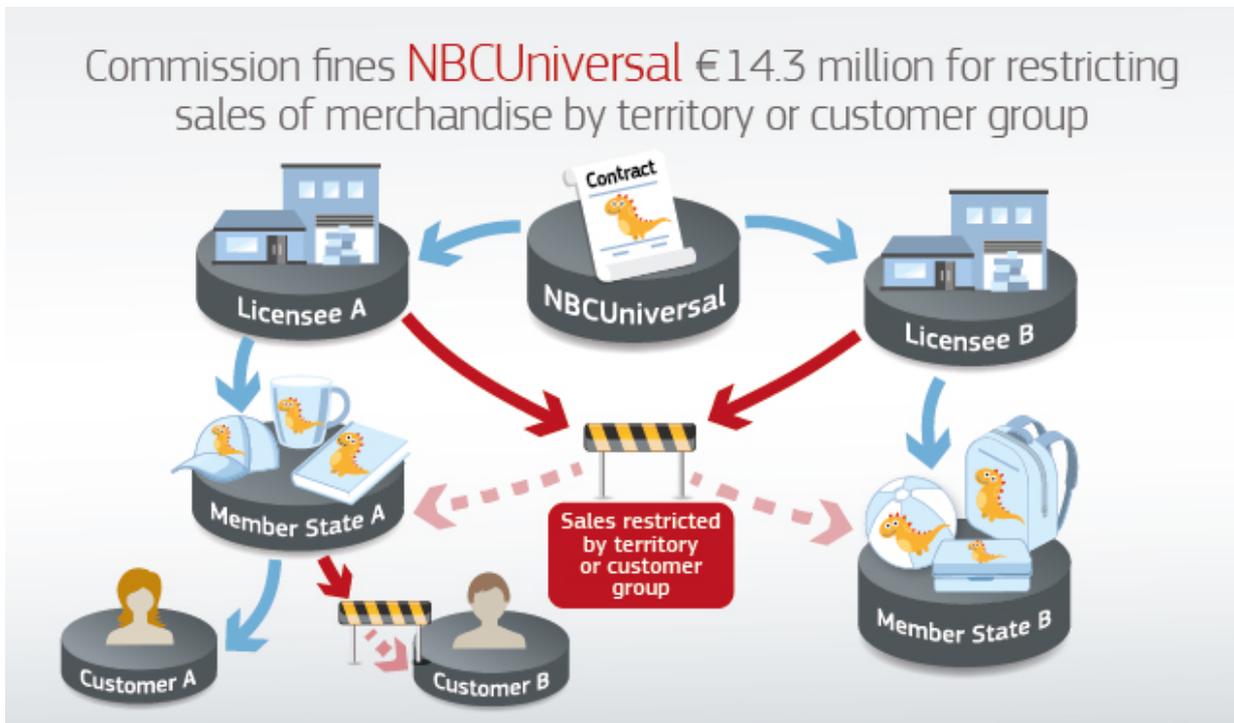
"This is the third decision dealing with sales restrictions on licensed products sold across Europe. Universal's strategy to prevent traders from selling licensed products across customer groups and countries is against EU antitrust rules. Such sales restrictions undermine the very foundations of the EU Single Market and cannot be tolerated."

Commissioner Margrethe Vestager, in charge of competition policy

National competition authorities also fining for cross-border and online restrictions [Golf clubs, chain saws, bikes...]

Fines for film merchandising cross-border restrictions

Follows EU settlement cases Nike (2019 - € 12.5m) Sanrio "Hello Kitty" (2019 - €6.2)



Bird & Bird & Recent EU legislative developments

"Best-seller" clause - new Copyright directive – art. 20

In light of Dutch and Polish case law

- **Mandatory** adjustment mechanism at EU level when a remuneration turns out to be *disproportionally low* compared to all the subsequent relevant revenues
- Author's right to **claim** additional, appropriate and **fair** remuneration
- **No derogation possible** by means of a contract
- Consequences: remuneration accepted by contract might change during the exploitation of the work
- Uncertainties



Bird & Bird & Thank you

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Background slides – CJEU Judgments

- [Genentech, C-567/14](#)
- [Generics \(UK\) C-307/18 \(UK preliminary reference\)](#)
- [Lundbeck \(C-591/16P\) pending](#)
- [Servier \(C-176/19 P\) pending](#)
- [UsedSoft \(C-128/11\)](#)
- [Tom Kabinet \(C-263/18\)](#)
- [Coty \(C-230/16\)](#)
- [Metro \(C-26/76\)](#)



Background slides – Legal provisions

Art. 101 TFUE

1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- (b) limit or control production, markets, technical development, or investment;
- (c) share markets or sources of supply;
- (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (e) make 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.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings,
- any concerted practice or category of concerted practices,

which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

- (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
- (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Art. 2 & 4 Vertical Block Exemption Regulation ("VBER")

Article 2 VBER : Exemption

1. Pursuant to Article 101(3) of the Treaty and subject to the provisions of this Regulation, it is hereby declared that Article 101(1) of the Treaty shall not apply to vertical agreements.

Article 4, b) and c) VBER : Hardcore restrictions

The exemption provided for in Article 2 shall not apply to vertical agreements which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object: (...)

(b) the restriction of the territory into which, or of the customers to whom, a buyer party to the agreement, without prejudice to a restriction on its place of establishment, may sell the contract goods or services, (...)

c) the restriction of active or passive sales to end users by members of a selective distribution system operating at the retail level of trade, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorised place of establishment; (...)

Guidelines say online sale ban = passive = hardcore restriction (not exempted)

Art. 4 Software Directive

1. Subject to the provisions of Articles 5 and 6, the exclusive rights of the rightholder within the meaning of Article 2 shall include the right to do or to authorise:
 - (a) the permanent or temporary reproduction of a computer program by any means and in any form, in part or in whole; in so far as loading, displaying, running, transmission or storage of the computer program necessitate such reproduction, such acts shall be subject to authorisation by the rightholder;
 - (b) the translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof, without prejudice to the rights of the person who alters the program;
 - (c) any form of distribution to the public, including the rental, of the original computer program or of copies thereof.
2. The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.

Art. 31 TRIPS

Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

- a) authorization of such use shall be considered on its individual merits;
- b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;
- c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;
- d) such use shall be non-exclusive;
- e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;
- f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;
- g) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

Art. 31 TRIPS

Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

- h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;
- i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
- j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
- k) 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 authorization if and when the conditions which led to such authorization are likely to recur;
 - l) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:
 - i. the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;
 - ii. the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and
 - iii. the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.

"Best-seller" clause

- [Directive 2019/790 on copyright and related rights in the Digital Single Market](#)

Article 20

Contract adjustment mechanism

1. Member States shall ensure that, in the absence of an applicable collective bargaining agreement providing for a mechanism comparable to that set out in this Article, authors and performers or their representatives are entitled to claim additional, appropriate and fair remuneration from the party with whom they entered into a contract for the exploitation of their rights, or from the successors in title of such party, when the remuneration originally agreed turns out to be disproportionately low compared to all the subsequent relevant revenues derived from the exploitation of the works or performances.
2. Paragraph 1 of this Article shall not apply to agreements concluded by entities defined in Article 3(a) and (b) of Directive 2014/26/EU or by other entities that are already subject to the national rules implementing that Directive.