

Abuse Of Patent Enforcement In Europe

How Can Start-ups And Growth Companies Fight Back?

by **Krista Rantasaari***

Abstract: The aim of this article is to examine whether smaller companies have any adequate measures to defend themselves against abusive claims. Patent holders can assert their patents inappropriately, thus going against the functions of patents, and going outside the claims and boundaries of what is protected. This is more damaging for smaller companies as they have fewer financial resources. As a corollary, start-ups and growth companies must be able to defend themselves against abusive claims. This article evaluates the abuse of patent enforcement and analyses the abuse of rights principle, the abuse of dominant position, the Enforcement Directive (IPRED) and unjustified threats. The article analyses whether these elements provide tools for start-ups and growth companies when act-

ing as defendants in patent infringement cases that could be considered abusive. The abuse of patent enforcement is increasing for several reasons, such as, the increase in the number of patents, the fact that they are becoming more valuable, the emergence of a growing market for the sale of patents, and the introduction of new entities specialised in patent licensing and litigation. The article argues that the elements presented in this study mitigate, to a certain extent, the potential ill effects of abusive legal proceedings. However, there are limitations and uncertainties; for example, the case law often only applies to specific circumstances, and national practices vary. As a corollary, these legal tools are rather complicated for start-ups and growth companies to apply.

Keywords: patent enforcement; litigation; abuse of rights; NPE; non-practicing entity; start-up; growth companies

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A. Introduction

1 Patent law must enable patent holders to assert their rights. However, patent holders can also assert their patents inappropriately, thus going against the functions of patents, and even deliberately going beyond the claims and boundaries of what is actually protected. This is more damaging for smaller companies as they have fewer financial resources. As a corollary, start-ups and growth companies must be able to defend themselves against abusive claims. The question therefore arises as to whether smaller companies have any adequate measures to defend themselves.

2 This article evaluates the abuse of patent enforcement and analyses the abuse of rights principle, the abuse of a dominant position, the Intellectual Property Enforcement Directive (IPRED), and unjustified threats.¹ The article analyses whether these elements provide tools for start-ups and growth companies when acting as defendants in patent infringement cases that could be considered abusive. Abuses of

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1 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights [2014] OJ L 195/16 (Enforcement Directive, IPRED).

rights are strategies of illegitimate exploitation of an existing legal position.² Patent holders' use of patents may be abusive if the initial objectives of the patent system are not followed.³ Thus, patent holders seek to enforce a patent that is probably invalid or stretch a valid patent right to cover activities outside the patent's proper scope.⁴ Abusive claims are particularly damaging when targeted at small, less well-funded rivals such as start-ups and growth companies.⁵ Abusive purposes decrease legal certainty and cause increasing transaction costs and, for example, deter or delay companies' entry into the markets.⁶ Hence, it is essential to provide tools for start-ups and growth companies that are facing abusive claims or a threat of litigation.

- 3 One possibility to control such abusive practices is to use procedural law measures. Additionally, competition law can be used as a defence against exclusions of competitors or extractions of a wrongful settlement of payment.⁷ Finally, the European Court of Justice (CJEU) has developed the abuse of rights doctrine as a general principle since the *Van Binsbergen* case, which was concerned with the freedom to provide services.⁸ The term abuse appears in the context of a dominant position as part of EU competition law, and also applies to patent-related activities.⁹ Examples of abusive

litigation commenced with dominant undertakings include *ITT Promedia v Commission*, *AstraZeneca* and *Huawei Technologies*.¹⁰ The IPRED generally applies to intellectual property infringements in EU Member States and requests EU Member States to provide safeguards against the abuse of measures, procedures and remedies.¹¹ A recent copyright case *Stowarzyszenie 'Olawska Telewizja Kablova'* concerned the calculation of damages.¹² Similar unjustified threats reflect the abuse of the process and refer to threats of groundless proceedings.¹³ However, unjustified threats are not harmonised in Europe and therefore, the focus is on national legislation.

- 4 Abusive patent enforcement practices can be adopted by any patent holders.¹⁴ However, non-practicing entities (NPEs), also called Patent Assertion Entities or patent trolls, are used here as an example as their core business is patent enforcement. NPEs referred to here are corporate entities that buy and develop patents with the intent of threatening or suing other companies in order to obtain financial compensation.¹⁵ Also start-up and growth companies

2 A Saydé, *Abuse of EU Law and Regulation of the Internal Market* (Hart Publishing, 2014) 29-30. See also A Lenaerts, 'The General Principle of the Prohibition of Abuse of Rights: A Critical Position on Its Role in a Codified European Contract Law' (2010) 18 *European Review of Private Law* 1127, 1122; A Léonard, 'Abuse of Rights in Belgian and French Patent Law – A Case Law Analysis', (2016) 7 *JIPITEC* 2.

3 B Love, 'Bad Actors and the Evolution of Patent Law' (2015) 101 *Va L. Rev.* 1; A Strowel and A Léonard, 'Cutting Back Patent Over-Enforcement, How to Enforce Abusive Practices Within the EU Enforcement Framework' (2020) 11 *JIPITEC* 1.

4 MJ Meurer, 'Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation' (2003) 44 *Boston College Law Review* 510.

5 The term start-up and growth companies is used in this research as it focuses on companies that are relatively small, young and highly innovative.

6 For an analysis, see MJ Meurer, (n 4), 519 and 521.

7 MJ Meurer, (n 4), 508-509.

8 Case C-33/74 *Van Binsbergen v Bestuur van de Bedrijfsvereniging voor de Metaalnijverheid*. ECLI:EU:C:1974:313.

9 Article 102 of the Consolidated Version of the Treaty on the Functioning of the European Union [2007] OJ C 306/1 (TFEU).

10 Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183; Case C-457/10 *P AstraZeneca v Commission*. ECLI:EU:C:2012:770 ; Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477.

11 Article 3(2) of the IPRED.

12 Case C-367/15 *Stowarzyszenie 'Olawska Telewizja Kablova' v Stowarzyszenie Filmowców Polskich*. ECLI:EU:C:2017:36.

13 C Heath, 'Wrongful Patent Enforcement: Threats and Post-Infringement Invalidity in Comparative Perspective' (2008) 39 *IIC* 308.

14 C Chien, 'Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents' (2009) 87 *N.C. L. Rev.* 1571 < <https://digitalcommons.law.scu.edu/facpubs/4> > accessed 17 November 2020; A Strowel and A Léonard, (n 3), 3.

15 For NPEs, see, inter alia, A Ohly, 'Patenttrolle oder: Der Patentrechtliche Unterlassungsanspruch unter Verhältnismäßigkeitsvorbehalt? Aktuelle Entwicklungen im US-Patentrecht und Ihre Bedeutung für das Deutsche und Europäische Patentsystem' (2008) 787 *GRUR Int*; T Ewing and R Feldman, 'Giants Among Us' (2012) 1 *Stan. Tech. L. Rev.*; C Helmers and L McDonagh, 'Trolls at the High Court' (2012) *Law, Society and Economy Working Papers* < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154958 > accessed 27 November 2020; C Chien, 'Start-ups and Patent Trolls' (2012) *Santa University Legal Studies Research Paper No.09-12*, < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251 > accessed 27 November 2020; S Fusco, 'Markets and Patent Enforcement: A Comparative Investigation of Non-Practicing Entities in the United States and Europe' (2014) 20 *Mich. Telecomm. & Tech. L. Rev.*; D

are targets of NPE litigation.¹⁶ NPEs are active in Europe, for example, in Germany, in the Netherlands and in the UK.¹⁷ In Germany the Minister of Justice has demanded measures against patent trolls.¹⁸

- 5 The article argues that the studied elements of the abuse of rights principle, the abuse of a dominant position, the IPRED, and unjustified threats mitigate the potential ill effects of abusive legal proceedings to a certain extent. However, there are limitations, and, in addition, national practices vary. The studied elements are examined as institutions. When working effectively, institutions have a major role in reducing uncertainty and transaction costs by establishing a stable structure for the interaction.¹⁹ All elements address the abuse of patent enforcement from their own perspective.
- 6 The article is structured as follows. Chapter B discusses the abuse of patent enforcement and presents NPEs as an example of abusive practices. Chapter C analyses the abuse of rights principle.

Geradin, 'Patent Assertion Entities and EU Competition Law' (2019) 15 *Journal of European Competition Law & Practise*; L Cohen et al., 'Patent Trolls: Evidence from Targeted Firms' (2019) 65 *Management Science*; A Strowel and A Léonard, (n 12).

- 16 C E Tucker et al., 'The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity' (2016) 45 *Research Policy* 219; L Babin and A Jarrell, 'Patent Trolls' Threat to Small and Medium-Size Enterprises' (2018) 15 *International Journal of Business and Public Administration* 2-3. For start-ups litigation in Europe, see, inter alia, Darts-IP, 'NPE Litigation in the European Union. Facts and Figures' (2018) <<https://www.darts-ip.com/npe-litigation-in-the-european-union-facts-and-figures-2/>> accessed 27 November 2020 10.
- 17 B Love, 'Bad Actors and the Evolution of Patent Law' (2015) 101 *Va L. Rev.*; C Helmers et al., 'Patent Assertion Entities in Europe' (2015) *Santa Clara Law Digital Commons* 2; Darts-IP, (n 14). See also, for example, T Ewing and R Feldman (n 13); C Helmers and L McDonagh (n 13); S Fusco, (n 13); D Geradin, (n 13), 3.
- 18 H Anger, 'Justizministerin Lambrecht erhöht den Druck auf Patenttrolle' (2020) *Handelsblatt*, <<https://t1p.de/handelsblatt-Eckpunktepapier-Justizminister>> accessed 27 November 2020.
- 19 DC North, *Institutions, Institutional Change and Economic Performance* (CUP 1990) 25; C Ménard and MM Shirley, 'Introduction', in C Ménard and MM Shirley (eds.), *Handbook of New Institutional Economics* (Springer-Verlag 2008) 1-2; EG Furubotn and R Richter, *Institutions & Economic Theory* (2nd edn, University of Michigan Press 2005) 7.

Chapter D studies the abuse of a dominant position and abusive of litigation by a dominant undertaking. Chapter E focuses on the abuse of rights under the IPRED. Chapter F reflects on the unjustified threats. Finally, Chapter G presents a summary and considers whether institutions provide safeguards against abusive litigation for start-ups and growth companies.

B. Abuse of patent enforcement

I. Increase of abusive patent enforcement strategies

- 7 Various changes in the market and legal environments have accelerated rent-seeking activities and abusive patent litigation. Abuse of patent enforcement typically relates to situations when an invalid patent is asserted or there is no patent infringed. In addition, right holders may attempt to extend the actual scope of protection and to weaken the competitor's market position. Furthermore, excessive remedies might lead to the abuse of enforcement.²⁰
- 8 There are multiple reasons for accelerating abusive patent litigation. First, patents are becoming more valuable and the number of patents has increased, and this has accelerated the rate of patent litigation.²¹ In Europe, the number of patent applications has increased steadily over the years from 160,004 in 2015 to 181,046 in 2019. The number of published patents has grown from 68,422 in 2015 to 137,787 in 2019.²² Second, a growing market for the sale of patents has emerged and there are new entities such as patent funds specialised in patent litigation and licensing.²³ Third, an increasing number of products incorporate a combination of many different components, each of which may be subject to one or more patents,

20 A Kesselheim, *Intellectual Property Policy in the Pharmaceutical Sciences: The Effect of Inappropriate Patent and Market Exclusivity Extensions on the Health care System* (2007) 9 *AAPS Journal* E307-E308; R M Hilty and K-C Lui, *The Enforcement of Patents* (Aspen Publisher, 2011) 25; R Hilty, *Legal Remedies Against Abuse, Misuse, and other Forms of Inappropriate Conduct of IP Right Holders*, in R M Hilty and (eds.), *Compulsory Licensing. Practical Experiences and Ways Forward* (Springer-Verlag, 2015) 381-382.

- 21 MJ Meurer, (n 4), 519.
- 22 See the EPO statistics <<https://www.epo.org/about-us/annual-reports-statistics/annual-report/2019/at-a-glance.html>> accessed 27 November 2020.
- 23 MJ Meurer, (n 4), 520.

which makes them constantly subject to patent disputes.²⁴ Thus, this allows a patent holder with comparatively insignificant patents to represent a disproportionate threat to a complex product if the invention in question is used as one of perhaps hundreds.²⁵

- 9 Particularly in the IT sector numerous patents can overlap for only minor improvements.²⁶ In the life science industry, so-called evergreening patents dominate and the goal is to obtain narrow patent quickly while continuing to argue about the boarder one.²⁷ In practice, this hinders generic drugs from entering the market. Life science focused start-ups and growth companies are often not the originators of the innovations. Therefore, they are providing generic products for sale in their local market.²⁸ The generic company sells generics that have the same qualitative and quantitative composition in active substances and the same pharmaceutical form as the originator drug. The originator company may even create patent clusters around the patented drug. Patent clusters are multiple patent applications around the original base patent. This enables the originator company to bring numerous actions against a generic company in numerous countries, even when the originator company does not believe they have any likelihood of being successful. This kind of patent enforcement litigation financially overburdens smaller companies and creates obstacles for market entry.²⁹ The *ICA Pfizer* case that came before the Italian Courts concerned the delay to market of new generic products in glaucoma eye treatment. The delayed marketing created delayed

market entry and a state of legal uncertainty.³⁰ Delayed market entry causes high-cost outlays and can be particularly harmful for smaller companies.

II. Patent holders adopting abusive strategies

- 10 The possibility for the abuse of patent enforcement provides new strategies for companies and have prompted the arrival of new strategic actors. Abusive patent enforcement strategies can be applied by any patent holders, such as companies or individuals.³¹ The rise of companies on the enforcement scene such as NPEs has formed the focus of the debate.³²
- 11 NPEs, in general, operate as patent funds. Patent funds are organisational arrangements that market actors create to facilitate transactions and contractual agreements.³³ For example, a patent fund may help innovators to obtain a return from their research and development activities by negotiating licenses with companies interested in exploiting their technology. In the case of an infringement, such a patent fund may assist innovators in enforcing their patents and receiving compensation for their investments. Patent funds might also cooperate with the operating company and target the rivals of the operating company on a downstream product

24 M Lemley and C Shapiro, Patent Holdup and Royalty Stacking (2007) 85 Texas Law Review 1992.

25 A Ohly, (n 13), 791.

26 A Ohly, (n 13), 791.

27 D Guellec and B van Pottelsberghe de la Potterie, *The Economics of the European Patent System. IP Policy for Innovation and Competition* (OUP, 2007) 98; R Feldman, *Rethinking Patent Law* (Harvard University Press, 2012) 170.

28 M Lemley and K Moore, Ending Abuse of Patent Continuations (2004) 84 Boston University Law Review 81; European Commission, Pharmaceutical Sector Inquiry Final Report, European Commission (2009) <https://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf> accessed 27 November 2020 35.

29 European Commission, Pharmaceutical Sector Inquiry Final Report, European Commission (2009) <https://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf> accessed 27 November 2020 199-200.

30 *Autorità Garante della Concorrenza e del Mercato*, A431 – Ratiopharm/Pfizer (11 January 2012), Balletino n. 2/2012 5-56. For an analysis see S Vezzoso, 'Towards an EU Doctrine of Anticompetitive IP-Related Regulation' (2012) 6 Journal of European Competition Law and Practice 529-530.

31 C Chien, (n 12) 1574; A Strowel and A Léonard, (n 12) 3.

32 J McDonough III, 'The Mynth of Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy' 56 Emory L. J. 189 (2006-2007); A Hagiu and D Yoffie, 'The New Patent Intermediaries: Platforms, Defensive Aggregators and Super-Aggregators' (2013) 27 J. Econ. Persp. 45; C Law, D Schwatz and J Kesan, 'Analyzing the role of non-practicing entities in the patent system' (2014) 99 Cornell L. Rev. 425; M Lemley and R Feldman, 'Is Patent Enforcement Efficient?' (2018) 98 B. U. L. Rev. 649 <https://repository.uchastings.edu/faculty_scholarship/1679/> accessed 27 November 2020; R Feldman and M Lemley, 'The Sound and Fury Patent Activity', Olin Stanford Working Paper Series No. 521 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3195988> accessed 27 November 2020.

33 A Ohly, 'Three Principles of European IP Enforcement Law: Effectiveness, Proportionality, Dissuasiveness', in J Drexl, L Boy, C Godt and B Remiche (eds.), *Technology and Competition. Contributions in Honour of Hanns Ullrich* (Larcier 2009) 4; C Ménard and MM Shirley, (n 17), 1.

market.³⁴

- 12 However, NPEs threaten to sue other companies in order to obtain financial compensation and incur costs. NPEs also quickly settle for a lower price than the estimated cost of litigation, and do not necessarily bring cases before the courts. As a consequence, un-litigated assertions now form the majority in all patent enforcements. Licensing negotiations and license deals that do not result in litigation are almost invariably kept secret. Thus, patent litigation data provides only partial information on the activities of NPEs.³⁵ NPEs place the targeted companies under significant pressure, particularly if the company is a start-up or growth company with limited resources. There is a strong incentive for small companies to settle due to the length and cost of litigation.
- 13 NPEs use excessive power in the pre-litigation phase and force the opponent into a deal. In practice, NPEs contact with a start-up and growth company typically begins with a cease and desist letter accusing the company of infringing one or more of its patents. Subsequently, the NPE then sends a request to the targeted company with, for example, three options: to stop using the technology which is claimed to infringe the patent and to change to an alternative technology, to pay royalties to the NPE, or to face litigation. The high costs and uncertainty of patent litigation, as well as the costs of changing to alternative technology, in most cases force the targeted company to pay royalties to the NPE.³⁶ Occasionally, an NPE attack results in patent litigation.³⁷

In Europe, a litigation threat might apply to a number of countries simultaneously.³⁸

34 D Geradin, (n 13), 207-208.

35 M Lemley et al. 'The Patent Enforcement Iceberg' (2019) 97 *Texas Law Review* 101-102; A Strowel and A Léonard, (n 12), 3.

36 J Mello, 'Technology Licensing and Patent Trolls' (2006) 12 *Boston University Journal of Science & Technology Law* 388 and 397; A Ohly, (n 13), 790-791; S Fusco, (n 13), 444; C Chien has made a study of the costs and impacts of NPE demands on small companies. See C Chien, (n 13), 10-11.

37 AJ Davis and K Jesien, 'The Balance of Power in Patent Law: Moving towards Effectiveness in Addressing Patent Trolls Concerns' (2012) 22 *Fordham Intellectual Property Law & Entertainment Law Journal* 836. Patent demands are expensive, and therefore induces settlement. For this matter see C Chien, (n 13).

38 S Scotchmer, *Innovation and Incentives* (The MIT Press 2004) 200.

- 14 In the research literature, the increasing litigation and abusive strategies by NPEs have been one of the key concerns as regards the EU's upcoming unitary patent system.³⁹ The unitary patent system will provide broad patent protection covering most EU countries with a single application and with a common enforcement mechanism.⁴⁰ However, the future of the unitary patent system remains unclear. The UK's exit from the EU ("Brexit") also led to its withdrawal from the unitary patent system. In addition, Germany has had constitutional problems with the ratification process.⁴¹ Furthermore, the uncertainty typical to any new court system will also attract NPEs.⁴²

39 D Harhoff, 'Economic Cost-Benefit Analysis of a Unified and Integrated European Patent Litigation System', *Final Report in Ludwig Maximilian University München* (2009), Tender No. MARKT/2008/06/D, 29-50; D Xenos, 'The European Unified Patent Court: Assessment and Implications of the Federalisation of the Patent System in Europe', 10 *Scripted* (2013) 252; S Fusco, 'Markets and Patent Enforcement: A Comparative Investigation of Non-Practicing Entities in the United States and Europe', 20 *Michigan Telecommunications and Technology Review* (2014) 463.

40 The unitary patent system consists of the Regulation (EU) No. 1257/2012 of the EP and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection, [2012] OJ L361/1, Regulation (EU) No. 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of creation unitary patent protection with regard to the applicable translation arrangements, OJ L361/89 [2012] and the Agreement on a Unified Patent Court, OJ C175/1 [2013].

41 For the analysis of the post-Brexit situation in the UK, see for example T Jaeger, 'Reset and Go: The Unitary Patent System Post-Brexit, SSRN Discussion Paper' (2016); M Lamping and H Ullrich, 'The Impact of Brexit on Unitary Patent Protection and its Court', *Max Planck Institute for Innovation & Competition Research Paper No. 18-20* (2018); L McDonagh and M Mimler, 'Intellectual Property Law and Brexit: A Retreat or a Reaffirmation of Jurisdiction?' in M. Dougan (ed.) *The UK After Brexit* (CUP, 2017). For Germany, see A complaint (2 BvR 739/17) was decided by the Second Senate of the Federal Court in 13 February 2020.

See <<https://www.bundesverfassungsgericht.de/Shared-Docs/Pressemitteilungen/EN/2020/bvg20-020.html>> accessed 27 November 2020. The German Bundestag approved ratification bill on the Unified Patent Court Agreement on 27 November 2020 see <<https://www.epo.org/news-events/news/2020/20201126b.html>>, <<http://patentblog.kluweriplaw.com/2020/11/26/german-bundestag-approves-legislation-to-ratify-the-unified-patent-court-agreement/>>, <<https://dip21.bundestag.de/dip21/btd/19/228/1922847.pdf>>, accessed 27 November 2020.

42 L McDonagh, *European Patent Litigation in the Shadow of the*

C. Prohibition of abuse of rights as a general principle of EU law

- 15 The abuse of rights principle in the CJEU case law and in the EU Member States' national practices forms an appropriate starting point and has an interpretative function. Union law seeks to prevent the rights it confers from being abused. In Europe, the abuse of rights principle is not a field-specific doctrine, such as the intellectual property specific doctrine of misuse in the US.⁴³
- 16 The CJEU has referred to the prohibition on the abuse of law since the *Van Binsbergen* case.⁴⁴ In *Kofoed*, the CJEU argued that there is a general Community law principle prohibiting abuse of rights.⁴⁵ The sole purpose of normal commercial operations cannot be wrongfully obtaining advantages from legislation provided for by Community law.⁴⁶ The idea of restraining abusive practices emerged in the context of the free movement of services and, thereafter, has been subsequently invoked in many other areas of EU law.⁴⁷

Unified Patent Court (Edward Elgar, 2016) 142.

- 43 R Feldman, 'Intellectual Property Wrongs' (2013) 18 *Stanford Journal of Law, Business & Finance* 298; See also V Chiappetta, 'Living with Patents: Insight from Patents Misuse' (2011) 15 *Marquette Intellectual Property Law Review*; DG Competition Discussion paper on the application of article 82 of the Treaty to exclusionary abuses, European Commission (2005) <<https://ec.europa.eu/competition/antitrust/art82/discpaper2005.pdf>> accessed 27 November 2020.
- 44 Case C-33/74 *Van Binsbergen v Bestuur van de Bedrijfsvereniging voor de Metaalnijverheid*. ECLI:EU:C:1974:313, para 13. This case is generally considered as the starting point even though the term abuse is not directly used in the decision of the Court.
- 45 In this article, references to EC law will be replaced by the term EU law to provide consistency. Case C-321/05 *Hans Markus Kofoed v Skatteministeriet*. ECLI:EU:C:2007:408, para 38.
- 46 Case C-321/05 *Hans Markus Kofoed v Skatteministeriet*. ECLI:EU:C:2007:408, para 38.
- 47 EU law areas include such areas as agricultural policy, fundamental freedoms, corporate law and tax law. S Vogenauer, *The Prohibition of Abuse Law: An Emerging General Principle of EU Law*, in R de la Feria and S Vogenauer (eds.), *Prohibition of Abuse of Law. A New General Principle of EU Law* (Hart Publishing 2011) 521. Within the European Treaties, the term abuse appears in the following contexts: in competition law, which prohibits abuses of dominant position (Articles 102 and 104 of the TFEU), and in the Charter of

- 17 The doctrine of abuse has been adopted or even codified in legislation in a number of countries, for example in Germany and in the Netherlands. In those countries, the prohibition of abuse is founded on the restrictive function of good faith or reasonableness and fairness.⁴⁸ It may be assumed that such provisions have common practice; however, such approaches vary widely in detail.⁴⁹
- 18 In Germany, the exercise of a right is not permitted if the only possible purpose is to cause damage to another. In addition, an obligor has a duty to perform according to the requirements of good faith. This general provision provides guidelines to courts and there is need for interpretation in the light of the different circumstances of each case in order to determine if the exercise of a right is contrary to the principle of good faith.⁵⁰ Abusive behaviour can also be in conflict with the purpose of the legal provision.⁵¹ In Germany, the condition for an abuse requires that the harmful effect of a particular abuse can be proved.⁵² In the Netherlands, a right may be abused when it is exercised with no other purpose than to damage another person or with another purpose than that for which it is granted, given the

Fundamental Rights, which prohibits abuses of rights and freedoms recognized in the Charter (Article 54 of the Charter of Fundamental rights). See, the Charter of the Fundamental Rights of the European Union (the Charter of Fundamental Rights) [2000] OJ C 364/3. European Treaties form the primary law of the European Union. In addition, the term abuse also appears in the context of the protection of public health, in relation to the abuse of alcohol (Article 168 of the TFEU). Use of the term abuse in other official European Union documents has grown steadily over the years. The research conducted by A Saydé proves that the use of the term abuse and its derivatives is nowadays common in the legal vocabulary of the European Union. See A Saydé, (n 2), 11-12.

- 48 For Germany, see § 242 of the German Civil Code (*Bürgerliches Gesetzbuch*) (BGB). For the Netherlands, see § 6:2(2) and 6:248(2) of the Dutch Civil Code (*Burgerlijk Wetboek*) (BW). See also A Lenaerts, (n 2), 1127; A Strowel and A Léonard, (n 12), 4.
- 49 RM Hilty, (n 18), 386.
- 50 See § 226 and § 242 of the German Civil Code (*Bürgerliches Gesetzbuch*) (BGB). § 242 of the BGB translates *Leistung nach Treu und Glauben* ("reasonableness and fairness") into performance in good faith. See also A Lenaerts (n 2) 1127; A Strowel and A Léonard, (n 12), 4.
- 51 S Kamanabrou, 'Abuse of Law in the Context of EU Law' (2018) 43 *European Law Review* 536. See also C Schubert, *Münchener Kommentar zum BGB* (Beck 2016) 212.
- 52 A Lenaerts, (n 2), 1125.

disparity between the interests that are served by its effectuation and the interests that are damaged as a result.⁵³ In the Netherlands, an abuse of rights exists when a right is exercised with the intention of causing harm, but also if the right is exercised in a careless and unreasonable manner.⁵⁴

- 19 In Common law systems, there is no general recognition of the principle of the prohibition of the abuse of rights and no general doctrine limiting deliberately harmful behaviour, unless it corresponds with an existing tort. Furthermore, if a right has been developed in case law, it is considered as a *ratio decidendi* of the judgement, and is hedged with various qualifiers, such as reasonableness.⁵⁵ In the Nordic countries, the principle of the prohibition of the abuse of rights is not codified. In Finland, for example, the abuse of rights is seen as a part of the general doctrines of civil law.⁵⁶ This principle applies to situations where a right is exercised in way that the intention and motives cannot be thought of as acceptable.⁵⁷
- 20 The general doctrine of abuse of rights in national laws could apply to IP and patent cases. However, there are only a few known IP related cases. In a copyright case, the Jena Court of Appeal in Germany denied injunctive relief because of the dysfunctional

conduct of the right holder based on the § 242 German Civil Code.⁵⁸ Defendants in patent litigation have arguably engaged in litigation that has violated the general prohibition of the abuse of rights or the principle of good faith. In the courts, these claims have rarely been successful due to the lack of proof of a specific intention to harm, a malicious intent, or the bad faith of the right holders.⁵⁹ The question that arises is whether such national laws would apply either if an IP right as such is used abusively or if there are abusive prosecution procedures or similar occurrences.⁶⁰

- 21 The formal doctrine of the abuse of rights was developed by the CJEU in *Emsland-Stärke*. Subsequent decisions such as *Halifax* and *Cadbury Schweppes* further defined the test.⁶¹ The CJEU established an abuse of law test that may be useful as a yardstick for other areas of law if detached from their agricultural and tax law setting. The CJEU's elaborate test comprises of two parts in order to find the abuse of rights in a case. The first objective test focuses on the purpose of the right, and the second subjective test focuses on the intention of the party.⁶² The objective part resembles the teleological method of interpretation and requires the Court to pronounce on the purpose of a given rule.⁶³ Respectively, in *Emsland-Stärke* an abuse required a combination of objective circumstances in which, despite the formal observance of the conditions laid down by the Union rules, the purpose of those rules had not

53 See § 3.13 of Dutch Civil Code (*Burgerlijk Wetboek*) (BW).

54 A Lenaerts, (n 2), 1125.

55 M Byers, 'An abuse of Rights: An Old Principle, A New Age' (2002) 47 McGill Law Journal 396; A Lenaerts, (n 2), 1125; J Snell, The Notion of and a General Test for Abuse of Rights, in R. de la Feria and S. Vogenaur (eds.), *Prohibition of Abuse of Law. A New General Principle of EU Law* (Hart Publishing 2011) 220; A Saydé, (n 2), 35-37. In an old UK case, the House of Lords unanimously held that the defendant's motives were irrelevant. For the UK, see *Bradford Corporation v Pickles* [1895] AC 587 (HL). However, in two subsequent cases of nuisance, the House Lords relied on the presence of harmful intent to qualify a behavior as unlawful. See *Christie v Davey* [1893] 1 Ch 316 (HL); *Hollywood Silver Fox Farm v Emmett* [1936] 2 KB 468 (HL).

56 J Pöyhönen, *Uusi varallisuus oikeus* (Talentum 2003) 97-109. In Finnish the abuse of rights is "oikeuden väärinkäytön kieltö".

57 See for example E Tammi-Salminen, *Sopimus, kompetenssi ja kolmas*, (Suomalainen lakimiesyhdistys 2001) 247-251; M Hemmo, *Sopimusoikeuden oppikirja* (Talentum 2016) 56; S Kulmala, *Oikeuden väärinkäytön kieltö ja oikeudekäyntikulussanktionsäännökset* (2018) 6 Defensor Legis 895. In Finland, the Abuse of Rights have been applied in the Supreme Court cases KKO 1992:145 and KKO 2011:6 and the Supreme Court has referred to it in a number of cases see for example KKO 2015:49, KKO 2009:93 and KKO 2007:99.

58 A Ohly, (n 13); RM Hilty, (n 18), 386. For the case see, OLG Jena (Court of Appeal), MMR 2008 408 and 413.

59 A Strowel and A Léonard, (n 12), 4. For cases, see for the UK, see *Nokia Corporation v. Interdigital Technology Corp.* [2004] EWHC 2920 (Pat); for the Germany, see BGH, 10 May 2016, XZR 114/13 and LG Dusseldorf 4b O 157/14 (19.01.16).

60 RM Hilty, (n 18), 386-387.

61 Case C-255/02 *Halifax plc, Leeds Permanent Development Services Ltd., County Wide Property Investments Ltd v Commissioners of Customs & Excise*. ECLI:EU:C:2006:121; Case C-196/04 *Cadbury Schweppes and Cadbury Schweppes Overseas*, ECLI:EU:C:2006:544.

62 Case 110/99 *Emsland-Stärke v Hauptzollamt Hamburg-Jonas*, EU:C:2000:695, para. 52-53; Joined Cases C-116/16 and C-117/16 *T Denmark and Y-Denmark Aps*, ECLI:EU:C:2019:135, para 74. This concept of objectivity was introduced by L Josserand in modern French theory and has been influential in France and other continental countries. See A Metzger, *Abuse of Law in EU private Law: A (Re)Construction from Fragments*. In de la Feria R. and S Vogenaur (eds.), *Prohibition of Abuse of Law. A New General Principle of EU Law* (Hart Publishing 2011) 239.

63 J Snell, (n 53), 220; A Saydé, (n 2), 93.

been achieved.⁶⁴ The subjective part consists of the intention to obtain an advantage and seeks to determine whether the legal norms of the conditions of application have been fulfilled artificially, and whether such an act is compatible with the purpose of the affected legal regime.⁶⁵

- 22 The artificiality test enquires into the economic reality of the transaction: if the transaction had some genuine economic explanation other than the regulatory benefit claimed, it would not be considered as artificial.⁶⁶ In *Emsland-Stärke*, the legal issue was whether the conditions of application of the applicable rule could be considered as fulfilled when they were accomplished through artificial means.⁶⁷ In *Vonk Dairy Products* the existence of the subjective element was established by evidence of collusion between the exporter receiving the refunds and the importer of the goods in a non-member country other than the country of importation.⁶⁸ The doctrine of abuse of rights may also refer to the harmful intent or general criteria of proportionality or reasonableness. For instance, the Greek authorities did not dispute the existence of the shareholders' rights to decide on an increase in the capital of the company, but rather sought to assess whether this right was being exercised abusively.⁶⁹ Hence, the CJEU evoked the eventuality

that shareholders exert the right conferred by Article 25(1) of the Second Directive for the purpose of deriving, to the detriment of the company, an improper advantage, manifestly contrary to the objective of that provision.⁷⁰

- 23 The prohibition of abuse, if allowed to develop too strongly, also causes concern as it could undermine the foundation of the internal market.⁷¹ This concern is also reflected in the CJEU case law in the context of the freedom of movement and the freedom of establishment. The freedom of movement of students or the freedom to establish a company in a Member State and to set up branches in other EU Member States cannot by themselves constitute an abuse of rights.⁷² In a reflection on the freedom of establishment, the restrained use of the notion of abuse by the CJEU was applauded by Advocate General (AG) Maduro.⁷³ However, there is also criticism against an abuse of law test. AG Geelhoed claimed that the subjective element served no purpose in a case concerning the freedom of workers. According to Geelhoed, considerable reluctance to attach weight to such criteria is discernible in the case law. One example is *Levin*, where the workers' motives were not taken into consideration.⁷⁴ One reason for this reluctance is that the aim of those concerned may readily be subject to manipulation.⁷⁵

64 Case 110/99 *Emsland-Stärke v Hauptzollamt Hamburg-Jonas*. ECLI:EU:C:2000:695, para 52. In addition, see for example Case C-206/94 *Brennet AG v Victoria Paletta*. ECLI:EU:C:1996:182, para 25; Case C-212/97 *Centros Ltd v Erhvervs- og Selskabsstyrelse*. ECLI:EU:C:1999:126, para 25.

65 According to the CJEU, the subjective element can be established, inter alia, by the evidence of collusion between the Community exporter receiving the refunds and the importer of the goods in the non-member country. Case 110/99 *Emsland-Stärke v Hauptzollamt Hamburg-Jonas*. ECLI:EU:C:2000:695, para 53. Furthermore, this pragmatic approach to the subjective element has been underlined by the CJEU in Case C-255/02 *Halifax plc, Leeds Permanent Development Services Ltd., County Wide Property Investments Ltd v Commissioners of Customs & Excise*. ECLI:EU:C:2006:121, para 81 and 82.

66 A Saydé, (n 2), 89.

67 Case 110/99 *Emsland-Stärke v Hauptzollamt Hamburg-Jonas*. ECLI:EU:C:2000:695, para 56.

68 Case C-279/05 *Vong Dairy Products Bv v Productschap Zuivel*. ECLI:EU:C:2007:18, para 33.

69 A Saydé, (n 2), 30-31; Case C-441/93 *Panagis Pafitis and others v Trapeza Kentrikis Ellados A.E. and others*. ECLI:EU:C:2000:150, para 32-43; Case 367/96 *Alexandros Kefalas and Others v Elliniko Dimosio (Greek State) and Organismos Oikonomikis Anasygkrotisis Epicheiriseon AE (OAE)*. ECLI:EU:C:1998:222, para 22-29.

24 Even though in certain contexts there is hesitation as regards the application of the prohibition of abuse, the principle has a prominent role. This criticism also indicates the wide spectrum of the abuse of rights cases. These cases cover various fields of law, for

70 Case C-373/97 *Dionysios Diamantis v Elliniko Dimosio (Greek State) and Organismos Ikonomikis Anasygkrotisis Epicheiriseon AE (OAE)*. ECLI:EU:C:2000:150, para 33 and 38; Case 367/96 *Alexandros Kefalas and Others v Elliniko Dimosio (Greek State) and Organismos Oikonomikis Anasygkrotisis Epicheiriseon AE (OAE)*. ECLI:EU:C:1998:222, para 28.

71 See AG Geelhoed in Case C-109/01 *Secretary of State for the Home Department v Hacene Akrich*. ECLI:EU:C:2003:112, para 173, 178 and 179.

72 Case C-147/03 *Commission of the European Communities v Republic of Austria*. ECLI:EU:C:2005:427, para 70; Case C-212/97 *Centros Ltd v Erhvervs- og Selskabsstyrelsen*. ECLI:EU:C:1999:126, para 27.

73 AG Maduro in Case C-210/06 *Cartesio Oktató és Szolgáltató Bt*. ECLI:EU:C:2008:294, para 29.

74 Case C-53/81 *D.M. Levin v Staatssecretaris van Justitie*. ECLI:EU:C:1982:105, para 22.

75 Advocate General Geelhoed in Case C-109/01 *Secretary of State for the Home Department v Hacene Akrich*. ECLI:EU:C:2003:491, para 173 and 174.

example, the free movement of goods, the freedom to provide services, the freedom of establishment, company law and tax law.⁷⁶ In addition, the abuse of rights principle can be applied to various situations. Abuse of rights is formally exercised in conformity with the conditions laid down in the rule granting the right, whilst the legal outcome may be opposed to the objective of that rule. It is for the national court, in the light of the ruling of the CJEU, to establish the existence of the objective and subjective elements, whether the application of the rule would serve its purpose and whether reliance on the rule would be abusive in certain circumstances.⁷⁷ Hence, an examination of the facts is needed to establish whether the constituent elements of an abusive practice are present.⁷⁸

- 25 The principle of the prohibition of the abuse of rights functions as a corrective mechanism to a strict application of a rule of law by reducing the abusive exercise of the rights granted by that rule. Often a doctrine of abuse is associated with situations where there is no visible infringement of a formal legal requirement. Thus, it has also an interpretative function that ensures the underlying objectives or purposes for the rules are being respected.⁷⁹ The general prohibition of the abuse of rights means that the issue of the abuse of rights is addressed through the general legislation. However, it seems rather impracticable that a court would apply such general provisions in the case of an abusive exertion of an IP right. For example, those Civil Law countries that lack balancing instruments of equity might face difficulties making use of such unspecified legislation.⁸⁰

76 The CJEU mentions an example of various fields where the principle of the abuse of rights has been applied. For this see joined Cases C-116/16 and C-117/16 *T-Denmark and Y-Denmark Aps*. ECLI:EU:C:2019:135, para 74.

77 S Vogenauer (n 45) 543. See also Case C-8/92 *General Milk Products GmbH v Hauptzollamt Hamburg-Jonas*, EU:C:1993:82, para 21; Case 110/99 *Emsland-Stärke v Hauptzollamt Hamburg-Jonas*. ECLI:EU:C:2000:695, para 54.

78 C-116/16 and C-117/16 *T-Denmark and Y-Denmark Aps*, EU:C:2019:135, para 98.

79 J Drexl, 'Is There a More Economic Approach to Intellectual Property and Competition Law?', in J Drexl (ed.) *Research Handbook on Intellectual Property and Competition Law* (Edward Elgar Publishing Limited 2008); A Lenaerts, (n 2), 1122; A Strowel and A Léonard, (n 12), 14

80 RM Hilty, (n 18), 391.

D. Competition law limiting abuse

I. Dominant position and its abuse

- 26 Primarily, courts have relied on competition law to limit abusive practices by patent holders.⁸¹ This is mostly the case in the context of litigation involving standard essential patents (SEPs). The CJEU case of *Huawei v. ZTE* has offered the most elaborate set of guiding principles for courts.⁸²
- 27 Intellectual property rights do not automatically confer a dominant position. However, they might put the undertaking in the position of abuser.⁸³ Thus, exercising the exclusive rights conferred by an intellectual property right can be an abuse of a dominant position when used as an instrument for the abuse.⁸⁴ In *AstraZeneca*, the CJEU stated that although the mere possession of an intellectual property right does not indicate a dominant position, such possession is still capable in certain circumstances of creating a dominant position, in particular by enabling an undertaking to prevent effective competition on the market.⁸⁵

81 A Strowel and A Léonard, (n 12), 11. For cases see in Germany: LG Dusseldorf 4b o 274/10 (24.04.12), LG Dusseldorf 4a O 54/12 (11.12.12); in the UK *Unwired Planet International Ltd. v Huawei & Samsung* [2017] EWHC 711 (Pat); *Sandisk Corp. v. Philips et al. (including SISVEL)* [2007] EWHC 322 (Ch.); *Vringo Infrastructure Inc V. ZTE (UK) Ltd.* [2014] EWHC 3924 (Pat.).

82 D Geradin, (n 13), 212; A Strowel and A Léonard, (n 12), 11. See Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*, EU:C:2015:477. See also Case AT.39985, *Motorola-Enforcement of GPRS Standard Essential Patents*, 29 April 2014, C(2014) 2892 final; Case AT.39939, *Samsung-Enforcement of UMTS Standard Essential Patents*, 29 April 2014, C(2014) 2891 final.

83 M Lamping, 'Refusal to License as an Abuse of Market Dominance: From Commercial Solvents to Microsoft', in RM Hilty and K-C Liu (eds.), *Compulsory Licensing. Practical Experiences and Ways Forward* (Springer 2015) 127; D Geradin (n 13), 212; See Joined Cases C-241/91 P and C-242/91 P *Radio Telefis Eireann (RTE) and Independent Televisions Publications Ltd (ITP) v Commission of the European Communities (Magill)*. ECLI:EU:C:1995:98; Case C-418/01 *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*. ECLI:EU:C:2004:257; Case T-201/04 *Microsoft Corp. v. Commission*. ECLI:EU:T:2007:289; Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477.

84 Case C-102/77 *Hoffman-La Roche v. Centrafarm*. ECLI:EU:C:1978:108, para. 16.

85 Case C-457/10 P *AstraZeneca v Commission*. ECLI:EU:C:2012:770, para 186. The CJEU also referred to an earlier case *Magill*.

- 28 In practice the abuse of a dominant position relates to a position of economic strength from the plaintiff and of acting independently of its competitors, customers and ultimately consumers.⁸⁶ An abuse of a dominant position can be verified under Article 102 of the TFEU when the abuse happens within the internal market or in a substantial part of it. For an abuse of a dominant position to apply, it is necessary that three conditions are present together: the existence of a dominant position on the relevant market, the abuse of that position and the possibility that trade between Member States has been affected.⁸⁷ Thus, it has to be analysed whether the NPE in question is dominant on a specific market. In the case of a holder of an SEP, there is a stronger likelihood that it confers a dominant position, as it is essential to a standard and there are no alternatives.⁸⁸
- 29 The concept of relevant market implies that there can be effective competition between products or services that form part of it. Products may involve a combination of many different components, each of which may be the subject of one or more patents.⁸⁹ The relevant market presupposes that products and services are regarded as interchangeable or substitutable by the consumer, because of the products, services, price or the intended use.⁹⁰ The definition of the relevant market for example can be so narrow that the market is defined as a one-product market. For example, in *AstraZeneca*, the company's patented product was characterised in a narrow market, not in a general market, which led to the conclusion that there were no competitors. Hence, the patent stood as a barrier to entry to the product market.⁹¹
- 30 Dominance refers to the ability to have an appreciable influence on the degree of competition on the market.⁹² Irrespective of the reasons for which an undertaking holds a dominant position it has a special responsibility not to allow its conduct to impair genuine undistorted competition.⁹³ Hence, a dominant undertaking must refrain from any behaviour that may unduly prevent other undertakings from entering the market and competing on their own merits.⁹⁴
- 31 In practice a dominant undertaking will not enjoy the same freedoms operating on the market and interacting with competitors as other undertakings. Thus, the behaviour of the dominant undertaking may be illegitimate, even though the very same behaviour would be perfectly legitimate for any other company.⁹⁵ This, however, does not prevent dominant undertakings from competing, even with small competitors. However, there are limitations
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- 91 The starting point for the analysis was the Anatomical Therapeutic Chemical (ATC) Classification System. The narrower market definition was based on the fourth ATC level that is the product's mode of action. For a detailed analysis see J Westin, 'Defining relevant market in the pharmaceutical sector in the light of the *Losec* case – just how different is the pharmaceutical market?' (2011) 32 *European Competition Law Review* 58-59; S Anderman, 'Competition Law Perspective II' in J. Pila and C. Wadlow (eds.), *The Unitary EU Patent System* (Hart Publishing, 2015) 135.
- 92 *Case 27/76 United Brands Co v EC Commission*. ECLI:EU:C:1978:22, para. 65; *Case 85/76 Hoffman- La Roche & Co AG v Commission*. ECLI:EU:C:1979:36, para 38-39. See also European Commission, 'Guidance on the Commission Enforcement Priorities in Applying Article 82 of the EC Treaty to Abusive Exclusionary Conduct by Dominant Undertakings', OJ 2009, C 45/02, para. 9-13.
- 93 T Eilmansberger, 'How to distinguish a good from bad competition under article 82: In search of clearer and more coherent standards for anti-competitive abuses' (2005) *Common Market Law Review* 42; M Lamping, (n 81), 122. See also *Case C-322/81 Michelin v Commission*. ECLI:EU:C:1983:313, para 57.
- 94 T Eilmansberger, (n 85), 133; European Commission, DG Competition Discussion paper on the application of article 82 of the Treaty to exclusionary abuses (2005) < <https://ec.europa.eu/competition/antitrust/art82/discpaper2005.pdf> > accessed 27 November 2020, para. 54; M Lamping, (n 81), 122.
- 95 M Lamping, (n 81), 122.
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- In *Magill*, there was only one source of information for the channel information. Hence, the effective competition was prevented. See joined cases C-241/91 P and C 242/91 P *Radio Television Eireann (RTE) and Independent Television Publications Ltd (IPT) v Commission (Magill)*. ECLI:EU:C:1995:98, para 47.
- 86 See *Case 27/76 United Brands Company and United Brands Continenteaal BV v EC Commission*. ECLI:EU:C:1978:22, para 65; *Case 85/76 Hoffman- La Roche & Co AG v Commission*. ECLI:EU:C:1979:36, para 38-39.
- 87 Article 102 of the TFEU. See also M Lamping, (n 81), 122.
- 88 D Geradin, (n 13), 217. See *Case AT.39985, Motorola-Enforcement of GPRS Standard Essential Patents*, 29 April 2014, C(2014) 2892 final, para. 223.
- 89 M Lemley and M Shapiro, 'Potent holdup and Royalty Stacking' (2007) 85 *Texas Law Review* 1992.
- 90 Commission Notice on the definition of the relevant market for the purpose of Community competition law, OJ 1997, C 372/5, para. 7; M Lamping, (n 81), 124; *Case 85/76 Hoffman-La Roche & Co AG v Commission*. ECLI:EU:C:1979:36, para. 28; *C-322/81 Michelin v Commission*. ECLI:EU:C:1983:313, para. 48.

to such behaviour, for example, a below-cost price can burden an undertaking with smaller financial resources.⁹⁶ NPEs as a dominant undertaking may also impose undue costs on downstream manufacturers by charging more in licensing fees than their patented technology justifies.⁹⁷

II. Abusive litigation by dominant undertaking

- 32 The high level of protection for intellectual property rights means that the proprietor may not be deprived of the right to have recourse to legal proceedings to ensure the effective enforcement of patent rights. From this it follows that in general a dominant undertaking should have the ability to seek legal redress similar to any other undertakings unless the patent system is misused.⁹⁸ Generally, abuses of the process occur when a judicial action is unreasonable or vexatious.⁹⁹
- 33 The CJEU case law on abusive litigation in EU competition law is limited. The earliest cases were *BBI/Boosey & Hawkes* and *Decca Navigator System*.¹⁰⁰ In the first case, there was no abusive conduct and in the second case, other elements of Decca's behaviour, other than the abusive litigation, offered enough legal grounds for the infringement.¹⁰¹ The more recent cases are *ITT Promedia v Commission* followed

by *AstraZeneca* and *Huawei Technologies v ZTE*.¹⁰² In the US's antitrust laws, the improper enforcement of patents is divided into the enforcement of a patent obtained by fraud (Walker process claims) and the enforcement of IPR rights, which, while not obtained by fraud, are considered invalid, unenforceable, or not infringed (sham litigation).¹⁰³

- 34 *ITT Promedia v Commission* concerned litigation between the telecommunications operator Belgacom and the publisher of the business directory ITT Promedia. Promedia published telephone directories based on the data provided by Belgacom's predecessor RTT. Negotiations to renew the agreement did not succeed and gave rise to numerous legal proceedings between Belgacom and ITT Promedia. ITT Promedia submitted a complaint to the Commission claiming among other things that Belgacom had committed an abuse of a dominant position by initiating vexatious litigation.¹⁰⁴ In *AstraZeneca* the Commission imposed a fine on AstraZeneca for abuse of its dominant position in the proton pump inhibitors' market. The commission focused on two aspects: a pattern of misleading representations presented to the national patent offices and courts with regard to the authorisation applications for the granting of Supplementary Protection Certificates and a misuse of applicable regulatory procedures.¹⁰⁵ In the *AstraZeneca* case the patent litigation tactic was discussed as part of a well-structured abusive strategy.¹⁰⁶ In *Huawei Technologies v ZTE*, Huawei the owner of the SEP had provided a fair, reasonable and non-discriminatory (FRAND) licensing commitment to the standardisation body, and the issue was the right to seek injunctive relief. The injunctive relief

96 Case C-62/86 *AKZO Chemie BV v Commission*. ECLI:EU:C:1991:286, para 72.

97 C Shapiro, 'Injunctions, Hold-Up and Patent Royalties' (2006) 12 *American Law and Economics Review*; D. Geradin et al., 'Elves or Trolls? The Role of Non-practicing Patent Owners in the Innovation Economy' (2008) TILEC Discussion Paper DP18-2008 2.

98 Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477, para 58.

99 See Article 139 of the Rules of Procedure of the Court of Justice [2010] OJ C177/1. Article 139 enables the CJEU to order a party to pay costs in a case of an unreasonable or vexatious procedure; applied in Case C-338/82 *Carlo Albertini and Mario Montagnini v Commission*. ECLI:EU:C:1984:181, para 51-52; Case T-302/00 R II Order of the President of the Court of First Instance of 29 March 2001, *Anthony Goldstein v Commission*. ECLI:EU:T:2001:108, para. 40-41.

100 *BBI/Boosey & Hawkes* [1987] OJ L286/36; *Decca Navigator System* [1989] OJ L43/27.

101 *BBI/Boosey & Hawkes* [1987] OJ L286/36, para. 11; *Decca Navigator System* [1989] OJ L43/27, para 50.

102 Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183; Case C-457/10 P *AstraZeneca v Commission*. ECLI:EU:C:2012:770; Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477.

103 For example, S Vezzoso has compared the ITT Promedia and US antitrust law. See S Vezzoso, (n 28), 529-534. See also F Murphy, 'Abuse of Regulatory Procedures – the AstraZeneca Case: Part 2' (2009) 30 *European Competition Law Review* 300; T Käseberg, *Intellectual Property, Antitrust and Cumulative Innovation in the EU and the US* (Hart Publishing 2012) 24.

104 Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183.

105 Case C-457/10 P *AstraZeneca v Commission*. ECLI:EU:C:2012:770. See also J Drexl, 'Astrazeneca and the EU Sector Inquiry: When do Patent Filings Violate Competition Law?' (2012) Max Planck Institute for Intellectual Property and Competition Law Research Paper no. 12-02.

106 Case C-457/10 P *AstraZeneca v Commission*. ECLI:EU:C:2012:770, para 18.

was sought against ZTE, who were allegedly using Huawei's SEPs, but were unwilling to license the disputed patents on the terms offered by Huawei.¹⁰⁷

35 The CJEU ruled in the *ITT Promedia v Commission* that access to the Court is a fundamental right and a general principle ensuring the rule of law.¹⁰⁸ Rent-seeking activities that lead to the abuse of enforcement should be restricted. At the same time, however, the law cannot aim to deprive the right to seek legal redress. Access to justice is a universally recognised right.¹⁰⁹ Access to justice is one of the pillars of the European Union and mentioned in the TFEU, and also in Article 47 in the Charter of Fundamental Rights of the European Union (EU Charter).¹¹⁰ The CJEU has referred to Article 47 of the EU Charter in relation to intellectual property cases; however the CJEU also affirms that Article 52(1) of the Charter of Fundamental Rights permits a limitation on the exercise of the rights guaranteed by Article 47.¹¹¹ In the *ZZ*, the CJEU stated that any limitation must necessary and genuinely meet the objectives of general interest recognised by the European Union.¹¹²

36 Further, the CJEU noted in *Huawei Technologies v ZTE* the need for a high level of protection for intellectual-property rights means that patent owners may not be deprived of the right to have recourse to legal proceedings to ensure the effective enforcement of their exclusive rights.¹¹³ Hence, only in wholly exceptional circumstances are the legal proceedings

capable of constituting an abuse of a dominant position within the meaning of Article 102 of the TFEU.¹¹⁴ The Commission established the presence of wholly exceptional circumstances with the help of two cumulative criteria that have been confirmed by the General Court. These two cumulative criteria must be applied strictly and applied together due to the fact that they constitute an exception to the general principle of access to courts, which ensures the rule of law.¹¹⁵

37 According to the first cumulative criterion, the action cannot reasonably be considered an attempt to assert the rights of the undertaking concerned by legal proceeding which only serve to harass the opposing party.¹¹⁶ According to the second cumulative criterion, the aim of the action must be to eliminate competition.¹¹⁷ The first cumulative criterion means that the action must be from an objective point of view manifestly unfounded.¹¹⁸ Thus, if the action is well founded and has no aim to eliminate competition, the patentee is not committing an abuse by taking the competitor to court. Furthermore, purely internal acts within the company or merely preparatory acts of potential abuse, even though manifested externally, cannot constitute abusive practices.¹¹⁹ The second criterion means that litigation must be planned to have as its goal the elimination of the competition. Therefore, a dominant undertaking has special responsibility not to further hinder the entry of competitors to a market and to weaken the competition. However, this criterion appears to take into consideration the subjective intention of the dominant undertaking.¹²⁰

107 Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477.

108 Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183, para 60.

109 Article 8 of the Universal Declaration on Human Rights, UN general Assembly, Resolution 217 A(III), UN Document A/810 (1948) 73.

110 Article 67(4) of the TFEU and Article 47 of the Charter of Fundamental Rights.

111 C300/11 *ZZ v Secretary of the State for Home Department* ECLI:EU:C:2013:363, para 51; Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH* ECLI:EU:C:2015:477, para 58. See also Advocate General Wathael in Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH* ECLI:EU:C:2015:477, para 67.

112 C300/11 *ZZ v Secretary of the State for Home Department* ECLI:EU:C:2013:363, para 51.

113 Case C-170/13 *Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477, para 58. See also case T-701/14 *Niche Generics Ltd v. European Commission*. ECLI:EU:T:2018:921, para 248.

114 Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183, para 60. Case also further states the ability to assert one's rights through the courts constitute the expression of a general principle of law which underlies the constitutional traditions common to the Member States and refers to the Articles 6 and 13 of the European Convention for Human Rights and Fundamental Freedoms. See also more recent case T-701/14 *Niche Generics Ltd v. European Commission*. ECLI:EU:T:2018:921, para 248.

115 Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183, para 56 and 61.

116 *ibid.*, para 55.

117 *ibid.*, para 55 and 56.

118 *ibid.*, para 56.

119 This is described in a great detail in F Murphy, (n 101).

120 See for example Case C-457/10 P *AstraZeneca v Commission*. ECLI:EU:C:2012:770, para 134; Case T-111/96 *ITT Promedia NV v Commission*. ECLI:EU:T:1998:183, para 138; Case 85/76 *Hoffman- La Roche & Co AG v Commission*. ECLI:EU:C:1979:36,

- 38 The two cumulative criteria include broad concepts such as “manifestly unfounded”, which leave much room for interpretation.¹²¹ If the manifestly unfounded, for example, is not based on fraud, there is a fear that inadvertent error or negligence in the patent application might lead to a claim of abuse of enforcement.¹²² However, patent rights granted by a public authority are normally assumed to be valid. In practice, third parties seldom know when a patent right is unlawfully granted. In *AstraZeneca*, the defence made a central argument that an abuse of a dominant position exists where a fraudulently obtained patent is enforced.¹²³ One indicator to the infringement of Article 102 of the TFEU seems to be when the legal proceeding harasses the opponent, for example, in a situation where the dominant undertaking has wilfully enforced a patent knowing that the patent is invalid, or the patent is extended to cover activities outside the granted scope. However, the Commission, later confirmed by the General Court, stated that the need for the actual enforcement of the unduly obtained exclusive right is not a necessary requirement to be able to categorise conduct as an abuse.¹²⁴
- 39 It is difficult to distinguish between abusive and non-abusive litigation by a dominant undertaking without resorting to subjective concepts such as the intention. Relying on subjective concepts arises where a dominant undertaking makes use of regulatory procedures to the detriment of a smaller rival, for example a start-up or growth company. In the *AstraZeneca* case, a pharmaceutical company had withdrawn a registration for a product in a specific form and at the same time obtained registration for the same product in a slightly different form. This strategy was aimed at delaying the entry of generic producers and parallel traders.¹²⁵ In this case, it would have been difficult to establish that the dominant undertaking abused its dominant position without considering the subjective intentions,

such as withdrawing and obtaining regulatory

para 91

- 121 L Moritz, *An introduction to EU competition law* (CUP 2013) 239.
- 122 F Murphy, (n 101), 296.
- 123 *Case C-457/10P AstraZeneca v Commission*. ECLI:EU:C:2012:770, para 71
- 124 *ibid.*, para 99. See also S Vezzoso, (n 21), 529-530.
- 125 M Negorinotti, ‘Abuse of Regulatory Procedures in the *AstraZeneca* Case’ (2008) 29 *European Competition Law Review* 296.

approvals without any false statement or other misrepresentation towards the regulatory body.¹²⁶

- 40 Injunctions play an important role as they expose infringers to the risks that their patented technology will have to be removed from the market at a great cost. The CJEU has focused on the extent to which an SEP holder could seek an injunction to enforce its SEPs without committing an abuse. In the *Huawei Technologies v ZTE*, the CJEU ruled that prior to the infringement proceedings the owner of the SEP has to notify or consult the alleged infringer. First, the owner has to notify the infringer when the infringer was identified as making an unauthorised use of their patents.¹²⁷ Second, the alleged infringer has to show willingness to conclude a licensing agreement and the proprietor of the SEP has to present a specific licence on FRAND terms.¹²⁸
- 41 It has been claimed that the seeking of an injunction leads to exclusion rather than exploitation. However, NPEs are not interested in excluding target companies from the licensing market. As a corollary, restrictions imposed by the CJEU apply to operating companies instead of NPEs.¹²⁹ However, the applicability of the *Huawei Technologies v. ZTE* case to NPEs has now been resolved positively by national courts. For instance, the High Court and the Court of Appeal of England & Wales applied the *Huawei v. ZTE* licensing framework to a patent dispute between an NPE (Unwired Planet) and an operating company (Huawei). Furthermore, German courts have applied this framework to infringement lawsuits filed by an NPE (Saint Lawrence) against two operating companies (Deutsche Telekom and Vodafone).¹³⁰

42 NPEs can use abusive litigation to seek unreasonable

126 L Moritz, (n 119), 239.

127 *Case C-170/13 Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477, para 60-61.

128 *ibid.*, para 63.

129 N Petit, ‘Huawei v. ZTE: Judicial Conservatism at the Patent-Antitrust Intersection’, 2015 *CPI AntiTrust Chronicle*; *Case C-170/13 Huawei Technologies Co. Ltd v ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2015:477, para 52.

130 D Geradin, (n 13), 224. See cases *Unwired Planet v. Huawei* [2017] EWHC 1304 (Pat) (High Court) and [2018] EWCA Civ 2344 (Court of Appeal), *Saint Lawrence Communications GmbH v. Telekom Deutschland GmbH*, District Court Mannheim 2nd Civil Division, 10 March 2015, 2 O 103/14; *Saint Lawrence Communications GmbH v. Telekom Deutschland GmbH*, the Regional Court of Düsseldorf, 31 March 2016, 4a O 73/14.

royalties. As NPEs are not exposed to countersuits and do not face the same reputational constraints as operating companies, it is likely that they will more aggressively assert their patents to maximise their royalty revenues.¹³¹ The first criteria, if manifestly unfounded, can be met by a lawsuit brought by the NPE. The second criteria's aim to eliminate competition is harder to meet due to the fact it is not in the interest of an NPE to exclude the target company from the market, as in that case it will not obtain license fees. Therefore, these cumulative criteria can also be criticised as the abuse can be used for both exploitative and exclusionary purposes.¹³² It seems that applying both criteria in an NPE related litigation is hard to implement.

- 43 In conclusion, it can be seen that the case law addressing abusive litigation by a dominant undertaking is limited and applies partly to specific circumstances such as SEP disputes. Although two cumulative criteria provide a good starting point for an analysis of the abuse process by dominant undertaking, several questions remain open, and the applicability of two cumulative criteria simultaneously to NPEs is problematic. Litigation relating to an SEP holder and injunctions address abuse more frequently. However, in this context the national courts have played a role. The abuse of rights principle creates opportunities for alleging an abuse of a dominant position in national courts; thus, making national doctrines of abuse more relevant.

E. Abuse of rights under the Enforcement Directive

- 44 In 2004, the European legislators added the application of the abuse of law principle to intellectual property rights through the Directive on the Enforcement of IPR (IPRED).¹³³ Prior to this, the abuse of rights principle had appeared in trademark law under the concept of bad faith. The concept of bad faith has similarities to the abuse of rights principle. The concept of bad faith is codified in Article 59(1)(b) as an absolute ground for invalidity.¹³⁴

131 D Geradin, (n 13), 217.

132 D Geradin, (n 13), 229.

133 Article 3 of IPRED. IPRED provides harmonisation of civil redress rules and measures and contains the minimum harmonisation rules. 6

134 In addition, Article 61's limitation in consequence of acquiescence and Article 138 prior rights is applicable to particular localities of the Trademark Law. See Articles 59(1)(b), 61 and 138 of the Regulation (EU) 2017/1001 of the

In the *Chocoladefabriken Lindt* case the CJEU argued that bad faith requires that an intention is shown, and that the intention must be demonstrated on the basis of objective elements.¹³⁵

- 45 According to Article 2(1), IPRED applies to any infringement of intellectual property rights as provided by Union law and/or by the national laws of the Member State concerned. Hence, it applies to patents. IPRED provides remedies for the infringement, especially as regards damages and injunctions. Article 3(2) of IPRED demands that states take appropriate measures, procedures and remedies against the abuse of enforcement procedures that are effective, proportionate and dissuasive. They should be applied in such manner as to avoid the creation of barriers to legitimate trade and to provide safeguards against their abuse.
- 46 Due to the broad application of the Directive, the codified abuse of law principle is applicable to almost all remedies and procedural measures in EU intellectual property law.¹³⁶ In addition, recital 17 of IPRED demands that the measures, procedures and remedies provided should be determined in each case and take into account the specific characteristics of that case, such as the intentional or unintentional character of the infringement.¹³⁷ IPRED has similarities to Article 41(1) of the TRIPS Agreement that argues for ensuring enforcement procedures to permit effective action against any act of infringement of intellectual property rights covered by the TRIPS Agreement, including expeditious remedies to prevent infringements, and remedies which constitute a deterrent to further infringements.

These procedures must be applied in order to avoid

European Parliament and of the Council of 14 June 2017 on the European Union Trademark. The first reference to bad faith was in Article 3(2)(d) of Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trademarks, OJ L 299/25.

135 Case-529/07 *Chocoladefabriken Lindt & Sprüngli AG v Franz Hauswirth GmbH*. ECLI:EU:C:2009:361, para 42; Advocate General Sharpston in Case-529/07 *Chocoladefabriken Lindt & Sprüngli AG v Franz Hauswirth GmbH*. ECLI:EU:C:2009:148, para 58. See Articles 59 and 61 of the Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union Trademark. The first reference was in Article 3(2)(d) of Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trademarks, OJ L 299/25.

136 A Metzger, (n 60), 243.

137 Recital 17 of the IPRED.

the creation of barriers to legitimate trade and to provide safeguards against their abuse.¹³⁸

- 47 In 2017, the Commission clarified the provisions of IPRED where there have been different interpretations in EU countries. The guidance is based on rulings by the CJEU and the best practices identified in EU countries. This guidance also focuses on the means, which are particularly important to SMEs, such as the rule on calculating damages, awarding legal costs, and the means to prevent abuse.¹³⁹ Hence, abuse has a significant meaning in the guidance. Article 3(2) of IPRED is a general obligation and other articles should be interpreted and applied in the light of the general requirements of this article. As a result, in order to ensure the balanced use of the civil IPR system, the competent judicial authorities should generally conduct a case-by-case assessment when considering the granting of measures, procedures and remedies provided for by IPRED.¹⁴⁰ The balanced use of the civil IPR system is essential as NPEs might also take advantage of the enforcement system if the remedies and enforcement costs are high enough.
- 48 The abuse under IPRED concerns the proportionality of procedures and remedies, and the proper balance between the parties to the suit.¹⁴¹ Compensation for example should be based on an objective criterion while taking account of the expenses incurred by the right holder.¹⁴² Since IPRED is an instrument of EU law, its provisions are subject to the interpretation of the CJEU. Therefore, hypothetically, guidance on the interpretation of article 3(2), and the meaning of the abuse in the adjudication context, may be found in the case law of the CJEU.¹⁴³ However, the case law is limited in this matter. Most decision referring to article 3(2) concentrate on the effectiveness and dissuasiveness of measures, procedures and

remedies.¹⁴⁴ In a recent copyright case *Bastei Lübbe* the litigation was between Bastei Lübbe, a German phonogram producer, and Michael Strotzer, the owner of an internet connection through which an infringement was committed. The CJEU ruled that the Member States should provide effective and dissuasive measures, procedures and remedies in respect of infringements of copyright and related rights.¹⁴⁵

- 49 Thus far, case law regarding the measures, procedures and remedies to be applied in such a manner as to provide for safeguards against their abuse has been rare. In a copyright case *Stowarzyszenie 'Olawska Telewizja Kablowa'* the litigation was between an organisation collectively managing the copyright of *Stowarzyszenie Filmowców Polskich* and *Stowarzyszenie Oławska Telewizja Kablowa* that broadcast television programmes through a cable network. According to the CJEU, in this exceptional case, payment for a loss calculated on the basis of twice the amount of the hypothetical royalty clearly exceeds the loss actually suffered. As a corollary, a claim to that effect could constitute an abuse of rights.¹⁴⁶ In the *Huawei Technologies v ZTE*, AG Wathelet introduced one possible meaning of abuse under article 3(2) of IPRED. In his opinion he noted that the concept of abuse is not defined in IPRED. However, from his point of view the concept necessarily, though not exclusively, encompasses infringements of articles 101 and 102 TFEU.¹⁴⁷
- 50 IPRED has been applied to cases evaluating remedies. In a competition law context, the abuse litigation relates to exclusionary and exploitative purposes. However, abusive claims solely based on their exclusionary purposes are not applicable to the NPEs. When evaluating IPRED, the CJEU could also follow the application of the formal doctrine of the abuse of rights by taking also into consideration the subjective part and the intention to obtain

138 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Marrakesh Agreement Establishing the World Trade Organization, Annex 1 C, Legal Instruments-Results of the Uruguay Round, vol. 31 (15 April 1994) 33 ILM 81, Article 41(4).

139 Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the Enforcement of Intellectual Property Rights, COM(2017) 708 Final, p. 1-2.

140 Guidance on certain aspects of Directive 2004/48/EC of the European Parliament and of the Council on the Enforcement of Intellectual Property Rights, COM(2017) 708 Final, p. 9-10.

141 C Heath, (n 11), 307.

142 Recital 26 of the IPRED.

143 A Strowel and A Léonard, (n 12), 6.

144 For example, most recent cases C-149/17 *Bastei Lübbe GmbH & Co. KG v Michael Strotzer*. ECLI:EU:C:2018:841; C-494/15 *Tommy Hilfiger Licensing LLC et al. v Delta Center a.s.* ECLI:EU:C:2016:528; Case C-57/15 *United Video Properties Inc. v Telenet NV*, EU:C:2015:471; C-681/13 *Diageo Brands BV v Simiramida-04 EOOD*. ECLI:EU:C:2015:471.

145 See C-149/17 *Bastei Lübbe GmbH & Co. KG v Michael Strotzer*. ECLI:EU:C:2018:841, para 37.

146 See Case C-367/15 *Stowarzyszenie 'Olawska Telewizja Kablowa' v Stowarzyszenie Filmowców Polskich*. ECLI:EU:C:2017:36, para 31.

147 Opinion of Advocate General Wathelet, Case C-170/13, *Huawei Technologies Co. Ltd. v. ZTE Corp. and ZTE Deutschland GmbH*. ECLI:EU:C:2014:2391, para. 63 and footnote 36. See also A Strowel and A Léonard, (n 12), 6.

an advantage. This kind of a balancing exercise acknowledges the intentional and unintentional character mentioned in the Recital 17 of the IPRED

F. Approach of national laws to unjustified threats

- 51 Unjustified threats refer to a situation where the alleged infringing act, for example, falls outside of the scope of the claim or because the patent is invalid, meaning that enforcement proceedings have been abused. Here the interest is in an affirmative defence called unjustified threats or warning letters. In practice, the patent holder sends warning letters to the manufactures or commercial distributors of allegedly infringing goods, and then later it transpires there was no infringement, or the patent was invalid. The idea behind the letters of infringement is to threaten with infringement action unless the allegedly infringing behaviour stops.
- 52 Unjustified threats have a background in the Paris Convention that prohibits false allegations in the course of trade.¹⁴⁸ The Guide to the Application of the Paris Convention gives further guidance on the scope of the requirement providing that distinguishing a competitor by undue allegations does not need injurious intention. In addition, the Guide to the Application of the Paris Convention leaves/allows some freedom for the domestic legislation or case law of each country to decide whether and under what circumstances, discrediting and untrue allegations, may also constitute acts of unfair competition.¹⁴⁹
- 53 The Paris Convention therefore requires protection against the use of unjustified threats in infringement proceedings. In Europe, the law in this area is not harmonised. A threat allows the addressee to join a pending opposition or appeal proceedings before the European Patent Office (EPO).¹⁵⁰ IPRED does not address unjustified threats or warning letters. In some jurisdictions, unjustified threats or warning letters are implemented through domestic law and used as a basis for the action.¹⁵¹ The UK has a specific

threat provision dealing with unjustified threats to patents. In Germany and the Netherlands groundless threats are dealt with as an aspect of the general tort law or through unfair competition law.

- 54 The justification for a remedy against groundless threats can be the protection of suppliers, retailers, and consumers from a patentee seeking to damage the business of competitors. For instance, a pharmaceutical company, which knows that its case on patent validity and infringement is weak, can threaten a retailer that stocks the competing product of a rival company with infringement proceedings.¹⁵² Start-ups and growth companies can even be targeted for their use or adoption of existing technology.¹⁵³ In practice, NPEs use a warning letter to contact start-up and growth companies accusing the company of infringing one or more of its patents.¹⁵⁴ Unjustified threats can be particularly damaging to smaller companies that may not have the resources to respond or take advice as to whether there has been an infringement.¹⁵⁵ From the perspective of harm to business, threats may be harmful in the way they propose the denial of an activity that may not eventually prove to be unlawful. In addition, threats may cause harm to a company's reputation and lead to a significant loss in sales.¹⁵⁶
- 55 In the UK, the threat provision was modified in 2017. According to the Intellectual Property Act, communication contains a threat if a reasonable person receiving the communication understands from it that a patent exists and that a person intends to bring proceedings in the UK for the infringement of that right in the UK.¹⁵⁷ This is a formal definition containing judicial flexibility. A threat can be written

Trade Marks and Design Rights: Groundless Threats, Consultation Paper no. 212 (2014) <https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jxou24uy7q/uploads/2015/03/cp212_patents_groundless_threats.pdf> accessed 27 November 2020 8.

148 Article 10^{bis} 3 ii of the Paris Convention for the Protection of Industrial Property (20 March 1883) 1160 UNTS 231 (as revised)

149 GHC Bodenhausen, *Guide to the Application of the Paris Convention* (United International Bureaux for the Protection of Intellectual Property 1967) 145(g)

150 Article 105 of the European Patent Convention

151 H-P Brack, 'Patent Infringement Warnings in a Common Law versus a Civil Law Jurisdiction – An Actionable Threat?' (2006) 37 IIC 31; C Heath, (n 11), 310; Law Commission, *Patents*,

152 Simmons & Simmons International Life Science Group, 'Threatening patent infringement proceedings – an international perspective', *Pharmaceutical Law Insight* (2016) <<https://www.fisal.nl/pdf/publicatie-4.pdf>> accessed 27 November 2020

153 C Chien, (n 12), 16.

154 J Mello, (n 34), 388; S Fusco, (n 13), 444.

155 H MacQueen et al., *Contemporary Intellectual Property. Law and Policy* (OUP 2011) 956.

156 C Heath, (n 11), 308-309; Law Commission, (n 149), 42.

157 §70 of the Intellectual Property (Unjustified Threats) Act 2017.

or unwritten, it does not need to be directed at any particular person.¹⁵⁸ A threat can even be a letter sent in response to an inquiry made by the infringer himself.¹⁵⁹ The test whether a threat is actionable seems to be quite subjective. According to Justice Aldous, the Court must look at the warning through the eyes of a reasonable and normal recipient and thereafter decide whether there is a reasonable argument that it would be understood as a threat of patent proceedings.¹⁶⁰

- 56 In the UK, there are two types of infringements: primary and secondary. Primary infringement refers to making or importing goods. Hence, primary infringers are often the manufacturers and importers. By contrast, secondary infringement refers to other acts such as the selling or advertising of goods. Hence, secondary infringers are often the distributors or retailers.¹⁶¹ In the UK, threats concerning primary infringements cannot be used as the basis for a groundless threat claim, while threats concerning secondary infringement do form the basis of such claims. In patent cases, threats relating to the acts of making or importing products for disposal or using a process are not actionable. The threat provision aims to prevent a right holder shutting down the network of supply without the risk and cost of proceedings to justify their claim. The fear of litigation costs and the availability of an alternative supplier, including the rights holder, act as powerful incentives for a retailer to abandon a product.¹⁶² The infringing actions of the trade source are likely to cause the most damage to a right holder. Hence, they are classified as being primary acts and are excluded from the protection of the threat's provisions. A right holder can therefore threaten a primary infringer without the fear of being sued for making a groundless threat claim. However, these parties can also bring an action for a negative

declaration – for example that they do not infringe – in the cases here – the patentee fails to follow up threats with a claim form.¹⁶³

- 57 In Germany, much of the law governing whether a warning is actionable has developed as a matter of case law rather than a statute.¹⁶⁴ The German Act against Unfair Competition (UWG) has a general clause that prohibits unfair competition practices such as tangible impairment of the interests of competitors, consumers or other market participants.¹⁶⁵ The case law in this context is highly developed, but also rather more casuistic than principled.¹⁶⁶ The UWG contains examples of unfair acts; these include cases where a person discredits or denigrates the distinguishing marks, goods, services, activities, personal or business circumstances of a competitor.¹⁶⁷ In addition, there are cases where facts have been asserted or disseminated about the goods, services, or business of a competitor; these facts have to harm the operation of a business or the credit of the entrepreneur to an extent that shows the facts are not demonstrably true.¹⁶⁸ Here the conduct of the defendant is important and the manner of misappropriation.¹⁶⁹
- 58 The UWG applies to acts performed in the course of commerce, therefore wider protection is provided by the general tort law.¹⁷⁰ In practice, the warning must have a clear demand for a specific person to

158 T Sherliker, 'Don't Threat the Small Stuff – Reform Coming for Unjustified Threats' (2016) 11 *Journal of Intellectual Property Law & Practice* 330.

159 *Cerosa Ltd v. Poseidon Industrie A.B. and Another*, High Court of Justice Chancery Division [1973] FSR 223.

160 *Bowden Controls Ltd. v. Acco Cable Controls Ltd. and Another* [1990] RPC 427. The Case concerned a patent dispute in Germany resulting in a finding of infringement, which was subject to appeal. A letter was sent in England referring to the German decision, stating that the company intended to enforce its rights. The Court considered whether it was arguable that the letter constituted a threat.

161 C Heath, (n 11), 308-309; Law Commission, (n 149), 42.

162 Law Commission, (n 149), 3, 6, 42.

163 J Pila and P Torremans, *European Intellectual Property Law* (OUP 2016) 602.

164 H-P Brack, (n 149), 15.

165 Section 3 of the German Unfair Competition Act (*Gesetz gegen den unlauteren Wettbewerb*) (UWG); Law Commission, (n 149), 81-82; JP Heidenreich, 'The New German Act Against Unfair Competition', *German Law Archive* (2015), <<https://www.harmsen.utescher.com/rechtsanwaelte-patentanwaelte/dr-jan-peter-heidenreich/>> accessed 27 November 2020

166 H Ullrich, 'Anti Unfair-Competition Law and Anti-Trust Law: A Continental Conundrum?', *EUI Working Paper Law No. 2005/01*, <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=837086> accessed 27 November 2020 30.

167 Section 4(7) of the the German Unfair Competition Act (*Gesetz gegen den unlauteren Wettbewerb*) (UWG); JP Heidenreich, (n 163).

168 Section 4(8) of the German Unfair Competition Act (*Gesetz gegen den unlauteren Wettbewerb*) (UWG); JP Heidenreich, (n 163).

169 H Ullrich, (n 164), 30.

170 §823 of the German Civil Code (*Bürgerliches Gesetzbuch*) (BGB); Law Commission (n 149), 82.

stop a specific activity and warn the infringer that the right holder will file an action if the warning goes unheeded. A warning is unjustified if there is a deficiency in a substantive right and/or in a formal justification for the warning.¹⁷¹ A substantive right might be lacking if the patent is invalid or has been revoked in full or in part, or if there was no infringement. There would be a lack of a formal justification for example if the warning was misleading.¹⁷² In order for a warning to be actionable for damages there must be culpability on the part of the warning party in the form of either intent or negligence.¹⁷³

- 59 However, the German Supreme Court has stated that sending a warning letter to the customers of the competition is highly problematic for these competitors. By warning off a competing manufacturer's customers with exaggerated claims, the right can enlarge its exclusive rights beyond the true scope of the IP right in question.¹⁷⁴ In *Spritzgiesmaschine* a warning party believed that his/her patent was valid based on the successful maintenance of the patent after an opposition. Hence, he/she was not aware of other relevant prior art, nor did he/she attempt to avoid disclosure of any such prior art.¹⁷⁵ In addition, for an unjustified warning to be actionable for damages under tort there must be a violation of the right of a plaintiff and a causal link between the defendant's conduct and the harm suffered by the plaintiff.¹⁷⁶

- 60 In the Netherlands, there is a general duty not to commit wrongful acts and when a wrongful act is committed, the damage has to be repaired.¹⁷⁷ The Dutch Courts have developed these provisions in order to provide protection against the threat of infringement proceedings. The mere fact that a patent is ultimately revoked does not necessarily mean that the threat is unlawful.¹⁷⁸ A threat may be considered unlawful where it is known, or ought reasonably to be known, that at the time of issuing the threat its patent was not valid and/or not infringed.¹⁷⁹ The Courts have also considered a threat unlawful where it is unnecessarily offensive or unnecessarily public. In addition, if the person making the threats is not the owner of the IP rights asserted, the threat will generally be unlawful.¹⁸⁰ There is no formal distinction between primary and secondary infringers. However, this might be a relevant factor when deciding the lawfulness of the threat; for instance, when the primary infringers are already known and no action is directed towards a primary infringer.¹⁸¹

- 61 A defendant should be able to bring an action for the inappropriate use of IP rights, rather than having to wait to be sued for infringement as a defence.¹⁸² There are differences between the examined EU member States regarding addressing unjustified threats in legislation, cases, and approaches. These national differences make the threshold for a reaction to unjustified threats by start-ups and growth companies very high. A company that asserts its patent rights at a European level must consider the unjustified threat element on a case-by-case basis in each jurisdiction. This increases the costs of the transactions. Even though there is no harmonisation addressing unjustified threats in Europe, the essential aim of benefiting from an improper advantage lies behind the unjustified threats and warning letters.

171 M Brandi-Dohrn, 'Die Abnehmervorwarnung in Rechtsprechung und Praxis' (1981) 83 *Gewerblicher Rechtsschutz und Urheberrecht* 680; H-P Brack, (n 149), 16.

172 H-P Brack, (n 149), 16. For example, a misleading warning could give a false impression that the warning is based on a valid infringement decision. See *Bürgerliches- und Verfahrensrecht* (BGH), Urteil vom 23.02.1995, I ZR 15/93, 97 *GRUR* (1995) 424-427 (*Abnehmervorwarnung*).

173 H-P Brack, (n 149), 16; B Marquesinis and H Unberath, *The German law of Torts* (OUP 2002) 83.

174 Simmons & Simmons, *Threatening Patent Infringement Proceedings – an International Perspective* (Pharmaceutical Law Insight 2006), < <https://fisal.nl/pdf/publicatie-4.pdf> > accessed 27 November 2020; Bundesgerichtshof, BGH, Urteil vom. 15 Juli 2005, GSZ 1/04, para 16.

175 *Bürgerliches- und Verfahrensrecht*, BGH, Urteil vom. 22 Juni 1976, X ZR 44/74, 78 *GRUR* (1976) 715-719 (*Spritzgießmaschine*).

176 H-P Brack, (n 149), 18.

177 Article 162 of the Book 6 of the Dutch Civil Code (*Burgerlijk Wetboek*) (BW).

178 Court of Appeal 20 September 2011, IER 2001/57 (*Kopperts/Boekstein*)

179 Law Commission, (n 149), 83; Supreme Court 27 January 1989, NJ 1989, 506 (*Mejn/Stork*); Supreme Court 29 Maart 2002, LJN AD8184 (*Van Bentum/Kool*); Hoge Raad 29 September 2006, LJN AU6098 (*CFS Bakel/Stork Titan*).

180 See for example District Court Amsterdam, 13 April 2011 (*Steffex*), regarding a claim of copyright infringement.

181 Law Commission, (n 149), 83.

182 R Feldman, (n 25), 310.

This resembles the CJEU case law under the abuse of rights doctrine. In the CJEU case law, the essential aim of benefiting from an improper advantage indicates an abuse.¹⁸³

G. Conclusion

- 62 Start-ups and growth companies must be able to have safeguards against abusive claims. Institutions set a structure for interaction between different parties and frame these safeguards. This article has evaluated the abuse of patent enforcement and analysed the abuse of rights principle, the abuse of a dominant position, the Enforcement Directive (IPRED), and unjustified threats. The article has provided an analysis of whether these elements provide tools for start-ups and growth companies when acting as defendants in patent infringement cases that could be considered abusive.
- 63 The article argues that the studied elements mitigate the potential ill effects of abusive legal proceedings to a certain extent. All the elements address the abuse of patent enforcement from their own perspective.
- 64 The abuse of rights doctrine has not been applied to patent litigation cases by the CJEU. For the abuse of rights principle to apply it is not sufficient that the patent has not been used. In this context, compulsory licensing would provide a solution if the public interest is involved. It would, however, be more meaningful to cover under the abuse of rights doctrine claims that are raised by means of harassing, threatening, weakening the position, or preventing the entry into the market of the defendant. The abuse of rights principle seems to be too general to be used in the IP context.
- 65 The abuse of a dominant position under Article 102 of the TFEU applies only to a situation where the plaintiff is a dominant undertaking and has sufficient market power. The CJEU case law related to abusive litigation in EU competition law is limited and to a certain extent only applies to specific situations such as the misuse of enforcement procedure and SEP disputes. Two cumulative criteria set a good starting point. However, several questions remain open, such as the definition of “manifestly unfounded”. The applicability of the two cumulative criteria simultaneously makes the applicability of NPEs problematic. The aim to eliminate competition indicates exclusionary purposes. In relation to the SEPs and injunctions, NPEs have been addressed in

national case law following the CJEU’s steps set out in *Huawei Technologies v. ZTE*. Thus, in the UK and Germany, restrictions set by the CJEU apply also to NPEs. In addition, NPEs evidently bring new practices that should be addressed such as the separation between exclusionary and exploitative practices.

- 66 The IPRED has institutional support at the European Union level. Hence, measures, procedures and remedies can be abused under IPRED. However, the case law is limited and the abuse under IPRED has been applied in the context of remedies. The abuse is not defined in the IPRED. When evaluating the IPRED, the CJEU could follow the doctrine of abuse of rights and take into consideration the essential aim of benefiting an improper advantage.
- 67 Unjustified threats were studied in the UK, Germany and the Netherlands with the result that National practices were seen to vary. Unjustified threats seem to be complex matter for start-ups and growth companies due to the lack of harmonisation at the EU level. In relation to unjustified threats, the studied countries have different practices. In the UK, there is a specific threat provision addressing unjustified threats to patents. In Germany and the Netherlands, groundless threats are addressed as an aspect of the general tort law or through unfair competition law. These national differences mean that a company asserting its patent rights at a European level must consider the unjustified threat element on a case-by-case basis in each jurisdiction. However, a defendant should be able to have a means of defence earlier than having to wait to be sued for infringement without any real infringement having taken place.

Unjustified threats as an affirmative claim lowers transaction costs and therefore, is particularly beneficial for start-ups and growth companies.

- 68 In the CJEU case law, in relation to the abuse of rights doctrine, the subjective intention is a precondition for the application of the abuse of rights principle. The subjective intention and the essential aim of benefiting from an improper advantage could also be justified as an unjustified threat. This approach to subjective intention could be taken into consideration when a set of facts establishing unjustified threats are evaluated by national courts. Subjective intention could harmonise national practices to a certain extent. Further study of this harmonisation aspect would offer an interesting research area in the future.
- 69 The abuse of rights principle, the abuse of a dominant position, the Enforcement Directive (IPRED), and unjustified threats, potentially increase legal certainty and improve efficiency by lowering transaction costs. However, they are not sufficient, and adjustments and clarifications are needed. The

183 Case C-147/03 *Commission of the European Communities v Republic of Austria*. ECLI:EU:C:2005:427, para 55; C-116/16 and C-117/16 *T-Denmark and Y-Denmark Aps*. ECLI:EU:C:2019:135, para 9

generality of the abuse of rights principle, the minor case law, national practices varying significantly, and the lack of harmonisation make the studied legal tools rather complicated for start-ups and growth companies when defending their rights in patent enforcement proceedings.