Q&A: IP rights in competition in Germany

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Competition

Competition legislation

What statutes set out competition law?

The Act on Restraints on Competition (GARC) contains the substantive rules on cartels, abuse of market dominance, merger control and public procurement. It features civil law claims to remedies for parties infringed by anticompetitive behaviour and bestows the Federal Cartel Office (FCO) with the competence to investigate markets and sanction anticompetitive behaviour.

At EU level, articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU) are the focal provisions of competition law. Articles 101 and 102 are flanked by many Commission Regulations and Commission Guidelines, setting out how EU antitrust law is to be applied in practice. The last revision of the GARC, implementing the provisions of the ECN+ Directive (Directive (EU) 2019/1), entered into effect in January 2021.

The GARC provisions have been widely harmonised with EU competition law (eg, sections 1ff of the GARC correspond to article 101 of the TFEU and sections 19ff of the GARC correspond to article 102 of the TFEU).

In cases that could potentially affect trade between EU member states, the FCO and civil courts will decide based on EU competition law provisions. At the time of writing, this is likely to be the majority of cases involving competition law matters.

The FCO regularly publishes investigation status reports and decisions on mergers and abuses of dominance, as well as guidelines on how the FCO will assess relevant product markets. Decisions and guidelines are available from the FCO website.

IP rights in competition legislation

Do the competition laws make specific mention of any IP rights?

The GARC does not specifically address IP rights. However, the new section 18 (III 3) of the GARC, which took effect in January 2021, provides that possession or exclusive access to certain 'data' may be considered when assessing if an undertaking is market-dominant. Likewise, the new section 19 (II 4) of the GARC stipulates that 'data' may qualify as an 'essential facility' that is indispensable to access a certain product or service market, so that denying access to this data based on fair, reasonable and non-discriminatory (FRAND) terms may amount to an abuse of market dominance. Also, German courts regularly consider patents that must be practised when a technical standard is applied (SEPs) as an 'essential facility' to access a downstream product or service market in the sense of section 19 (II 4) of the GARC; see, for instance, the decisions of the Federal Supreme Court (FSC) in the *Sisvel v Haier* cases ((FSC) case IDs: K ZR 35/17, K ZR 36/17).

On the EU level, Regulation (EU) No. 316/2014, exempting certain agreements on technology transfer from the cartel prohibition of article 101(1) of the TFEU (the Technology Transfer Block Exemption Regulation), is specifically directed to agreements involving IP. Regulation (EU) No. 316/2014 applies to agreements involving the assignment and licensing of patents, utility models, designs, rights to software and technical know-how. Regulation (EU) No. 1217/2010, exempting certain categories of agreements of research and development (R&D Block Exemption Regulation), and Regulation (EU) No. 330/2010, exempting certain vertical agreements from the prohibition of article 101(1) of the TFEU (Vertical Block Exemption Regulation), are equally relevant for agreements involving IP rights.

Review and investigation of competitive effects from exercise of IP rights

Which authorities may review or investigate the competitive effect of conduct related to exercise of IP rights?

The FCO is competent to enforce German antitrust law. In accordance with EU Regulation 1/2003 (Regulation on the implementation of articles 101 and 102 of the TFEU), the FCO will apply the provisions of EU competition law where national cases are likely to affect trade between EU member states. The FCO may start investigations of specific market sectors. It has the power to seize information and material, order undertakings to stop anticompetitive behaviour and fine infringers. Mergers and acquisitions are reviewed by the European Commission if the turnover thresholds of Regulation 139/2004 (Merger Control Regulation) are met. Below these thresholds, the FCO will assess, clear or prohibit mergers on a national level.

The Court of Appeals in Düsseldorf has exclusive competence to handle appeals against decisions of the FCO. A further appeal to the FSC on grounds of law is possible.

It is expected that Council Directive (EU) 2019/1, empowering the national competition authorities to enforce competition law rules more effectively, will foster harmonisation of competition law enforcement across EU member states, particularly as regards the standards of imposing sanctions and fines on non-compliant entities.

Competition-related remedies for private parties

Can a private party recover for competition-related damages caused by the exercise, licensing or transfer of IP rights?

Section 33 of the GARC provides competitors and other market participants affected by anticompetitive behaviour with a claim for injunctive relief. Section 1 of the GARC and articles 101 and 102 of the TFEU, in connection with section 134 of the German Civil Code, provide that an anticompetitive agreement is void *ab initio*.

Under section 33a of the GARC, a private party may claim damages caused by the anticompetitive exercise of the transfer of IP rights. In refusing to license cases, the claim to damages can take the form of a claim to a licence on FRAND terms.

Having acknowledged that establishing personal damage from anticompetitive behaviour often proves difficult in practice, Germany has introduced a class action for a declaratory judgment on damages. In a string of decisions, the FSC has also made it easier to prove that anticompetitive behaviour, such as fixing prices and conditions or limiting output, resulted in a financial loss on the part of the aggrieved party (see FSC decisions with case IDs: K ZR 20/20; K ZR 35/19; K ZR 63/18; K ZR 24/17). A number of actions, where bundled claims for cartel damages are asserted against members of price cartels, are currently pending before German courts.

Competition guidelines

Have the competition authorities, or any other authority, issued guidelines or other statements regarding the overlap of competition law and IP?

To date, the FCO has not published specific guidelines on IP. However, the FCO will apply the Commission Guidelines in the field of competition law. The guidelines on technology transfer agreements (OJ 2014 C89/3) and on vertical restraints (OJ 2010, C130/1) include detailed guidance on how articles 101 and 102 of the TFEU are to be applied to cases involving IP.

Moreover, the FCO publishes annual reports on its activities. These reports involve case studies showing the FCO's approach towards investigating potentially anticompetitive conduct, as well as the markets and sectors in which the FCO is currently focusing its work.

Exemptions from competition law

Are there aspects or uses of IP rights that are specifically exempt from the application of competition law?

No. While the Court of Justice of the European Union (CJEU) recognises the IP owner's right to exclude third parties from use as the distinctive feature or 'specific subject matter' of IP rights (CJEU, docket C-267/95 – *Merck*; CJEU, docket C-170/13 – *Huawei/ZTE*), the exercise of IP rights in general will be subject to review by the competition law authorities, particularly where the IP holder is dominant in the respective markets. However, when applying competition law, antitrust authorities and civil courts are required to take the specific characteristics of IP rights into account.

Copyright exhaustion

Does your jurisdiction have a doctrine of, or akin to, 'copyright exhaustion' (EU) or 'first sale' (US)? If so, how does that doctrine interact with competition laws?

Yes. The doctrine of copyright exhaustion is stipulated in section 17(2) of the Copyright Act (GCA) and specifically codified for computer programs in section 69c(3) of the GCA. The exhaustion principle is an overarching concept of EU and national IP law: if a product is put on the market under the control and with the consent of the IP owner, the rights under the IP are exhausted for that specific product item. Accordingly, the IP owner may not prohibit the onward sale of this product item within the European Economic Area (EEA) (the EU, Norway, Iceland and Liechtenstein).

In contrast to the US 'first sale' concept, the EU principle provides for EEA-wide exhaustion only. This allows rights owners to establish dedicated distribution systems for EEA and ex-EEA markets and use their IP rights to keep products out of the EU. However, rights owners should be aware that products labelled with the CE mark (an indication of compliance with pertinent EU regulations) may be considered to indicate that the IP owner expects and tacitly consents to the marketing of the product item in the EU (Düsseldorf Court of Appeals, docket I-15 U 68/15).

The CJEU has made significant rulings with respect to the 'exhaustion of copyrights'. In the *UsedSoft* case, the CJEU held that the owner of rights to a software program cannot prohibit the buyer, who has downloaded the program from a link provided by the rights owner, from reselling its copy of the software to a third party, as the rights to the originally downloaded copy have exhausted with the first sale. The copyright holder may, however, oblige the buyer or reseller to delete all remaining copies of the software code at his or her end (CJEU, docket C-128/11, *UsedSoft III*).

According to a recent CJEU decision, this would not apply to e-books downloaded from a platform of the copyright holder. E-books are different from paperback books and software programs; if the rights to an electronic copy of an e-book are exhausted with the first download, the legitimate interests of the copyright holder are more seriously affected (CJEU, docket C-263/18, *NUV v Tom Kabinet*). It is suggested that the same applies to downloaded music files.

Import control

To what extent can an IP rights holder prevent 'grey-market' or unauthorised importation or distribution of its products?

Given the principle of EEA-wide exhaustion of IP rights, the IP holder has limited options to prevent the unauthorised distribution of its products once they have been marketed in the EEA with its consent. However, article 15(2) of the EU Trademark Directive and section 24(2) of the Act on Trademarks and Signs (TMA) provide for exemptions from the exhaustion of rights under a trademark, if the trademark owner has 'legitimate reasons' to object to the further distribution of its products. Legitimate reasons may be given where the branded product has been modified after the first sale or marketed under detrimental conditions to the functions and reputation of the trademark. Based on the 'change of product' objection, the CJEU and the FSC have developed detailed standards for the relabelling and repacking of branded pharmaceutical products for re-imports from other EU countries. Thus, re-importing repacked products can be prohibited under certain conditions, based on section 24(2) of the TMA (eg, where the original labelling or packaging has been impaired).

With respect to the 'grey market' or parallel imports of branded goods, where the alleged trademark infringer claims to source the goods from a licensed supplier, while the trademark owner maintains a selective distribution system in the EEA area, forbidding the sale to commercial dealers outside of the system, the FSC has ruled that the trademark owner must prove that the branded goods do not originate from a licensed source within the EEA area. Otherwise, the alleged infringer would have to disclose its supplier, which would enable the trademark owner to close the gaps in his or her distribution system (FSC, case ID: I ZR 147/18 - *cross-supplies in selective supply systems*).

Given that the rights under a patent can only exhaust for the product as specified in the patent claim, the IP holder's rights under its patent will not exhaust through the mere sale of components of that product. Thus, depending on the circumstances of the case, grey imports of components may constitute contributory patent infringement under German law. Also, the exclusive right to manufacture a patented product is not subject to exhaustion. That is, the repair or refurbishment of a patented product can amount to direct patent infringement if the refurbishment is of such a nature that it amounts to a new making of the patented product (FSC, case ID: X ZR 55/16 - d*rum unit of a printer cartridge*).

Owners of patents for pharmaceutical products may object to imports from some eastern European countries under the 'special mechanism'. This legal principle provides for an exception from the exhaustion of patent rights if pharmaceutical products are imported from countries where no comparable patent protection was available to the IP holder at the time of filing the patent.

Jurisdictional interaction between competition laws and IP rights

Are there authorities with exclusive jurisdiction over IP-related or competition-related matters? For example, are there circumstances in which a competition claim might be transferred to an IP court to satisfy subject matter jurisdiction? Are there circumstances where the resolution of an IP dispute will be handled by a court of general jurisdiction?

As the GARC and the dedicated IP statutes each establish exclusive jurisdiction of specialised divisions within the district courts, cases involving matters of IP and competition law will not be heard by the lower courts or the courts of general jurisdiction. The civil court decides ex officio if another court and division are competent. If so, it may dismiss or, upon request of the plaintiff, defer the case to the competent division. Thus, the procedural provisions on jurisdiction provide that the issues of both IP and competition law will be handled by specific and competent courts.

However, there are overlaps. If a competition law defence (such as the FRAND defence) is raised in an IP infringement case before a specialised IP division of the civil court, the IP division will decide on the competition law issue and not defer the case to the competition law division.

In 2019, a new senate was established at the FSC, which will be competent to hear all cases involving issues of competition law and public procurement law. It is hoped that this new senate will harmonise and consolidate German case law at the intersection of IP and antitrust law.

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