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*Intellectual Property
and Merger Control
(Germany / EU)*

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European University Institute
Robert Schuman Centre for Advanced Studies
2005 EU Competition Law and Policy Workshop/Proceedings



To be published in the following volume:
Claus-Dieter Ehlermann and Isabela Atanasiu (eds.),
*European Competition Law Annual 2005:
The Interaction between Competition Law and Intellectual Property Law*,
Hart Publishing, Oxford/Portland, Oregon (in preparation).

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Intellectual Property and Merger Control (Germany / EU)

by *Jochen Burrichter** and *Dr. Boris Kasten***

A. Introduction

One of the effects of creating an intellectual property right (IP right) is that a formerly public good becomes a private good.¹ IP rights create ownership rights that can be made the subject matter of market transactions. In particular, the owner of an IP right may, to the extent permitted by intellectual property law, transfer the entire ownership right, or he may grant rights of use for other persons through licence agreements.² If a market transaction that involves an IP right has a critical mass and therefore reaches certain thresholds, it may fall within the ambit of merger control law, and the IP right itself may play an important role in the assessment of such a concentration.³

What follows are some reflections about which kind of merger control questions may be posed by the creation, transfer, licensing and other use of IP rights. They begin with a look into whether and when the use of an IP right may amount to a concentration for the purposes of German and European merger control law (B, *infra*). Next, it will be assessed what role IP rights can play in the material evaluation of a concentration, i.e., to what extent they can be a factor in deciding whether to block or to allow a concentration (C). Finally, we will deal with the role of IP rights in commitments and imposing conditions and obligations to avoid the prohibition of a concentration (D).

B. Intellectual property rights and the definition of a concentration

1. German Act Against Restraints of Competition (GWB)

1.1. Section 37 of the German Act Against Restraints of Competition (GWB)

Section 37 of the German Act against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*, or 'GWB') defines what amounts to a concentration for German merger control purposes. The statutory definition is fairly detailed. It enumerates a variety of

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¹ See Ernst-Joachim Mestmäcker, *Gewerbliche Schutzrechte und Urheberrechte in der Eigentums- und Wirtschaftsordnung*, in: *Wirtschafts- und Privatrecht im Spannungsfeld von Privatautonomie, Wettbewerb und Regulierung*, Festschrift für Ulrich Immenga, 2004, pp. 261, 267.

² See Mestmäcker (*supra* note no. 1), p. 261.

³ See, e.g., Andreas Heinemann, *Immaterialgüterschutz in der Wettbewerbsordnung, Eine grundlagenorientierte Untersuchung zum Kartellrecht des geistigen Eigentums*, 2002, pp. 175-176, 522-525.

elements to a transaction, the existence of which leads to a concentration within the meaning of the GWB.⁴ The elements of Section 37 GWB can be summarized as comprising four categories of concentration: (1) the acquisition of all or of a substantial part of the assets of another undertaking (*asset acquisition*); (2) the acquisition of direct or indirect control by an undertaking of the whole or parts of another undertaking (*control acquisition*); (3) the acquisition of shares in another undertaking if the shares, either separately or together with other shares already held by the undertaking, reach (a) 50% or (b) 25% of the capital or the voting rights of the other undertaking (*share acquisition*); and (4) any other combination of undertakings that enables one or several undertakings to directly or indirectly exercise a competitively significant influence on another undertaking (*acquisition of competitively significant influence*).

With respect to the relevance of IP rights for the definition of a concentration, it is important to note that the GWB stipulates (1) that the acquisition of a *substantial part* of another undertaking's assets suffices for the assumption of a concentration,⁵ and (2) that the acquisition of control can also take place in the form of *ownership* or through *rights to use all or part of the assets* of the undertaking in question, provided that such means confer the possibility to exercise a decisive influence on the undertaking in question.⁶ Rights or contracts which confer decisive influence on the composition, voting or decisions of the organs of the undertaking also qualify as control acquisition.⁷

⁴ Section 37 of the GWB reads as follows:

"Concentration

(1) A concentration shall arise in the following cases:

1. acquisition of all or of a substantial part of the assets of another undertaking;
2. acquisition of direct or indirect control by one or several undertakings of the whole or parts of one or more other undertakings. Control shall be constituted by rights, contracts or any other means which, either separately or in combination and having regard to the considerations of fact or law involved, confer the possibility of exercising decisive influence on an undertaking, in particular through
 - a) ownership or the rights to use all or part of the assets of the undertaking,
 - b) rights or contracts which confer decisive influence on the composition, voting or decisions of the organs of the undertaking;
3. acquisition of shares in another undertaking if the shares, either separately or together with other shares already held by the undertaking, reach
 - a) 50 percent or
 - b) 25 percent

of the capital or the voting rights of the other undertaking. The shares held by the undertaking shall include also the shares held by another for the account of this undertaking and, if the owner of the undertaking is a sole proprietor, also any other shares held by him. If several undertakings simultaneously or successively acquire shares in another undertaking within the parameters mentioned above, this shall be deemed to also constitute a concentration among the acquiring undertakings with respect to those markets on which the other undertaking operates;

4. any other combination of undertakings enabling one or several undertakings to directly or indirectly exercise a competitively significant influence on another undertaking.

(2) A concentration shall also arise if the participating undertakings had already merged previously, unless the concentration does not result in a substantial strengthening of the existing affiliation between the undertakings.

(3) If credit institutions, financial institutions or insurance undertakings acquire shares in another undertaking for the purpose of resale, this shall not be deemed to constitute a concentration as long as they do not exercise the voting rights attaching to the shares and provided the resale occurs within one year. This time limit may, upon application, be extended by the Federal Cartel Office if it is substantiated that the resale was not reasonably possible within this period."

⁵ Section 37 para. 1 no. 1 GWB.

⁶ Section 37 para. 1 no. 2 sentence 2 lit. a) GWB.

⁷ Section 37 para. 1 no. 2 sentence 2 lit. b) GWB.

Regarding the acquisition of control, it has generally been recognized in German case law as well as in legal literature that even separate assets, such as trademarks, patents, licences and other IP rights or IP-related rights can constitute a part of an undertaking's assets and can therefore be the subject matter of control. However, in such an instance, the asset in question must be a *substantial* part of the assets of the undertaking. The principles of Section 37(1) no. 1 GWB therefore also apply when construing Section 37(1) no. 2 sentence 2 lit. a) GWB.⁸ A look at the relevant case law will help to further demonstrate and clarify these principles.

1.2. Court of Appeals Judgment, *W+i Verlag/Weiss-Druck* (1988)

In 1988, the Court of Appeals (Kammergericht – KG) had to deal with the question of whether the granting of rights to use publisher and title rights for established publications could qualify as a concentration under Section 23(2) no. 3 lit. c) GWB (old version).⁹ This provision defined as a concentration "agreements with another undertaking by which all or a substantial part of the business of another undertaking is leased or otherwise transferred".¹⁰ In the case to be decided, the publication and title rights remained with Weiss-Druck KG, while S-W Verlag had been granted rights of use. S-W Verlag had also entered into all existing lease, advertising, postal and telecommunications agreements, and it had been given the data of existing customers.

The Federal Cartel Office (FCO) had qualified this transfer both as a concentration under Section 23(2) no. 3 lit. c) GWB (old version)¹¹ and as an asset acquisition under Section 23(2) no. 1 GWB (old version).¹² The Kammergericht agreed and held that the granting of a right of use with respect to title and publisher rights qualified as a concentration under Section 23(2) no. 3 lit. c) GWB (old version). The court's reasoning was that the rights constituted a substantial part of the business of Weiss-Druck KG. According to the court, the provision catches all goods that have a monetary value, irrespective of their particular kind, use and purpose. Also caught were mere business opportunities such as customer relations, for the transfer of which a fee is typically paid. For an established advertising journal publisher (such as Weiss), the court said, the publication and title rights constitute a substantial part of its business. In addition, the court held that the transfer of the customer data file and the entry into advertising, lease, postal and telecommunications agreements qualified as a concentration in the form of an asset acquisition (Section 23(2) no. 1 GWB (old version)).

⁸ See, e.g., Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 24 to Section 37.

⁹ KG, Decision of 15.1.1988 – Kart I/86 – *W+i Verlag/Weiss-Druck*, WuW/E OLG 4095.

¹⁰ Section 23 para. 2 no. 3 lit. c) GWB (old version) read as follows: "Als Zusammenschluss im Sinne dieses Gesetzes gelten folgende Tatbestände: (...) 3. Verträge mit einem anderen Unternehmen, durch die (...) c) dem Unternehmen der Betrieb des anderen Unternehmens ganz oder zu einem wesentlichen Teil verpachtet oder sonst überlassen wird."

¹¹ With respect to the transfer of title and publication rights.

¹² With respect to the transfer of leases and other areements. Section 23 para. 2 no. 1 GWB (old version) largely corresponded to Section 37 para. 1 no. 1 GWB (new version) and read as follows: "A concentration for the purposes of this statute shall arise in the following cases: 1. acquisition of all or of a substantial part of the assets of another undertaking by merger, conversion or otherwise."

1.3. Federal Supreme Court Judgment, FRAPAN/Warenzeichenerwerb (1992)

In 1992, the Federal Supreme Court (*Bundesgerichtshof – BGH*) was put in the position to deal with the similar question of whether the registration of a trademark qualified as an asset transfer under Section 23(2) no. 1 GWB (old version).

a) Federal Cartel Office Decision

The FCO had prohibited the acquisition of the trademark ‘FRAPAN’ for food wrapping foils which had taken place in connection with the transfer of the associated part of a business (*Teilgeschäftsbetrieb*).¹³ The registration of the trademark for a subsidiary of Edeka had taken place one day after the trademark had been deleted from the register with respect to Melitta. The FCO considered that the registration/acquisition of the mark qualified as an asset acquisition within the meaning of Section 23(2) no. 1 of the old version of the GWB ("acquisition of the assets by ... or otherwise" – *Zusammenschluss durch Vermögenserwerb in sonstiger Weise*), i.e., the provision which largely corresponds to Section 37(1) no. 1 GWB (new version).

b) Kammergericht

In a complaint to the Kammergericht, it was argued that the transferred part of the business had no separate value and that it had only been transferred for trademark law purposes. Economically, the acquisition only related to the trademark. Because of this, it was submitted, no acquisition of a substantial part of an asset had taken place, since the trademark was neither a separate business nor a separate functional economic entity.

However, the Kammergericht disagreed and confirmed the FCO's decision.¹⁴ Concentrations in the form of asset acquisitions (Section 23(2) no. 1 GWB old version) could also take place solely by the transfer of a trademark, provided such trademark constitutes either all or a substantial part of the assets of an undertaking. Since each asset may qualify as an asset for concentration purposes as long as it has monetary value, trademarks could also constitute the substantial part of the assets of an undertaking, as trademarks represent absolute rights and can be made the subject matter of a specific and separate sale and transfer.

The court then looked into what defines a substantial part of an undertaking's assets. This question depended on whether the transfer of the particular asset may change the acquirer's *position on the market*. The court held that, for this test, not only are the operational conditions of the transferor relevant, but one must also consider the position to be acquired on the market and whether, in light of this position, there is an appreciable change in the market conditions. According to the court, only those parts of assets that, in relation to the entirety of the assets, are either quantitatively sufficiently valuable or possess (irrespective of their size or value) a separate qualitative importance could be regarded as “substantial”. The purpose of merger control law was to prevent distortions of the competitive conditions and it was therefore not necessary to restrict the application of Section 23(1) no. 1 GWB (old version) to transfers of parts of a business. With respect to the transfer of a trademark, the question of whether the asset is substantial depended on the economic importance of the trademark in question, its name recognition and the associated function to relay the product's origin and quality. Using these standards, the Kammergericht decided that the competitive position of the acquirer on the relevant market could be assumed to change due to the use of the ‘FRAPAN’ trademark.

¹³ See FCO, *Tätigkeitsbericht 1993/94*, pp. 17, 19, 100-101.

¹⁴ KG, Decision of 23.5.1991 – Kart. 13/89 – *Folien und Beutel*, WuW/E OLG 4771.

c) Federal Supreme Court Judgment

The BGH confirmed.¹⁵ Whether a part of an undertaking's assets is substantial would have to be decided in light of the purpose of merger control law, which is to prevent concentrations that change structural market conditions in such a way that the effectiveness of competition is no longer guaranteed or competition is further restrained. Parts of assets can therefore be substantial if their acquisition is capable of strengthening the position of the acquirer on the relevant market. While the outcome remained the same, the court's reasoning slightly differed from that of the Kammergericht. According to the court, the palpable effects of the acquisition for the market position of the acquirer in question were irrelevant: only the abstract ability of the asset in question to change the acquirer's market position would matter.

Under these standards, what matters is a market-based, and not an 'acquirer-based' test. In slight contrast to the approach taken by the Kammergericht, the BGH ruled that not every acquisition that leads to a strengthening of market power of the acquirer and the associated significant change in market conditions qualifies as the acquisition of a substantial part of assets. It would not be in line with the purposes of merger control law if every large asset acquisition (such as the acquisition of real property or IP rights such as patents) had to be notified. Instead, only acquisitions that *enable the transferee to enter into the transferor's market position* are caught. Section 23(2) no. 1 GWB (old version) – and therefore also Section 37(1) no. 1 GWB (new version) – is only fulfilled in the case of the transfer of an asset which is separable from the remainder of the assets and which is the *primary foundation*, i.e. the substrate, of the transferor's position on the relevant market and thereby qualitatively capable of significantly strengthening the acquirer's position on the relevant market. According to the court, such a primary foundation (substrate) for concentration purposes can also be given in the case of the transfer of a well-established trademark that represents the business performance of an undertaking and the quality of its products.

The court emphasized that the novelty of its decision consisted in its ruling that the transfer of a trademark *as such* can qualify as an asset acquisition under Section 23(2) no. 1 GWB (old version) (and therefore also under Section 37(1) no. 1 GWB (new version)). The previous case law had only dealt with the question of whether the acquisition of a part of a business (such as a cement plant) or a certain business division of an undertaking can be considered as the acquisition of a substantial part of assets. In the case at hand, however, only the trademark without an associated production entity had been transferred. The goods that were distributed under the 'FRAPAN' trademark were not manufactured by the transferor itself. The court held, however, that as long as the transferred trademark or other IP right qualifies under the primary foundation (substrate) test, it does not matter whether a business (or part of a business) is transferred as well. In the case of 'FRAPAN', the court held that the trademark had been the primary foundation of the transferor's market position in the wholesale distribution of aluminium foil, cling films, freezer bags, breakfast pouches and baking parchment. The acquisition of the trademark in itself as such therefore enabled the transferee to enter into that market position and thereby significantly influence market conditions. The concurrent transfer of distribution documents such as customer and supplier relations was therefore irrelevant to the analysis.

The decision led to mixed reactions. While it appears that most commentators agreed that the mere transfer of an IP right may qualify as a concentration,¹⁶ the decision has also been criticized as being overly broad.¹⁷

¹⁵ BGH, Decision of 7.7.1992 – KVR 14/91 – *Warenzeichenerwerb*, WuW/E BGH 2783.

¹⁶ See, e.g., Karl-Heinz Fezer, note to BGH *Warenzeichenerwerb*, GRUR 1993, 847, 848 (agreeing with the decision and arguing that the acquisition/transfer of a trademark may also qualify as an asset transfer and therefore as a concentration under the European merger control law); *Bruhn*, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p 34; *Richter*, in: Wiedemann, *Handbuch des Kartellrechts*, 1999, p. 658.

1.4. Federal Cartel Office Decision, *Cisco/IBM* (2000)

The FCO's decision in *Cisco/IBM* dealt with the transfer of a business that primarily consisted of IP rights.¹⁸ The subject matter of the transaction was IBM's business activities in the area of development and distribution of active components of data networks (open data transfer technologies such as ATM und Ethernet). All relevant IP rights for this business were transferred from IBM to Cisco, together with customer data. The parties also entered into a distribution agreement. No other assets or means of production were transferred.

The FCO decided that the transaction qualified as a concentration in the form of the acquisition of a substantial part of assets under Section 37(1) no. 1 GWB. Although (in addition to the distribution cooperation) only IP rights and customer data were transferred *in rem*, this was sufficient to infer a concentration because the entirety of the agreements was aimed at and capable of transferring the market position of IBM in the distribution of network technology for data networks to Cisco: the patents embodied the technical expertise and the customer data contained the knowledge about the identity and needs of customers which allowed Cisco to enter into IBM's position *vis-à-vis* the customers. The transfer of the market position was further protected by the cooperation agreement, which provided for the joint development and marketing of migration solutions for the transfer from products of the sold business to Cisco products. The entirety of the measures was suited to cause a significant strengthening of Cisco's market position.

1.5. Court of Appeals Judgment, *National Geographic* (2005)

a) Federal Cartel Office Decision

In its latest decision dealing with concentrations merely through the transfer of intangible goods, the FCO decided on 2 August 2004 that the purchase of a 10-year exclusive licence for a German edition of *National Geographic* magazine by German publisher Gruner + Jahr constituted a notifiable concentration.¹⁹ Having acquired a licence from the National Geographic Society, Gruner + Jahr was the first publisher to introduce a German edition of *National Geographic* to the German market. Previously, only the English edition of the journal had been available in Germany (with a distribution of approximately 50,000).

The FCO did not qualify the transaction as the acquisition of assets under Section 37(1) no. 1 GWB, but it considered that the acquisition of the licence constituted an acquisition of control within the meaning of Section 37(1), second sentence no. 2a) GWB. It stated that this provision was also meant to catch the case of Section 23(2) no. 3c) GWB (old version), i.e., a concentration through an agreement with another undertaking by which all or a substantial part of the business of another undertaking is leased or otherwise transferred.²⁰ By building its decision on Section 37(1), second sentence no. 2a) GWB, it seems that the FCO mainly drew on

¹⁷ See Robert Knöpfle, *Zum Zusammenschluß durch den Erwerb eines Vermögensteiles*, NJW 1992, p. 472 (arguing against the BGH's position that it suffices, for purposes of Section 37 para. 1 GWB, that – qualitatively – the transferred asset is of particular importance and changes acquirer's market position, and that is irrelevant whether – quantitatively – the asset constitutes a substantial part of the transferor's assets).

¹⁸ FCO, Decision of 3.3.2000 – B7-30020-U-221/99 – *Cisco/IBM*, WuW/E DE-V 227.

¹⁹ FCO, Decision of 2.8.2004 – B6-26/04 – *National Geographic*, WuW/E DE-V 947.

²⁰ See note 10, *supra*.

the Kammergericht's reasoning in *W+i Verlag/Weiss-Druc*.²¹ However, the FCO also heavily consulted the criteria used by the BGH with respect to concentrations through asset acquisition.

The FCO decided that the acquisition of control under Section 37(1), second sentence no. 2a) GWB covers the transfer of usage rights both *in rem* and *in personam*. Therefore it did not matter that the grant of the licence was only limited in time and only had *in personam* character (the rights for the German edition of *National Geographic* had only been licensed, and not fully transferred to Gruner + Jahr). According to the FCO, for merger control purposes it would only depend on whether the acquired part of assets was capable of strengthening the acquirer's position in the relevant market. Citing the BGH's *Warenzeichenerwerb* judgment, the FCO pointed out that it was not the palpable effects of the acquisition on the acquirer that mattered but rather the abstract ability of the acquired part of assets to change the market position of the transferee. The FCO held that this depended upon whether the acquired asset qualified as a substantial asset within the meaning of Section 37(1) no. 1 GWB. As explained above, according to the BGH's *Warenzeichenerwerb* judgment, this was the case if the asset in question is the primary foundation (the substrate) of the transferor's position on the relevant market and is able to transfer that position to the acquirer. Citing the *Warenzeichenerwerb* and *W+i Verlag/Weiss-Druck* judgments, the FCO found that a trademark or licence as such can qualify as a substantial asset.

According to the FCO, the title of the magazine and the name of the National Geographic Society in general are well established. Therefore, no new launch of a title for a popular science magazine on the relevant German market was necessary for Gruner + Jahr. The publication and title rights for the brand 'National Geographic' constituted a substantial part of a business under Section 23(2) no. 3c) GWB (old version) and therefore also a substantial part of an asset for the purposes of Section 37(1) no. 1 GWB (new version) by which a market position could be conferred on the transferee.

The novelty of the FCO's decision lies in the fact that, at the time of licensing, no turnover or sales were associated with the German edition of the *National Geographic* magazine. Gruner + Jahr was the first publisher ever to launch a German edition. The FCO held that this was irrelevant. Citing the *Warenzeichenerwerb* judgment, it found that the main criterion for the assumption of an acquisition of a substantial part of an asset (Section 37(1) no. 1 GWB) in the case of IP rights was the profile and publicity of the acquired brand. If a well-known trademark brand symbolized the business performance of an undertaking and the reputation of its products, it could be the foundation of its market position. These principles were held to apply in case of 'National Geographic' due to the fact that the brand was among the most well-known names worldwide and irrespective of any German edition of the magazine. Even though Gruner + Jahr still had to launch a German edition, at the time of the acquisition of the licence the brand had been firmly established in the German market through the English edition and the century-old tradition of the brand in general. Gruner + Jahr could therefore build on the existing reputation rather than launch a new and hitherto unknown title. In a parallel decision, the FCO also prohibited Gruner + Jahr's proposed acquisition of sole control of a joint venture associated with the licence transfer.²²

²¹ See B.1.2), *supra*. As we have seen, the judgment in *W+i Verlag/Weiss-Druck* was based on Section 23 para. 2 no. 3 lit. c) GWB (old version).

²² See FCO, Decision of 3.8.2004 – B6-45/04 *National Geographic*.

b) Court of Appeals Judgment (Oberlandesgericht Düsseldorf)

Gruner + Jahr strongly opposed the FCO's position and successfully appealed to the Düsseldorf Court of Appeals (*Oberlandesgericht Düsseldorf – OLG Düsseldorf*).²³ Disagreeing with the FCO's point of view, the OLG Düsseldorf stated that the transaction neither constituted an acquisition of assets under Section 37 (1) no. 1 GWB nor an acquisition of control in the sense of Section 37 (1), second sentence no. 2a) GWB.

According to the court, usage rights are not an appropriate object of acquisition in the sense of Section 37 (1) no. 1 GWB, as this form of acquisition refers to a transfer of full ownership and title of the right in question. Moreover, according to the OLG Düsseldorf, no acquisition of control had occurred since Gruner + Jahr had not acquired a substantial part of an asset as required by Section 37 (1) second sentence no. 2a) GWB. The court stated that the criterion of substantiality, although not explicitly contained in the wording of Section 37 (1), second sentence no. 2a) GWB, was necessary to maintain a systematic coherence with Section 37 (1) no. 1 GWB, and that the criterion had to be interpreted with a view to German merger control's objective of avoiding concentrations capable of putting at risk the efficiency of competition.

In theory, according to the OLG Düsseldorf, substantiality can be determined either quantitatively or qualitatively. Since the FCO had not determined whether the publication and title rights acquired by Gruner + Jahr constituted a sufficient part of the transferor's (i.e., the National Geographic Society's) entire property, the quantitative approach was not applicable. Under the qualitative approach, the court declared that substantiality of a transferred usage right only exists where the acquired values are the primary basis of the seller's position in the relevant market and are *capable of transferring this existing position to the buyer*, similar to an asset acquisition that allows a transfer of the seller's existing market position.²⁴ This, according to the court, results from the BGH's *Warenzeichenerwerb* judgment²⁵ as well as from the European Commission's interpretation of the terms "concentration" and "undertakings concerned" in the EC Merger Regulation 4064/1989, Article 3 (1) lit. b), (3) of which functioned as a role model for Section 37 (1) no. 2 GWB. The OLG Düsseldorf also made reference to paragraph 14 of the Commission's Notice on the concept of undertakings concerned²⁶ and to paragraph 11 of the Notice on the concept of concentration,²⁷ according to which an acquisition of control can also refer to trademarks and licences as "parts" of an undertaking, provided that a market turnover can be clearly attributed to them.²⁸

Applying these principles, the court ruled that, since the National Geographic Society had never obtained a position in the relevant geographic market for popular science magazines in the German language, the transfer of the usage rights itself was not capable of strengthening Gruner + Jahr's position on the relevant market but only created the *possibility or chance* to gain a market position by launching a German edition of *National Geographic* for the first time. The OLG Düsseldorf disagreed with the view that the potential market relevance of the transaction based on the popularity of the brand 'National Geographic' was sufficient to fulfil the criteria of Section 37 (1), second sentence no. 2a) GWB.

²³ OLG Düsseldorf, Decision of 15.6.2005 – VI Kart 24/04 (V) – *National Geographic*, WuW/E DE-R 1504.

²⁴ OLG Düsseldorf, Decision of 15.6.2005 – VI Kart 24/04 (V) – *National Geographic*, WuW/E DE-R 1504, 1505/1506.

²⁵ Id., WuW/E DE-R 1504, 1506/1507.

²⁶ Commission Notice on the concept of undertakings concerned, OJ 1998 C66/14.

²⁷ Commission Notice on the concept of concentration, OJ 1998 C66/5.

²⁸ OLG Düsseldorf, Decision of 15.6.2005 – VI Kart 24/04 (V) – *National Geographic*, WuW/E DE-R 1504, 1507.

Despite this (preliminary) outcome, the *National Geographic* case demonstrates yet again that it is vital for companies to bear in mind the potential merger control relevance when acquiring established brand licences. Under the judgment of the OLG Düsseldorf, the acquisition of licences for brands that are absent from the relevant geographic market at the time of licensing no longer appear to risk being qualified as a concentration and subject to German merger control. However, the FCO has appealed to the BGH.²⁹ It remains to be seen whether the BGH will be more willing than the OLG Düsseldorf to accept the FCO's argument that the mere transfer of a brand, albeit being absent from the relevant market at the time of licensing, can trigger the applicability of German merger control law.

2. European Merger Control Regulation (Regulation 139/2004)

2.1. Article 3 of Regulation 139/2004

Article 3 of Regulation 139/2004 (European Merger Control Regulation, or 'EMCR') defines which kinds of transactions qualify as concentrations for the purposes of European merger control law.³⁰ A concentration arises in two instances, namely either (a) the merger of two or more previously independent undertakings or parts of undertakings (*concentration by merger*), or (b) the acquisition of direct or indirect control of the whole or parts of one or more other undertakings, whether by purchase of securities or assets, by contract or by any other means (*concentration by acquisition of control*). Acquisition of control requires that the means used for the acquisition confer the possibility of exercising a decisive influence on the other undertaking, particularly by (i) ownership or the right to use all or part of the assets of an undertaking (*control by asset acquisition*), or (ii) rights or contracts which confer decisive influence on the composition, voting or decisions of the organs of the undertaking (*control by acquisition of decisive influence*). The former provision (acquisition of ownership or the right to use all or part of the assets of an undertaking) was used as a model³¹ for the wording of Section 37(1), second sentence no. 2a) GWB, on which the FCO based its finding of a concentration in its *National Geographic* decision.³²

According to paragraph 14 of the Commission's Notice on the concept of undertakings concerned, the concept of "parts" of one or more undertakings within the meaning of Article 5(2) EMCR (a provision dealing with the calculation of turnover), "is to be understood as one or more

²⁹ Docket no. KVR 32/05.

³⁰ Article 3 of Regulation 139/2004 reads as follows:

"Definition of concentration

1. A concentration shall be deemed to arise where a change of control on a lasting basis results from:

- (a) the merger of two or more previously independent undertakings or parts of undertakings, or
- (b) the acquisition, by one or more persons already controlling at least one undertaking, or by one or more undertakings, whether by purchase of securities or assets, by contract or by any other means, of direct or indirect control of the whole or parts of one or more other undertakings.

2. Control shall be constituted by rights, contracts or any other means which, either separately or in combination and having regard to the considerations of fact or law involved, confer the possibility of exercising decisive influence on an undertaking, in particular by:

- (a) ownership or the right to use all or part of the assets of an undertaking;
- (b) rights or contracts which confer decisive influence on the composition, voting or decisions of the organs of an undertaking."

³¹ See Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 2 to Section 37 GWB.

³² See B.1.5. (a), *supra*.

separate legal entities ..., internal subdivisions ..., or specific assets which in themselves could constitute a business (e.g. *in certain cases brands or licences*) to which a market turnover can be clearly attributed".³³ More specific to the question of *assets* of an undertaking (rather than "parts" of an undertaking), paragraph 46, footnote 17 of the Notice on the concept of undertakings concerned provides as follows: "The term 'assets' as used here means specific assets which in themselves could constitute a business (e.g. a subsidiary, a division of a company or, *in some cases, brands or licences*) to which a market turnover can be clearly attributed."³⁴ For the transfer of IP rights and related rights to qualify as an acquisition of control under Article 3(1) lit. a) and Article 3(2) lit. a) EMCR, it is therefore necessary that the rights could in themselves constitute a business and that one can clearly attribute certain sales or revenues to them.³⁵

Further indications are provided by the Commission's Notice on the concept of concentration. Paragraph 11 of that Notice provides: "The object of control can be one or more undertakings which constitute legal entities, or the assets of such entities, or only some of these assets.^[36] *The assets in question, which could be brands or licences*, must constitute a business to which a market turnover can be clearly attributed."³⁷ Commentators have argued that, in the example of the acquisition of a renowned brand, this condition is met if one can expect that future products distributed by the transferee under the trademark will also be sold due to the name recognition of the brand. This has been linked to the requirement that, due to the acquisition of the brand, the acquirer is able to enter into an existing market position.³⁸

However, as opposed to German case law,³⁹ it appears that, to date, no European merger decisions have been based on the finding of a concentration solely due to the acquisition or other transfer of an IP right or a related right.⁴⁰ It further appears that decisions analogous to the BGH's *Warenzeichenerwerb* judgment, or the recent *National Geographic* decisions of the FCO and OLG Düsseldorf, therefore do not (yet) exist. In light of the requirement, formulated in the relevant Commission Notices (i.e., the Notice on the concept of concentration and the Notice on the concept of undertakings concerned), according to which brands or licences may constitute separate businesses and therefore assets for purposes of 'control', if a market turnover may be attributed to them, it is unclear whether the FCO's *National Geographic* reasoning might apply under European merger control law.⁴¹ Be that as it may, at least for IP rights to which turnover can be clearly attributed, there is European case law indicating that the transfer of a licence or IP right may qualify as an acquisition of control. However, all decisions dealing with the transfer of intangible goods, such as patents, licences and other know-how,⁴² have also involved the transfer

³³ Commission Notice on the concept of undertakings concerned, OJ 1998 C66/14 (emphasis added).

³⁴ Emphasis added.

³⁵ See also Henschen, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, pp. 285-286; Matthias Ulshöfer, *Kontrollerwerb in der Fusionskontrolle, Eine Untersuchung im europäischen, deutschen und US-amerikanischen Fusionskontrollrecht*, 2003, pp. 55-56.

³⁶ In this connection, the Notice cites the *Zürich/MMI* Decision of 2.4.1993, M.286.

³⁷ Commission Notice on the concept of concentration, OJ 1998 C66/5 (emphasis added). See also Henschen, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, pp. 285-286.

³⁸ See Henschen, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 286.

³⁹ See B.1., *supra*.

⁴⁰ See also Dirk Staudenmayer, *Der Zusammenschlussbegriff in Artikel 3 der EG-FusionskontrollVO*, 2002, p. 91; Henschen, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 286.

⁴¹ Note that the FCO has considered it irrelevant that, prior to licensing, no sales/revenues could be attributed to the 'National Geographic' brand in relation to a German edition. The OLG Düsseldorf disagreed and reversed. As noted above, the FCO has appealed to the BGH, where the matter is still pending (docket no. KVR 32/05). See B.1.5.), *supra*.

⁴² For patents, licences and other know-how, examples from the case law include: *Zürich/MMI*, Decision of 2.4.1993, M.286, para. 5; *AT&T/IBM Global Network*, Decision of 22.4.1999, M.1396, para. 5. For decisions relating to other rights, see, e.g., *Delta Air Lines/Pan Am*, Decision of 13.9.1991, M.130, para. 3;

of other (tangible) assets or other kinds of acquisition (such as the acquisition of shares).⁴³ For this reason, it remains debated whether the mere transfer of an IP right (without other assets or rights) may qualify as an acquisition of control.⁴⁴

It is worth mentioning that, under European merger law as opposed to German law, the mere acquisition of an asset (or part of the assets) of an undertaking without the acquisition of control does not qualify as a concentration. However, in the course of the assessment of whether control through an asset acquisition has been acquired, the test applied is similar to the German law test relating to the acquisition of parts of assets, which inquires whether those parts of assets are substantial: while in the case of an acquisition of parts of assets the EMCR does not explicitly require substantiality of those assets,⁴⁵ the EMCR requires that the acquisition confers control over an undertaking.⁴⁶

2.2. Case Law

As mentioned, European case law has not yet dealt with the question of whether the mere acquisition or other transfer of an IP right or a related right such as a licence may qualify as an acquisition of control and therefore as a concentration. There is, however, a substantial amount of case law dealing with the question of whether the transfer of certain assets and the corresponding activities (business areas, *etc.*) qualifies as a concentration.⁴⁷ Commentators have reported that the Commission has declared in informal preliminary discussions that it takes a pragmatic, market- and effects-driven approach (rather than a dogmatic position) to the question of an acquisition of parts of an undertaking; in practice the Commission has announced that it will analyze the competitive content, i.e., the market effects, of such an acquisition, and that it will take action in the case of asset acquisitions that allow the acquirer to take over an advanced market position.⁴⁸

In its decisions, the Commission has generally not discussed the question of whether the transferred assets constituted business areas to which a certain market turnover could be attributed.⁴⁹ As an example, this criterion raised in the Commission's Notice on the concept of concentration and in the Notice on the concept of undertakings concerned was only implicitly

CGEA/NSC, Decision of 21.5.1996, M.748, para. 7; *Agfa-Gevaert/Sterling*, Decision of 15.4.1999, M.1432, para. 5.

⁴³ See also Dirk Staudenmayer, *Der Zusammenschlussbegriff in Artikel 3 der EG-FusionskontrollVO*, 2002, p. 91.

⁴⁴ See, e.g., *Fezer* (note 16, *supra*), GRUR 1993, 847, 848 (arguing that the mere acquisition/transfer of a trademark can qualify as an asset acquisition and therefore an acquisition of control for concentration purposes); Immenga, in: Immenga/Mestmäcker, *EG-Wettbewerbsrecht*, 1997, vol. I, note 41 to Article 3 EMCR (qualitative decision depending on whether the asset in question has a significant separate economic significance on the market; trademarks and licences qualify if a market turnover is clearly attributable to them); Knöpfle (note 17, *supra*), NJW 1992, p. 472.

⁴⁵ See Article 3(2)(a) EMCR.

⁴⁶ See Matthias Karl, *Der Zusammenschlußbegriff in der Europäischen Fusionskontrollverordnung, Eine Untersuchung unter Berücksichtigung der Entscheidungspraxis der Kommission der Europäischen Gemeinschaften*, 1996, p. 204.

⁴⁷ See, e.g., *Henkel/Nobel*, Decision of 23.3.1992, M.186; *British Airways/Dan Air*, Decision of 17.2.1993, M.278; *Bosch/Allied Signal*, Decision of 9.4.1996, M.726; *RWE-DEA/Hüls*, Decision of 11.6.1998, M.1174; *Continental/ITT*, Decision of 18.9.1998, M.1292; *Kodak/Imation*, Decision of 23.10.1998, M.1298; *Dillinger Hüttenwerke/Saarstahl/Cokerie de Carling*, Decision of 17.3.2004, M.3376.

⁴⁸ See Henschen, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 286.

⁴⁹ See, e.g., *Continental/ITT*, Decision of 18.9.1998, M.1292, para. 6.

discussed in *Siemens/Bosch Telecom* in the context of the composition of the acquired business area. The case dealt with the acquisition of the entire R&D department of Bosch Telecom in the area of GSM mobile phones, which consisted of more than 300 employees, including all offices, laboratories and certain facilities. Bosch also transferred all development results and development rights such as know-how as well as certain IP rights and rights of use in connection with mobile phones. Siemens entered into all contractual positions of Bosch relating to raw materials and preliminary products. Siemens also acquired a right to use the 'Bosch' trademark relating to mobile phones for a certain period.⁵⁰

However, in its *Unilever/Diversey* Decision, the Commission did address the 'specific market turnover' criterion. Unilever had purchased the business for chemical purifying agents for institutional and industrial clients outside North America from Diversey through an acquisition of assets. The Commission determined that the transaction constituted a concentration because a specific turnover on the market could be attributed to the acquired business area.⁵¹

Most cases of transfers of IP rights or related rights have also included the acquisition of entire business areas and/or tangible assets.⁵² For the Commission, there was therefore little incentive to discuss the specific requirements that must be fulfilled for a transfer of IP rights to constitute a concentration. A look through the case law reveals that the acquisition of a part of a business in the form of separate assets that do *not* in themselves compose a business area have rarely come before the Commission.⁵³

In *Delta Air Lines/Pan Am*, the Commission determined that the transfer of a number of assets from the transatlantic business of Pan Am was a notifiable concentration.⁵⁴ This business consisted to a large part of certain routes and the corresponding slots and airport usage rights.

In *Blokker/Toys 'R' Us II*,⁵⁵ Blokker took over from Toys 'R' Us assets such as furniture and other inventory of nine branches and was granted, in a franchise agreement, the exclusive right to use the corresponding trademark in the Netherlands. The Commission found that this constituted a concentration because each branch could be attributed a turnover: "According to Article 3(1)(b) of the Merger Regulation, a concentration arises when one undertaking acquires direct or indirect control of the whole or parts of another undertaking. Article 3(3) defines the element of control as constituted by rights, contracts or any other means which confer the possibility of exercising decisive influence on an undertaking, in particular by ownership or the right to use all or part of the assets of an undertaking. [...] Therefore, acquisition of control is not limited to cases where a legal entity is taken over but can also happen through the acquisition of assets. In this situation *the assets in question must constitute a business to which a market turnover can be clearly attributed.*"⁵⁶

⁵⁰ See *Siemens/Bosch Telecom*, Decision of 28.4.2000, M.1836, para. 5.

⁵¹ See *Unilever/Diversey*, Decision of 20.3.1996, M.704, para. 5: "It forms a separate business to which its market turnover is clearly attributed. The acquiring of control therefore creates a concentration under Art. 3 of the Merger Regulation."

⁵² Regarding patents, licences and other know-how, see *Boeing/McDonnell Douglas*, Decision of 30.7.1997, IV/M.877 (para. 6: no discussion of which factors exactly led to the assumption of control acquisition); *Zürich/MMI*, Decision of 2.4.1993, M.286, paras. 1, 5; *AT&T/IBM Global Network*, Decision of 22.4.1999, M.1396, para. 5. For other rights, see *Delta Air Lines/Pan Am*, Decision of 13.9.1991, M.130, para. 3; *CGEA/NSC*, Decision of 21.5.1996, para. 7; *Agfa-Gevaert/Sterling*, Decision of 15.4.1999, M.1432, para. 5.

⁵³ See, e.g., *Zürich/MMI*, Decision of 2.4.1993, M.286; *Terra/ICI*, Decision of 19.12.1997, M.1057; *AT&T/IBM Global Network*, Decision of 22.4.1999, M.1396; *Agfa-Gevaert/DuPont*, Decision of 11.2.1998, M.986; *Solelectron/Ericsson Switches*, Decision of 29.2.2000, M.1849; *Solelectron/Nortel*, Decision of 31.5.2000, M.1968.

⁵⁴ *Delta Air Lines/Pan Am*, Decision of 13.9.1991, M.130, para. 7.

⁵⁵ *Blokker/Toys 'R' Us II*, Decision of 28.6.1997, M.890.

⁵⁶ *Id.*, para. 13 (emphasis added).

In *ABB Lummus/Engelhard/Equistar/Novolen*,⁵⁷ the Commission had to deal with the transfer of mostly IP rights. The Commission determined that the "business being sold by BASF/Targor to ABB Lummus/Equistar does not represent a corporate entity, but consists of assets (principally intangible assets) related to PP technology licensing".⁵⁸ However, since the Commission qualified the transaction as a concentration in the form of an acquisition of joint control by ABB Lummus and Equistar of Novolen, it did not have to draw any conclusions as to whether the transaction might qualify as an acquisition of control through an acquisition.

C. Intellectual property rights and the criteria for the assessment of a concentration

1. Germany

1.1. Section 36 GWB

Section 36 GWB contains the material criteria for the assessment of a concentration. If a concentration is expected to create or strengthen a dominant position, it will be prohibited by the FCO unless the participating undertakings prove that the concentration will also lead to improvements of the conditions of competition, and that these improvements will outweigh the disadvantages of dominance.⁵⁹

1.2. Case law

It lies in the nature of IP rights that their owners may exclude others from their use and use them as a means of competition. Such use may create a tension *vis-à-vis* competition law.⁶⁰ Although the mere existence or ownership (as owner or licensee) of an IP right does not allow an inference of a dominant position, in certain instances the existence, ownership and/or use of IP rights may constitute an important aspect to be considered in determining whether their owner or licensee

⁵⁷ *ABB Lummus/Engelhard/Equistar/Novolen*, Decision of 25.9.2000, M.2128.

⁵⁸ *Id.*, para. 7.

⁵⁹ Section 36 reads as follows:

"Principles for the Appraisal of Concentrations

(1) A concentration which is expected to create or strengthen a dominant position shall be prohibited by the Federal Cartel Office unless the participating undertakings prove that the concentration will also lead to improvements of the conditions of competition, and that these improvements will outweigh the disadvantages of dominance.

(2) If a participating undertaking is a controlled or controlling undertaking within the meaning of Section 17 of the Joint Stock Corporation Act (*Aktiengesetz*) or a group company within the meaning of Section 18 of the Joint Stock Corporation Act, then the undertakings so affiliated shall be regarded as a single undertaking. If several undertakings act together in such a way that they can jointly exercise a controlling influence on another undertaking, each of them shall be regarded as controlling.

(3) If a person or association of persons which is not an undertaking holds a majority interest in an undertaking, it shall be regarded as an undertaking."

⁶⁰ See Mestmäcker (note 1, *supra*), p. 261.

has such a position⁶¹ (see a) *infra*). In particular, the existence and use of IP rights may operate as a barrier to entry and thereby serve as evidence that a dominant position in the relevant market is created and/or strengthened (see b) *infra*).

a) IP rights and the creation or strengthening of a dominant position

As has been set out above,⁶² there are various decisions under German antitrust law that deal with the question of a merger solely by acquisition or transfer of an IP or related right. The following will therefore focus exclusively on aspects of those decisions, since, as opposed to decisions that also deal with concentrations through other means, they appear best suited to demonstrate the relevance of IP rights for the material assessment of mergers.

In its *W+i Verlag / Weiss-Druck* judgment, the Kammergericht explained that its determination of a strengthening of a dominant position in the relevant market was partly motivated by the grant of publisher and title rights. Through those rights, it was possible to build on a previous market position and to benefit from it.⁶³

In its *FRAPAN* judgment, the Kammergericht held that the acquisition of the ‘FRAPAN’ brand had led to the strengthening of a superior position on the markets for aluminium foil, cling films, freezer bags, breakfast pouches and baking parchment.⁶⁴ The acquisition of the trademark had enabled the transferee to enter into the market position that was associated with the ‘FRAPAN’ trademark which was previously held by the transferor. In addition, the intensity of competition from the transferor had been reduced due to the fact that the transferor planned to exit the market. Even if the acquirer were to follow a different strategy in the use of the trademark and even if it priced the associated goods on a different (cheaper) level, it still benefited from the inherent advertising power of the brand associated with its reputation. Even if the acquirer did not use the brand for some of its products, it was in a position to prevent competition under this brand which might otherwise have been created. The trademark was therefore used by the acquirer partly to improve, partly to maintain and safeguard its market position.

The BGH confirmed this approach.⁶⁵ It held that – as opposed to the position expressed in the appellant's complaint – it was irrelevant whether the value percentage of sales under a trademark had changed post-acquisition. The Kammergericht had been right in considering the trademark's significant reputation instead of looking at the acquirer's market share associated with the ‘FRAPAN’-branded products in light of lessened pressure from competitors.

In the FCO's *National Geographic* decision,⁶⁶ the licence agreement in question was blocked by the FCO on the basis that it strengthened the publisher's dominant position in the German market for popular science journals. The publisher, Gruner + Jahr, had already held a market share of approximately 60% prior to the transaction, and the addition of *National Geographic* had increased that share to 75%. The company had already established two leading titles in the market for popular science journals, and the addition of the newly licensed title was

⁶¹ See Heinemann (note 3, *supra*), pp. 175-176.

⁶² See B.1, *supra*.

⁶³ KG, Decision of 15.1.1988 – Kart I/86 – *W+i Verlag/Weiss-Druck*, WuW/E OLG 4095, 4107; see B.1.2.), *supra*.

⁶⁴ KG, Decision of 23.5.1991 – Kart. 13/89 – *Folien und Beutel*, WuW/E OLG 4771, 4782/4783; see B.1.3.) bb), *supra*.

⁶⁵ BGH, Decision of 7.7.1992 – KVR 14/91 – *Warenzeichenerwerb*, WuW/E BGH 2783, 2792/2793; see II.1.c) cc), *supra*.

⁶⁶ FCO, Decision of 2.8.2004 – B6-26/04 – *National Geographic*, WuW/E DE-V 947; see B.1.5. (a), *supra*.

held to increase the distance between Gruner + Jahr and its competitors (which merely had market shares between 7% and 9%) rather significantly. Gruner + Jahr's position on the relevant market was therefore strengthened and strategically safeguarded through the concentration. On appeal, the OLG Düsseldorf did not have to deal with the competitive effects of the licence, as the court disagreed with the FCO's finding of a concentration.⁶⁷ The matter is currently on appeal before the BGH.⁶⁸

b) IP rights as barriers to entry

In markets with significant barriers to entry, the plausibility increases that incumbents with significant market shares may enjoy a dominant position. At the same time and for the same reasons, the creation, existence and reinforcement of entry barriers in a given market may mandate a closer scrutiny of the associated effects on competition in that market. Moreover, where significant barriers to entry exist, the importance of the 'controlling forces' of remaining competition and of potential competition may be of particular interest.

It is well established that IP rights and associated rights may operate as entry barriers. For instance, paragraph 5 of the FCO's Checklist for the assessment of dominance explicitly addresses the issue of entry barriers arising from IP rights:⁶⁹ "Legal Barriers to Entry. Legal provisions may restrict the market entry or use of parameters of undertakings and thereby restrict potential competition in favour of the incumbents. Examples are [...]. The same is true for resources in the possession of the incumbents such as ... patents."⁷⁰

The FCO's *Henkel/Luhns* decision⁷¹ illustrates how these principles may apply in practice. In relation to Henkel's gaining and securing of innovation leadership against imitating competition, the FCO held Henkel's focused and extensive use of IP rights, i.e. the use of innovations through patents and trademarks, to be of particular importance. The FCO stressed the introduction of the three-dimensional trademark – i.e. a right solely for the shape of a product – through the then new trademark law. It stated that this development had enlarged the possibilities for IP protection in an excessive fashion. One of the main characteristics of Henkel's behaviour, according to the FCO, was the method of sealing off markets by 'ring fencing', i.e. by protecting the entire environment and surroundings of an innovation through the acquisition of blocking rights. Even the smallest patentable element of an innovation (e.g., its shape, chemical formula, preliminary product or manufacturing procedure), including all developments that are not even used in the innovation in question but could be conceived as technological alternatives to produce comparable results, were covered by Henkel's IP rights. Henkel's competitors were therefore deprived of the corresponding rights, methods and uses. Competitors had described Henkel's behaviour as 'mine fielding'. As an example, for its tab-technology alone, Henkel had 60 patents and patent applications. In addition, for this product alone, Henkel used more than 50 trademarks or trademark applications for every conceivable product shape and colour combination. The product 'megaperls' was similarly protected so that the associated successful washing detergent technology could be exclusively used by Henkel. The FCO did not accept Henkel's argument that its strongest competitors, Procter & Gamble and Lever, used similar IP

⁶⁷ OLG Düsseldorf, Decision of 15.6.2005 – VI Kart 24/04 (V) – *National Geographic*, WuW/E DE-R 1504; see II.1.e) bb), *supra*.

⁶⁸ Docket no. KVR 32/05.

⁶⁹ *Market dominance in merger control: checklist of the Federal Cartel Office*, 1990, reprinted in: Langen/Bunte, *Kommentar zum deutschen und europäischen Kartellrecht*, 9th ed. 2001, vol. 2, p. 2827.

⁷⁰ See also Heinemann (note 3, *supra*), p. 176.

⁷¹ FCO, Decision of 20.9.1999 – B3 – 24511-U-20/99 – *Henkel/Luhns*. See also Monopoly Commission, *Hauptgutachten 1998/1999, Wettbewerbspolitik in Netzstrukturen*, pp. 313-314.

strategies. The FCO accepted that Henkel's competitors held a similarly large amount of IP rights. However, it considered that Henkel had an innovation advantage, as it was not the aggregate number of IP rights that mattered but rather the number of rights that protect the successful products and key technologies.⁷² Henkel's IP policy was found to not only constitute a significant obstacle for imitating competitors and for smaller market participants, but also to constitute a significant entry barrier for potential competitors, who could be caught in a thicket of IP rights.⁷³ With respect to the assessment of a strengthening of an already existing superior market position, the FCO held that recourse to product innovations, Henkel technology and Henkel know-how which was not open to competitors, created a significant competitive disadvantage for 'private brand' manufacturers (*Handelsmarkenhersteller*).

2. Regulation 139/2004

2.1. Article 2 of Regulation 139/2004

Article 2 EMCR defines the material criteria for the assessment of a concentration.⁷⁴ Article 2(3) EMCR provides that a concentration which would significantly impede effective competition, in the common market or in a substantial part of it, in particular as a result of the creation or strengthening of a dominant position, shall be declared incompatible with the

⁷² FCO, Decision of 20.9.1999 – B3 – 24511-U-20/99 – *Henkel/Luhns*, paras. 44-45.

⁷³ *Id.*, para. 46.

⁷⁴ "Article 2. Appraisal of concentrations

1. Concentrations within the scope of this Regulation shall be appraised in accordance with the objectives of this Regulation and the following provisions with a view to establishing whether or not they are compatible with the common market. In making this appraisal, the Commission shall take into account:

(a) the need to maintain and develop effective competition within the common market in view of, among other things, the structure of all the markets concerned and the actual or potential competition from undertakings located either within or outwith the Community;

(b) the market position of the undertakings concerned and their economic and financial power, the alternatives available to suppliers and users, their access to supplies or markets, any legal or other barriers to entry, supply and demand trends for the relevant goods and services, the interests of the intermediate and ultimate consumers, and the development of technical and economic progress provided that it is to consumers' advantage and does not form an obstacle to competition.

2. A concentration which would not significantly impede effective competition in the common market or in a substantial part of it, in particular as a result of the creation or strengthening of a dominant position, shall be declared compatible with the common market.

3. A concentration which would significantly impede effective competition, in the common market or in a substantial part of it, in particular as a result of the creation or strengthening of a dominant position, shall be declared incompatible with the common market.

4. To the extent that the creation of a joint venture constituting a concentration pursuant to Article 3 has as its object or effect the coordination of the competitive behaviour of undertakings that remain independent, such coordination shall be appraised in accordance with the criteria of Article 81(1) and (3) of the Treaty, with a view to establishing whether or not the operation is compatible with the common market.

5. In making this appraisal, the Commission shall take into account in particular:

- whether two or more parent companies retain, to a significant extent, activities in the same market as the joint venture or in a market which is downstream or upstream from that of the joint venture or in a neighbouring market closely related to this market,

- whether the coordination which is the direct consequence of the creation of the joint venture affords the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products or services in question."

common market. Both the European case law and Commission Notices and Guidelines deal with the question of the extent to which IP rights may play a role in the analysis of a significant impediment to effective competition, particularly through the creation or strengthening of a dominant position.

2.2. *Combination of IP right portfolios as strengthening a dominant position – case law*

In its *Boeing/McDonnell Douglas* Decision, the Commission explicitly assessed the effects of the IP rights owned by Boeing on competition and competitors.⁷⁵ Boeing and McDonnell Douglas (MDC) had entered into an agreement by which MDC would become a wholly owned subsidiary of Boeing.⁷⁶ The Commission qualified the transaction as a concentration in the form of an acquisition of control under Article 3 EMCR.⁷⁷ Under the heading "Strengthening of Boeing's dominant position", the Commission discussed, *inter alia*, the "[o]verall effects resulting from the defence and space business of MDC." It concluded that "[t]he overall effects resulting from the take-over of MDC's defence and space business would lead to a strengthening of Boeing's dominant position", and cited as one of the reasons "an increase in Boeing's access to publicly funded R&D and intellectual property portfolio".⁷⁸ The Commission elaborated on this topic as follows:

"(b) Access to publicly-funded R&D

[...]

vi) Intellectual property

In a high-technology industry such as commercial aircraft manufacturing, intellectual property, whether patented or in the form of unpatented know-how, is extremely important for the competitive potential of the players in the market. The combination of the world's leading manufacturer of commercial aircraft with the world's leading manufacturer of military aircraft will lead to the *combination of two large portfolios of intellectual property*. There are more than 500 published patents which belong to Boeing and might be of relevance for commercial aircraft. MDC is estimated to hold around 150 such patents. 86 Boeing patents and 26 MDC patents could *potentially restrict access to important future technology*. These include the following areas:

- aircraft structures, where considerable R&D has been made in order to produce lighter, more resistant materials allowing for increased aircraft range, speed and payload, as well as extending aircraft life and reducing maintenance costs; it appears that both Boeing and MDC have taken out patents to enable them to exploit certain of such areas exclusively,
- composites, that is a combination of two or more discrete material constituents, which offer a very important improvement in performance for airframe structures in terms of weight reduction, specific strength and stiffness, fatigue resistance and design flexibility (for example, Boeing's all-composite B-2 wings),
- aerodynamics, where recent innovations contribute to lower fuel costs, less noise on take-off and landing, improved range and speed and shortened development cycles,
- flight controls, which have been among the areas where the most specular [*sic*] technological progress has been made in recent years; Boeing and MDC have been active in this area, *inter alia* in the framework of NASA's advanced subsonic technology programme, and Boeing has started patenting technology in the field of fly-by-light,
- electricity and electronics, which are vital for safety and cost effectiveness and where R&D has been done extensively by both Boeing and MDC, especially through contracts from government agencies.

⁷⁵ *Boeing/McDonnell Douglas*, Decision of 30.7.1997, M.877.

⁷⁶ *Id.*, para. 5.

⁷⁷ *Id.*, para 6.

⁷⁸ *Id.*, para. 72. The other reasons enumerated by the Commission in this context were: an increase in Boeing's overall financial resources; an increase in Boeing's bargaining power *vis-à-vis* suppliers; and opportunities for offset and "bundling deals".

To sum up, the Commission considers the *combination of Boeing's and MDC's know-how and patent portfolios* to be a *further element* for the strengthening of Boeing's dominant position in large commercial aircraft."⁷⁹

As can be seen from the Commission's reasoning, the extent of IP protection was only one factor in its competitive assessment. Moreover, the Commission emphasized the fact the amount of IP rights could lead to a restriction of market access.⁸⁰ The *Boeing/McDonnell Douglas* Decision therefore does not give any guidance as to the relevance of a transfer or combination of IP rights by itself (without the transfer of other assets, *etc.*) for the material assessment of a concentration. As the combination of Boeing's and MDC's IP rights was held to constitute a potential entry barrier, the decision also does not allow any conclusions to be drawn with respect to the importance of IP rights for antitrust analysis where there is no danger that those IP rights may operate as barriers to entry.

The same appears to hold true for other decisions that discuss the relevance of IP rights for competitors. In *Dow Chemical/Union Carbide*⁸¹ – yet another decision that dealt with patents – the Commission discussed the competitive situation post-transaction with respect to catalysts:⁸²

"Dow will obtain joint control, through its 50% share in Univation, of the most successful gas-phase process technology, Unipol, which may in the future be used with Exxon's metallocene catalyst. Most PE producers replying to the Commission's questionnaires consider that the only other leading metallocene catalyst is already owned by Dow. They further consider that the two catalysts are *protected by the leading patents in the field*. This position has not been challenged by the parties. Following the proposed operation the exploitation of these two catalysts will be under the control of Dow, directly in the case of its own metallocene catalysts and indirectly, through Univation, in relation to the Exxon catalysts.

The *intellectual property situation* relating to metallocene catalysts is complex with *over 2300 individual patents* to be considered. A majority of those replying to the Commission's questionnaires considered that the combination of Dow, UCC and Univation will severely reduce the options for companies wishing to have gas-phase process technology with metallocene capability.

As one respondent to the Commission's enquiries put it 'A potential licensee expects the licensor to make available proven technology free of third-party patent rights. The licensee would take a licence from the licensor offering the technology best meeting its requirements. If a licensor cannot meet these requirements due to *intellectual property constraints* the licensee would turn to another licensor that could or if no such licensor is available, amend its requirements or refrain from taking a licence.' Another producer has stated that '... the combination of Dow and Union Carbide will not face serious competition in the single-site catalyst technology.' (The reference to Union Carbide has to be understood as meaning Univation).

Following the concentration, and in particular following the acquisition by Dow of indirect control of the exploitation of Exxon's metallocene catalyst through its acquisition of UCC's 50% share of Univation, *the new entity will be*, at least for several years, the *only licensor* able to offer both metallocene catalyst capability, that is to offer a package including the possibility of using such a catalyst later, and *legal certainty as to the intellectual property rights*. Under these circumstances potential licensees will have a natural preference for the combined entity's combination of process and catalysts. Details of the competitors are given below.

[...]

[W]hile there were two competing metallocene catalyst systems for gas-phase processes there was an incentive for each catalyst owner to seek partners to exploit its product. Once the two catalysts are under the control of single group this incentive will be considerably reduced. [...] The parties' natural behaviour will be to develop either one or both catalysts for use with the Unipol process

⁷⁹ Id., paras. 102-103 (emphasis added).

⁸⁰ See also C.2.4.), *infra*.

⁸¹ *Dow Chemical/Union Carbide*, Decision of 3.5.2000, M.1671, OJ 14.9.2001 L245/1.

⁸² In this decision too, the Commission analysed the effects of the existing IP rights for competitors in close connection with an entry barriers discussion. See *id.*, paras. 115-123, for the entry barrier discussion; see also C.2.4. (a).

technology. They would have no interest in granting licences to or collaborating with a potential competitor."⁸³

These principles apply irrespective of the nature of the IP right. Discussions of the competitive significance of a portfolio combination with respect to *trademarks* can be found in the Commission's *Kimberly-Clark/Scott* Decision⁸⁴ as well as in the Court of First Instance's *Seb/Moulinex* judgment.⁸⁵ In the latter case, the CFI stated that:

"[I]t is common ground that the brand is the most important competition factor in the markets concerned and the reputation of the brand is to the advantage of all the products carrying it. Likewise, in order to assess an undertaking's *competition position*, the Commission may have to take into account its *portfolio of brands* or the fact that it has large market shares in numerous product markets ('the portfolio effect')."

In the present case the Commission took the portfolio effect into account. Throughout the contested decision, [...] the Commission pointed out that the strength of the combined entity was accentuated by a unique portfolio of brands (whereas its competitors had only a single brand) [...]."⁸⁶

2.3. *Horizontal Merger Guidelines: hindrance of competitor expansion through the use of IP rights*

The Commission's Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings (Horizontal Merger Guidelines)⁸⁷ give some additional guidance for the relevance of IP rights for purposes of merger control. In paragraph 36 of the Horizontal Merger Guidelines, the Commission discusses the ability of IP rights to restrain competitor expansion:

"Merged entity able to hinder expansion by competitors
Some proposed mergers would, if allowed to proceed, significantly impede effective competition by leaving the merged firm in a position where it would have the ability and incentive to make the expansion of smaller firms and potential competitors more difficult or otherwise restrict the ability of rival firms to compete. In such a case, competitors may not, either individually or in the aggregate, be in a position to constrain the merged entity to such a degree that it would not increase prices or take other actions detrimental to competition. For instance, the merged entity may have such a degree of control, or influence over, the supply of inputs or distribution possibilities that expansion or entry by rival firms may be more costly. Similarly, the *merged entity's control over patents or other types of intellectual property* (e.g., brands) may make *expansion or entry by rivals more difficult*. In markets where interoperability between different infrastructures or platforms is important, a merger may give the merged entity the ability and incentive to raise the costs or decrease the quality of service of its rivals. In making this assessment the Commission may take into account, inter alia, the financial strength of the merged entity relative to its rivals."⁸⁸

⁸³ Id., paras. 107-114 (emphasis added).

⁸⁴ *Kimberly-Clark/Scott*, Decision of 16.1.1996, M.623, OJ 23.7.1996 L183/1, *passim*. See, e.g., id., para. 5: "KC and Scott will strengthen their market position by combining strong consumer brands and bringing together their considerable production and marketing resources."

⁸⁵ Case T-114/02, *Babyliss SA v Commission* ("*Seb/Moulinex*"), [2003] ECR II-1279, paras. 343 *et seq.*

⁸⁶ Id., paras. 343/344 (emphasis added).

⁸⁷ Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings, OJ 2004 C31/5.

⁸⁸ Id., para. 36 (emphasis added).

Again, this discussion by the Commission of IP rights and its relevance for competitors of the owner of the respective IP right is closely related to entry barrier considerations.⁸⁹

2.4. *IP rights as barriers to entry*

Article 2(1) b) EMCR explicitly mentions "any legal or other barriers to entry" as a relevant factor in the assessment of whether effective competition is impeded by a concentration and is therefore incompatible with the common market. As has already been set out above, the Commission has raised the relevance of IP rights as potential entry barriers in various contexts.

a) Case law

The Commission has recognized that patents and the bundled ownership of other know-how may constitute a cause for the existence of barriers to entry. The Commission's exposition in the *Boeing/Mc Donnell Douglas* case is exemplary,⁹⁰ and there is a significant amount of other case law that contains similar arguments.⁹¹ With respect to patents, for instance, the Commission provided the following considerations in its *Dow Chemical/Union Carbide* Decision:⁹²

"Barriers to entry

This is not a market that can be easily entered. A licensee has to make very considerable capital investments, up to EUR [...] million to install the PE technology they have purchased. The plant has a life of perhaps 30 years. Potential licensees will therefore take all steps possible to ensure that they make the correct decision in choosing a PE technology package. [...]

PE technology is constantly evolving. A potential licensee will require assurance that its licensor has the research and development facilities to improve and upgrade the licensed technology over the life of the plant. A track record in this area is therefore indispensable.

The field of PE technology is covered by a *multitude of patents* covering the process technology, all aspects of the catalysts used and the resins made by the various processes. *A potential licensee will need assurances that the licensor has the right to grant licences and that it will act vigorously to protect these rights* and thus the ability of the licensee to continue to operate its production plant and sell its output.

A licensor must be able to show that its PE technology package works, preferably on an industrial scale. [...] Secondly it must be able to demonstrate its commitment to research and development. This will require considerable investment in both laboratories and pilot plants. It should also be able to *demonstrate that it has protected intellectual property rights* and will continue to do so with regard to future developments.

The parties set out the requirements for a successful licensor as follows 'In order to compete in the PE technology market, a prospective licensor must possess or acquire the infrastructure required for a licensing business, including engineering, technical support, marketing, *legal*, sales, catalyst supply and training capability.' [...]

The established licensors therefore have a very considerable advantage in that their achievements and record are already in the public domain. Newcomers find themselves in a difficult situation [...].

⁸⁹ See also C.2.4.), *infra* (particularly under bb) with respect to further mention of the link between entry barriers and IP rights in the Horizontal Merger Guidelines).

⁹⁰ *Boeing/McDonnell Douglas*, Decision of 30.7.1997, M.877; see III.2.b), *supra*.

⁹¹ See, e.g., *Shell/Montecatini*, Decision of 8.6.1994, M.269, paras. 88-89; *Voith/Sulzer II*, Decision of 29.7.1994, M.478, para. 32; *Crown Cork & Seal/CarnaudMetalbox*, Decision of 14.11.1995, M.603, para. 76. See also Immenga, in: Immenga/Mestmäcker, *EG-Wettbewerbsrecht*, 1997, vol. I, note 158 to Article 2 EMCR.

⁹² *Dow Chemical/Union Carbide*, Decision of 3.5.2000, M.1671, OJ 14.9.2001 L245/1, paras. 115-123. See also C.2.2.), *supra*.

Any competitors (whether existing licensors or merely owners of competing gas-phase process technologies) would face the similar problems in relation to metallocene catalyst capability. *The most important intellectual property rights are held by Dow and Exxon.*⁹³

Similarly, the Commission found in *CVC/Lenzing*⁹⁴ that a combination of patents may block market entry, thereby contributing to the creation of a worldwide quasi-monopoly on certain technologies through which any remaining competition in that sector would have been eliminated or severely restricted. This would have enabled the parties to act independently of potential competitors and of their customers:⁹⁵

"Ability effectively to block market entry

On the basis of their *respective patent rights*, Acordis and Lenzing are *in a position to block or significantly delay the entry of third parties* to the lyocell production market. Third parties who might consider marketing lyocell production and processing technology or selling lyocell production lines to potential producers of lyocell are consistently confronted with a danger of violating these patents and of subsequent litigation with the parties. For the same reasons, third parties who could be seen as potential producers of lyocell are reluctant to purchase lyocell production and processing technology or production lines developed by suppliers other than Acordis or Lenzing.

The notified operation will *render it more difficult for third parties to obtain packages of licences* for Acordis' and Lenzing's lyocell production and processing technologies. First, the number of potential licensors will be reduced from two to one; whilst there are currently two potential licensors [...] there will be only one potential licensor left after the merger. Secondly, the incentive to grant packages of 'ready-to-operate' licences to third parties will be significantly reduced after the merger; [...] the new entity will hold a monopoly in the downstream market for lyocell staple fibres and will thus have no interest in seeing this monopoly challenged by a potential market entrant on the basis of a licence for their own technology. *In view of these effects competition in the development of individual production and processing patents in this market will also be stifled as the number of potential buyers will be reduced.*⁹⁶

b) Horizontal Merger Guidelines

The Horizontal Merger Guidelines contain a specific section on entry barriers that also discusses the relevance of IP rights.⁹⁷ The link between the entry barrier discussion and the material criteria for the prohibition of a concentration under Article 3 EMCR is provided by paragraph 68 of the Horizontal Merger Guidelines, where, under the heading "Entry", the Commission states: "When entering a market is sufficiently easy, a merger is unlikely to pose any significant anti-competitive risk. Therefore, entry analysis constitutes an important element of the overall competitive assessment." IP rights are then listed as a possible example for an entry barrier in the form of a "technical advantage" or an "established position of an incumbent":

"Entry

[...]

Barriers to entry can take various forms:

(a) Legal advantages encompass situations where regulatory barriers limit the number of market participants by, for example, restricting the number of licences. They also cover tariff and non-tariff trade barriers.

(b) The incumbents may also enjoy technical advantages, such as *preferential access to essential facilities, natural resources, innovation and R&D, or intellectual property rights*, which *make it difficult for any firm to compete successfully*. For instance, in certain industries, it might be difficult to obtain essential input materials, or *patents might protect products or processes*. Other

⁹³ Id. (emphasis added).

⁹⁴ *CVC/Lenzing*, Decision of 17.10.2001, COMP/M.2187, OJ 19.3.2004 L82/20.

⁹⁵ Id., para. 253.

⁹⁶ Id., para. 248/249 (emphasis added).

⁹⁷ With respect to the discussion of IP rights and entry barriers in the Horizontal Merger Guidelines, see also C.2.3.), *supra*.

factors such as economies of scale and scope, distribution and sales networks, access to important technologies, may also constitute barriers to entry.

(c) Furthermore, barriers to entry may also exist because of the established position of the incumbent firms on the market. In particular, it may be difficult to enter a particular industry because experience or reputation is necessary to compete effectively, both of which may be difficult to obtain as an entrant. Factors such as consumer *loyalty to a particular brand*, the closeness of relationships between suppliers and customers, the importance of promotion or advertising, or other advantages relating to reputation will be taken into account in this context. [...]"⁹⁸

c) Notice on Remedies Acceptable under the Merger Regulation

The Commission's Notice on Remedies Acceptable under the Merger Regulation⁹⁹ contains certain explanations as to the relevance of IP rights as entry barriers. These statements are in line with the views expressed by the Commission in its Horizontal Merger Guidelines:

"[C]ompetition problems can also result from specific features, such as the existence of exclusive agreements, the combination of networks ('network effects') or the *combination of key patents*. In such circumstances, the Commission has to determine whether or not other types of remedy may have a sufficient effect on the market to restore effective competition. [...]

The change in the market structure resulting from a proposed concentration can lead to major *barriers or impediments to entry* into the relevant market. Such barriers may arise from control over infrastructure, in particular networks, or *key technology including patents, know-how or other intellectual property rights*. [...]"¹⁰⁰

2.5. *Ancillary Agreements relating to IP rights: Commission Notice on Ancillary Restraints (2005)*

So far, the discussion of the principles relating to the relevance of IP rights for material merger control in Europe has dealt with examples of when IP rights may create or strengthen a dominant position and/or significantly impede effective competition. However, the Commission has recently published a (revised) Notice on restrictions directly related and necessary to concentrations (Notice on Ancillary Restraints)¹⁰¹ that also deals with IP-related aspects of concentrations that are considered *not* to create material problems. In the Notice on Ancillary Restraints, the Commission lays out principles for admissible ancillary restrictions to a concentration. It includes a discussion of the granting of licences in general, and of IP right licensing in particular.

The Merger Regulation provides, in Article 6(1)(b) and in Articles 8(1) and (2), that a decision declaring a concentration compatible with the common market shall be deemed to cover restrictions directly related and necessary to the implementation of the concentration. For a restriction to qualify as "directly related to the implementation of the concentration", it must be closely linked to the concentration itself, whereas it is not sufficient that an agreement has been entered into in the same context or at the same time as the concentration. The agreement in question has to be "necessary to the implementation of the concentration". This means that, in the absence of the agreement in question, the concentration could not be implemented or could

⁹⁸ Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings, OJ 2004, C31/5, para. 71.

⁹⁹ Commission Notice on remedies acceptable under Council Regulation (EEC) No. 4064/89 and under Commission Regulation (EC) No. 447/98, OJ 2001 C68/3.

¹⁰⁰ *Id.*, paras. 26, 28 (emphasis added).

¹⁰¹ Commission Notice on restrictions directly related and necessary to concentrations, OJ 2005 C56/24.

only be implemented under less certain conditions, at substantially higher costs, over an appreciably longer period or with significantly greater difficulty. Applying these criteria to the licensing of IP rights and know-how, the Commission has laid out the following principles in its Notice on Ancillary Restraints:

"Licence agreements

The transfer of an undertaking or of part of it can include the *transfer* to the purchaser, with a view to the full exploitation of the assets transferred, *of intellectual property rights or know-how*. However, the vendor may remain the owner of the rights in order to exploit them for activities other than those transferred. In these cases, the *usual means* for ensuring that the *purchaser* will have the full use of the assets transferred is to conclude *licensing agreements* in his/her favour. Likewise, where the *vendor* has transferred intellectual property rights with the business, she/he *may still want to continue using* some or all of these rights for activities other than those transferred; in such a case the purchaser will grant a licence to the vendor.

Licences of patents, of similar rights, or of know-how, can be considered necessary to the implementation of the concentration. They may equally be considered an *integral part* of the concentration and, in any event, *need not be limited in time*. These licences can be simple or exclusive and may be limited to certain fields of use, to the extent that they correspond to the activities of the undertaking transferred.

However, *territorial limitations* on manufacture reflecting the territory of the transferred activity are *not necessary* to the implementation of the operation. As regards licences granted by the *seller* of a business to the buyer, the seller can be made subject to territorial restrictions in the licence agreement under the same conditions as laid down for non-competition clauses in the context of the sale of a business.

Restrictions in licence agreements going beyond the above provisions, such as those which protect the licensor rather than the licensee, are *not necessary to the implementation* of the concentration.

Similarly, in the case of licences of *trademarks, business names, design rights, copyrights or similar rights*, there may be situations in which the vendor wishes to remain the owner of such rights in relation to activities retained, but the purchaser needs those rights in order to market the goods or services produced by the undertaking or part of the undertaking transferred. Here, the *same considerations as above apply*.¹⁰²

D. The role of intellectual property rights in accepting commitments and imposing conditions and obligations

1. Germany

1.1. General remarks

In 1999, the sixth amendment to the GWB (6. *GWB-Novelle*) entered into force. It created the possibility for the FCO to allow concentrations subject to conditions and obligations (*Bedingungen und Auflagen*). Prior to the sixth amendment, the FCO had to rely on undertakings and commitments on the part of the undertakings which were agreed upon in the form of agreements under public law without a legal basis in the GWB, which led to a variety of problems.¹⁰³

¹⁰² Id., paras. 27-31 (emphasis added).

¹⁰³ See Richter, in: Wiedemann, *Handbuch des Kartellrechts*, 1999, pp. 726-729; Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 66 to Section 43.

In pertinent part, the relevant provision – Section 40(3) GWB – reads as follows: "The clearance may be granted subject to conditions and obligations. These shall not aim at subjecting the conduct of the participating undertakings to a continued control." This wording remains unaffected by the seventh amendment to the GWB (7. *GWB-Novelle*), which entered into force on 1 July 2005. Therefore, under the GWB there is a statutory preference for so-called structural conditions and obligations which do not require the control of an undertaking's behaviour, and continued supervision of an undertaking's conduct is not permissible.¹⁰⁴ This is in contrast to European merger control law, which does not contain a statutory prohibition of continuous monitoring of conduct and therefore grants greater discretion with respect to behavioural commitments.¹⁰⁵

Under German law, the test for distinguishing between an inadmissible ongoing control of conduct (*laufende Verhaltenskontrolle*) and other permissible conditions and obligations is based on whether no further management decisions are required to do away with the competition concerns: if, for instance, in the case of structural remedies only one act is required to make a concentration compatible with the material merger laws (e.g., a sale of shares or assets), the remedy will be in compliance with Section 40(3) GWB.¹⁰⁶

The relevant remedies can be distinguished as follows:¹⁰⁷

- *Divestiture commitments or divestiture conditions/obligations*. Such divestitures may concern certain shareholdings, parts of undertakings or businesses, and/or assets or parts of assets. In German practice, the FCO's practical emphasis and preference with respect to merger remedies clearly is on divestiture commitments.¹⁰⁸ This is probably due to the fact that divestitures provide for relatively stable solutions to competition problems. Also, the complexity of supervising the undertakings' compliance is relatively limited when compared to the supervision of the adherence to other conceivable measures. In relation to IP rights, asset sales will typically include intangible assets that belong to the business or are necessary to it, such as patents or licences. In certain industries, IP rights and associated know-how may even constitute the bulk of assets that come into question for a divestiture. For instance, in relation to divestitures in the pharmaceutical industry, it is not uncommon to link the divestiture obligation to certain identified products (with their registration rights), which substantially affects IP rights such as patents and trademarks as well as certain know-how.

¹⁰⁴ The distinction between structural conditions/obligations on the one hand and continued supervision of behaviour on the other is discussed by Winfried Veelken, *Die Abgrenzung zwischen Strukturaufgabe und laufender Verhaltenskontrolle in den Freigabeentscheidungen des Bundeskartellamts und bei der Ministererlaubnis*, WRP 2003, 692.

¹⁰⁵ See D.2., *infra*.

¹⁰⁶ See Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, pp. 192-193; Veelken (note 104, *supra*), pp. 712-713; Ulrich Rust, *Fusionskontrolle und Nebenbestimmungen nach dem GWB*, ZWeR 2004, pp. 477, 490-491.

¹⁰⁷ See, e.g., Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 174-176; Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, notes 59-62 to Section 40.

¹⁰⁸ See, e.g., Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 60 to Section 40; Torsten Uhlig, *Zusagen, Auflagen und Bedingungen im Fusionskontrollverfahren, Eine Untersuchung zum deutschen und europäischen Recht*, 1996, p. 69; Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 174. See also the following overviews of the FCO's commitments/ conditions practice: Monopoly Commission, *Hauptgutachten XIII 1998/1999 – Wettbewerbspolitik in Netzstrukturen*, pp. 316-328 (covering the period from 1975 through 2000); Monopoly Commission, *Hauptgutachten XV 2002/2003 – Wettbewerbspolitik im Schatten "Nationaler Champions"*, pp. 331-340 (covering the period from 2000-2003); Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, pp. 181-192 (covering the period from 1999 through August 2004).

- *Limitations of corporate influence.* Such limitations are usually effectuated through means available under corporate law and generally do not include the sale of shareholdings (which qualify as divestitures). For instance, voting rights may be contractually restricted or transferred to a trustee.¹⁰⁹ They normally do not affect IP rights.

- *Market-opening Remedies.* The contents of commitments aimed at the opening (or maintaining the openness) of markets may vary, and largely depend on the industries affected. Most market-opening remedies are used in entry barrier situations. They include the allowance of access to markets, technologies or other facilities for competitors or undertakings in upstream or downstream markets, and aim at committing market leaders to provide other undertakings with certain know-how, thereby lowering the particular entry barriers.¹¹⁰ In industries characterized by intensive use of IP rights, market-opening commitments may include the duty to grant licences for the IP right or to allow access to know-how.¹¹¹ By their very nature, licences for the transfer of IP rights and know-how are remedies that are particularly close to the kind of continued conduct supervision that is prohibited within the meaning of Section 40(3) GWB. Such commitments may therefore be problematic if they restrict the freedom of choice with respect to the identity of transferees or subject the licence fee to an 'adequacy' requirement.¹¹² Remedies that aim at granting competitors access to patents and know-how have therefore been considered as being dangerously close to a constant supervision of behaviour by the German Monopoly Commission.¹¹³ However, commentators have criticized the Monopoly Commission's approach as not being in line with reasonable case law: it was argued in this context that, generally, a complete sale and transfer is necessary for a market-opening mechanism to work. Supervision is therefore only necessary until such final sale or licensing has been completed. The danger of a continued supervision could therefore be faced by the authorities through the setting of clear deadlines for such sale or grant of licences.¹¹⁴

In deciding which remedy is appropriate for purposes of conditions and/or obligations, the FCO generally has a broad range of discretion. The only legal constraints are the principle of *ex officio* investigation (*Amtsermittlungsgrundsatz*) and the principle of proportionality (*Verhältnismäßigkeitsprinzip*).¹¹⁵ In practice, however, due to the fact that conditions and obligations modify the notified concentration, it only makes sense for the FCO to prescribe merger remedies if they have previously been accepted and offered by the parties to the transaction. Further, the FCO has to ensure that the modifications are viable from a business

¹⁰⁹ Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, pp. 175-176; Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 61 to Section 40.

¹¹⁰ See, e.g., Monopoly Commission, *Hauptgutachten VIII 1988/1989 – Wettbewerbspolitik vor neuen Herausforderungen*, paras. 537 *et seq.*

¹¹¹ Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 176; Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 62 to Section 40.

¹¹² Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 62 to Section 40.

¹¹³ See Monopoly Commission, *Hauptgutachten XIII 1998/1999, Wettbewerbspolitik in Netzstrukturen*, para. 519.

¹¹⁴ See Heinemann (note 3, *supra*), pp. 524-525, footnote 1301. For the European merger law, see also Commission Notice on remedies (note 99, *supra*), para. 48: "The divestment has to be completed within a fixed time period agreed between the parties and the Commission, which takes account of all relevant circumstances. The package will specify what kind of agreement – binding letter of intent, final agreement, transfer of legal title – is required by what date. The deadline for the divestment should start on the day of the adoption of the Commission decision."

¹¹⁵ Schulte, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 179.

standpoint, that they will be integrated into the business strategies of the parties, and that they will adhere to them.¹¹⁶

1.2. Case law

The FCO may combine different kinds of remedies; as an example, limitations of corporate influence and market-opening conditions/obligations are often used in addition to divestiture remedies.

a) Divestitures

Since they address the structure of a notified concentration and of the markets affected, divestitures are usually less prone than other remedies to infringe the prohibition of continued supervision of conduct contained in Section 40(3) GWB. However, every structural condition/obligation necessarily mandates certain measures, and thus determines the conduct, of the affected undertakings.¹¹⁷ As explained above,¹¹⁸ the general test for the distinction between inadmissible control of conduct and permissible remedies is whether significant additional entrepreneurial or management decisions are necessary in order to comply with the condition/obligation, or whether a single action suffices. In its *E.ON/Ruhrigas* Decision of December 2002, the OLG Düsseldorf dealt with the question of the admissibility of conduct-related obligations.¹¹⁹ It reviewed different standards proposed by various commentators but ultimately did not rule in favour of any particular standard. The court took the view that measures aiming at doing away with barriers to entry, such as allowing access to upstream or downstream markets, can lead to an inadmissible continued supervision of conduct within the meaning of Section 40(3).¹²⁰ The decision has partly been criticised as overly broad.¹²¹

For instance, divestiture remedies with respect to IP rights and related rights were the subject of decisions in the fields of publishing and dental technologies. In its "*Axel Springer/Top Spezial*" decision, the FCO demanded the divestiture of certain journals, including all title and publication rights.¹²² Another example of a divestiture of professional journals, including all rights and assets necessary for the continuation of the journals, is the FCO's decision in *SV-C/Weka/Franchise-Verlag*.¹²³ In its *Dentsply/Degussa* decision,¹²⁴ the FCO found that the concentration would lead to the strengthening of a dominant position on the market for EM-alloy and that it could only be cleared subject to divestiture remedies which, according to the FCO were necessary and sufficient but did not lead to a continued supervision of conduct: both the alloy business of Dentsply and the entire product line 'Carat' (for the EEA), including the 'Carat' trademark, had to be disposed of in order to avoid a prohibition of the transaction.

¹¹⁶ Id.

¹¹⁷ See Rust (note 106, *supra*), p. 490.

¹¹⁸ See IV.1.a), *supra*.

¹¹⁹ The decision dealt with this question in the context of a ministerial authorization under Section 42 GWB. However, the legal issue of distinguishing admissible from inadmissible conditions/obligations is the same under Sections 40 and 42.

¹²⁰ OLG Düsseldorf, Decision of 16.2.2002 – Kart 25/02 (V) – *E.ON/Ruhrigas II*, WuW/E DE-R 1013, 1026.

¹²¹ See, e.g., Rust (note 106, *supra*), p. 491.

¹²² FCO, Decision of 27.9.2000 – B6-88/00 – *Axel Springer/Top Spezial*, paras. 26-27.

¹²³ FCO, Decision of 22.8.2001 – B6-56/01 – *SV-C/Weka/Franchise-Verlag*, paras. 44-52.

¹²⁴ FCO, Decision of 27.9.2001 – B4-69/01 – *Degussa Dental*, WuW/E DE-V 493, paras. 90-94.

b) Market-opening remedies

Market-opening obligations hardly come alone: the case law dealing with merger remedies through IP-related market opening mechanisms usually also contains certain divestiture elements. For example, in *Mannesmann/Kienzle*, the FCO did not block the acquisition of shares in Kienzle Apparate GmbH through Mannesmann AG because the parties had given commitments that addressed the anticipated strengthening of Kienzle's dominant position on the market for mechanical tachographs through the additional financial resources of the Mannesmann group. The parties committed themselves to granting licences for IP rights and construction know-how for partly electronic hybrid tachographs to domestic tachograph manufacturers. They also agreed to sell Kienzle's stake in VDO-Argo Instruments Inc., USA.¹²⁵

In its *ASK/Rexnord* decision, the FCO did not prohibit the acquisition of a majority stake in Amstadt-Siemag-Kette GmbH (ASK) through Rexnord GmbH, despite the fact that both undertakings competed in the field of chains, and despite the fact that Rexnord had a strong, patent-based position in a certain market that was strengthened by the takeover of ASK. To avoid a prohibition, Rexnord agreed to offer to interested third parties certain identified production machines as well as licences for technical support measures at fixed prices which were to be assessed by an expert. The commitment aimed at providing incentives to third parties to enter into the market for a certain product.¹²⁶

In *Federal Mogul/Alcan*,¹²⁷ in addition to divestiture remedies, the FCO imposed an obligation to grant interested undertakings a patent and distribution licence under the same conditions as in a reference agreement. The concentration would have created a dominant position of Federal Mogul (the largest manufacturer of piston rings) on the market for high-speed Diesel car engines. In Germany, Federal Mogul was the sole provider of piston rings for such engines, as the firm had a patent for a certain surface treatment of such rings. In light of the concentration and its effects, Federal Mogul undertook to open up the patent and grant licences to interested undertakings. Prior to the FCO's clearing decision, one such licence agreement had already been concluded with the largest piston provider, Mahle GmbH. The FCO's decision to clear the concentration was subject to the additional condition that Federal Mogul would sell its shares in König KG GmbH & Co. (Austria) to an independent third party.

In *BASF/Bayer Crop Science*,¹²⁸ the FCO cleared the acquisition of certain pesticide businesses of Bayer CropScience AG by BASF AG, subject to the condition that an exclusive distribution licence for grain fungicide products would be granted to third parties. Through the acquisition, BASF would have reached a superior position on the market for fungicides for wheat. In order to avoid a prohibition of the transaction, BASF agreed with the FCO that it would grant to interested third parties, for a period of at least five years, an exclusive, sub-licensable distribution licence for certain crop fungicides. The licence would have to cover all of Germany and would have to include further minimum elements such as: rights of use for the brand names; access to all inventory; access to registration rights, particularly through the grant of a 'letter of access' for certain ingredients for the purpose of defending the registrations for certain products; access to biological data; access to customer data; the right to manufacture the licensed goods; and, with respect to certain ingredients, the obligation to desist from enforcing certain IP rights, to the extent that such IP rights might prevent the licensee from manufacturing and distributing the licensed products. The FCO considered these remedies to be suitable to

¹²⁵ See FCO, *Tätigkeitsbericht 1981/82*, pp. 54, 106.

¹²⁶ See FCO, *Tätigkeitsbericht 1981/82*, p. 48.

¹²⁷ FCO, Decision of 27.5.1999 – B5-34301-U-16/99 – *Federal Mogul/Alcan*, *Tätigkeitsbericht 1999/2000*, p. 125. See also Torsten Uhlig, *Auflagen und Bedingungen in der deutschen Fusionskontrolle, Erste Erfahrungen mit der neuen Regelung, Fusionskontrolle nach der 6. GWB-Novelle*, WuW 2000, pp. 574-575.

¹²⁸ FCO, Decision of 22.5.2003 – B3-24200-U-6/03 – *BASF/Bayer CropScience*, WuW/E DE-V 801.

prevent the creation of a dominant position for BASF on the domestic market for wheat-treatment fungicides and to prevent a degradation of the market structure: during the term of the licence, the chance that licensees would grant sublicenses will increase. Other competitors might improve their market position and decrease the difference between their market shares and that of BASF. The rights associated with the licence would make possible the development of new products on the basis of certain ingredients, possibly under inclusion of proprietary ingredients and products of the licensee and potential sub-licensees. This might create a counterbalance to BASF's R&D pipeline, so that innovation competition between BASF and other competitors on the market for wheat fungicides will be fostered.

2. European law

2.1. *Articles 6(2) and 8(2) of Regulation 139/2004 and general principles*

Article 6(2) subparagraph 2 and Article 8(2) subparagraph 2 EMCR address the question of commitments and remedies: "The Commission may attach to its decision [to allow the concentration] conditions and obligations intended to ensure that the undertakings concerned comply with the commitments they have entered into vis-à-vis the Commission with a view to rendering the concentration compatible with the common market." Although Article 6(2) subparagraph 2 and Article 8(2) subparagraph 2 EMCR distinguish between conditions and obligations, this distinction originally has hardly been elaborated on by commentators, and it has not always consistently been made the subject of Commission decisions.¹²⁹ Since 2001, however, the Commission's Notice on remedies acceptable provides for a conceptually clear distinction between these instruments.¹³⁰

As opposed to the German law, the European merger control regime does not explicitly prohibit a continued supervision of an undertaking's behaviour through conditions and obligations. The Commission may therefore prescribe conditions and/or obligations that include more of a 'behavioural' element than would be allowed under German merger law. However, even under the EMCR, structural remedies and divestitures in particular are the preferred and most widely used remedies.¹³¹ For the most part, this seems to be due to the fact that divestitures are usually best suited to provide a permanent and complete solution to the competitive concerns associated with a concentration. Also, the undertakings' adherence to divestiture commitments and/or obligations is easier for the Commission to monitor.

2.2. *Notice on remedies acceptable under the Merger Regulation*

In its Notice on remedies,¹³² the Commission has laid out principles on modifications, i.e., 'remedies' to concentrations. The Commission describes the purpose of the Notice as follows:

¹²⁹ See Richter, in: Wiedemann, *Handbuch des Kartellrechts*, 1999, pp. 601-602; Korthals, in: Schulte (ed.), *Handbuch Fusionskontrolle*, 2005, p. 385.

¹³⁰ Commission Notice on remedies (note 99, *supra*), para. 12.

¹³¹ See, e.g., Commission Notice on remedies (note 99, *supra*), paras. 13, 26.

¹³² Commission Notice on remedies (note 99, *supra*). See also Michael J. Reynolds and Richard Burnley, *Merger Remedies in a New Era of EC Merger Control*, in: Barry E. Hawk (ed.), *Annual Proceedings of the Fordham Corporate Law Institute, International Antitrust Law & Policy*, 2005, pp. 397, 403-407.

"The purpose of this notice is to provide guidance on modifications to concentrations, including, in particular, commitments to modify a concentration. Such modifications are more commonly described as 'remedies' since their object is to reduce the merging parties' market power and to restore conditions for effective competition which would be distorted as a result of the merger creating or strengthening a dominant position. The guidance set out in this notice reflects the Commission's evolving experience with the assessment, acceptance and implementation of remedies under the Merger Regulation since its entry into force [...]."¹³³

In relation to the role of IP rights for remedies that reduce the merging parties' market power, and to restore conditions for effective competition, the Notice contains fairly specific principles drawn from the Commission's practice:

"Whilst being the preferred remedy, divestiture is not the only remedy acceptable to the Commission. First, there may be situations where a divestiture of a business is impossible. Secondly, competition problems can also result from specific features, such as the existence of exclusive agreements, the combination of networks ('network effects') or the *combination of key patents*. In such circumstances, the Commission has to determine whether or not other types of remedy may have a sufficient effect on the market to restore effective competition. [...]

The change in the market structure resulting from a proposed concentration can lead to major *barriers or impediments to entry into the relevant market*. Such barriers may arise from control over infrastructure, in particular networks, or *key technology including patents, know-how or other intellectual property rights*. In such circumstances, remedies may aim at facilitating market entry by ensuring that competitors will have access to the necessary infrastructure or key technology.

Where the competition problem is created by control over key technology, a *divestiture of such technology is the preferable remedy* as it eliminates a lasting relationship between the merged entity and its competitors. *However, the Commission may accept licensing arrangements* (preferably *exclusive* licences without any field-of-use restrictions on the licensee) as an alternative to divestiture where, for instance, a *divestiture would have impeded efficient, on-going research*. The Commission has pursued this approach in mergers involving, for example, the pharmaceutical industry.

Owing to the specifics of the competition problems raised by a given concentration in several markets, the parties may have to offer remedy packages which comprise a combination of divestiture remedies and other remedies that facilitate market entry by granting network access or access to specific content. Such packages may be appropriate to remedy specific *foreclosure problems* arising, for instance, in concentrations in the telecommunication and media sectors. In addition, there may be transactions affecting mainly one product market where, however, *only a package including a variety of other commitments* will be able to remedy the competitive concerns raised by the specific concentration on an overall basis."¹³⁴

2.3. Case law

The distinction between divestitures, influence limitations and market-opening measures referred to above in the discussion of remedies in Germany¹³⁵ has fewer merits in the context of European merger control law. This is mostly due to the fact that influence restrictions have been less prominently used on a European scale than in Germany.¹³⁶ However, as the distinction makes it possible to identify and distinguish between typically used kinds of remedies, it appears legitimate to continue using it to help to clarify different situations and the corresponding remedies.

¹³³ Commission Notice on remedies (note 99, *supra*), para. 2.

¹³⁴ *Id.*, paras. 26, 28-30 (footnotes omitted; emphasis added).

¹³⁵ See IV.1.

¹³⁶ See Mestmäcker/Veelken, in: Immenga/Mestmäcker, *GWB*, 3rd ed. 2001, note 63 to Section 40; Immenga, in: Immenga/Mestmäcker, *EG-Wettbewerbsrecht*, 1997, vol. I, notes 14-15 to Article 8 EMCR.

As under German law, conditions/obligations and commitments relating to IP rights in the European context usually form part of a package of divestiture commitments. For example, in order to avoid problematic horizontal overlaps, IP-related business activities of two parties to a horizontal merger may have to be disposed of. Such a measure may include know-how, patents, licences, trademarks and so forth. Most Commission decisions on commitments relate to obligations to divest entire undertakings or businesses. Only occasionally are divestiture obligations limited to specific assets such as certain identified IP rights. Where the Commission demands that a market be opened or that market openness be maintained, the measures tailored to this effect often include divestiture obligations.

a) Divestitures

Examples of IP divestitures in Europe that included IP rights can be found in such diverse industries as: aviation/telecommunications/aerospace/defence, agricultural and construction machines, travel businesses, foodstuffs, anaesthetics, and liquors, just to name a few.

In its *EADS* Decision,¹³⁷ the Commission allowed the creation of EADS, which was to serve as a bundling vehicle for the activities of DaimlerChrysler AG, the French company Lagardère SCA, the French State, and the Spanish entity Sociedad Estatal de Participaciones Industriales (SEPI) in the areas of aviation, telecommunications, aerospace and defence. The merger clearance was subject to commitments. In particular, the contribution of the aerospace business of CASA raised antitrust concerns with respect to two satellite equipment markets. Aérospatiale-Matra Lanceurs ('AML'), a subsidiary of Aérospatiale Matra, was the most important European manufacturer of certain related products and held market shares of up to 70% in certain segments. The Commission also articulated concerns relating to military communication satellites in France due to the fact that a competitor – Alcatel Space – might no longer be able post-transaction to purchase certain products under competitive conditions. The Commission feared that the markets could be blocked to the disadvantage of Alcatel Space Industries and that the new entity would become the sole supplier for the French defence department. The undertakings therefore committed to divest two packages by Aérospatiale-Matra Lanceurs which should enable the purchaser to independently conceptualize, manufacture and distribute antenna reflectors and certain conduits for satellites. The divestiture included the sale of IP rights and the transfer of employees, including technical support and provision of certain equipment.

The Commission's *New Holland* decision¹³⁸ dealt with the takeover of Case Corporation through the Fiat subsidiary New Holland, both of which were active in the manufacture of agricultural and construction machines. To remove the Commission's competition concerns, the undertakings committed to divest various product lines and trademarks on all affected markets and to grant access to the distribution networks of Case and New Holland for the acquirer of the sold business areas.

In the case of *Airtours/First Choice*,¹³⁹ a bundle of commitments had been offered that aimed at establishing a competing undertaking so that sufficient competitive pressure would evolve. For this purpose, certain assets of the travel operator were to be transferred to a third party, among them trademarks and existing bookings. The Commission, however, considered this commitment to be insufficient on the ground that the channelling of interested purchasers had not been adequately considered and addressed.

¹³⁷ *EADS*, Decision of 11.5.2000, M.1745.

¹³⁸ *New Holland/Case*, Decision of 28.10.1999, M.1571.

¹³⁹ *Airtours/First Choice*, Decision of 22.9.1999, M.1524.

In certain cases, the largest part of entire businesses or business units is made up of IP rights. In such instances, the transfer of the IP rights not only accompanies the divestiture of other assets, but is the focus of the merger remedy. For instance, in *Masterfoods/Royal Canin*,¹⁴⁰ Masterfoods, a French subsidiary of Mars Inc., notified the planned takeover of the French pet food company Royal Canin SA. Mars manufactures snacks, ice cream and animal food, among them the brands Pedigree, Advance, Cesar, Whiskas and Sheba, all of which are distributed worldwide, as well as national or regional brands such as Canigou and Brekkies. Royal Canin is a leading player in dried animal food and mainly distributes its products through specialised dealers in the European Union. The Commission's assessment revealed antitrust concerns on the markets for dried animal food in France and Germany. To address these concerns, Mars agreed to sell, *inter alia*, its business units for all of Europe that were associated with the pet food brands of the merged entity, i.e. Advance, Premium, Royal Chien, Playdog and Brekkies.

In *Astra/Zeneca*,¹⁴¹ the Commission had serious concerns with respect to the markets for betablockers and local anaesthetics. The parties therefore committed to divest the Zeneca business for local anaesthetics by terminating an existing licence agreement with a third party. They also agreed to granting exclusive rights for the distribution of Zeneca's simple betablocker in Sweden and Norway and to transfer all rights of Astra in another form of betablockers to an economically healthy, independent third party.

In *Guinness/Grand Metropolitan*,¹⁴² the Commission approved the merger of two British groups, Guinness and Grand Metropolitan (GrandMet). The approval was given subject to divestitures of renowned brands in order to reduce the 'portfolio effect' inherent in the combination. The merger was intended to create the biggest alcoholic beverages group in the world. It would have led to the combination of substantial market shares in this area in many European countries and to the holding of a wide range of leading brands. The Commission's inquiry showed that the merger would result in the creation or strengthening of a dominant position in various geographic markets and for various alcoholic products. The undertakings of the parties included the divestment of various major liquor brands of whisky. The divestments were aimed at remedying doubts concerning the parties' strength on the whisky markets in Greece and Spain, and to enable the new owner to develop the brands in other European markets. The transfer of Ainslie, a major brand in the Benelux, aimed at removing doubts concerning that market. Regarding Belgium and Luxembourg, the parties also undertook to leave the distribution of Gilbey gin to a third party and to terminate their distribution agreement for Wyborowa vodka. This was considered to be sufficient to meet the Commission's competition concerns regarding the markets in gin and vodka in Luxembourg and Belgium. The parties also undertook to terminate their distribution agreement for Bacardi in Greece in order to resolve the problems created by their 'portfolio power' in view of their strong initial market shares in various categories of spirits. Regarding Ireland, the parties undertook to divest some interests so as to ensure continued competition in the distribution of spirits.

The divestiture of brands, particularly where it is effectuated only in certain geographic markets while the transferor continues to own the brand in other geographic markets, may create certain tensions with respect to 'brand unity' considerations. One solution that has been put forward to resolve the tension between the effectiveness of a brand transfer and the need to maintain brand unity is the so-called 're-branding'. The acquirer of a brand may, for instance, use the acquired brand in connection with an existing proprietary brand or a new (own) brand

¹⁴⁰ *Masterfoods/Royal Canin*, Decision of 15.2.2002, M.2544.

¹⁴¹ *Astra/Zeneca*, Decision of 26.2.1999, M.1403.

¹⁴² *Guinness/Grand Metropolitan*, Decision of 15.10.1997, M.938. See also the *Ralston Purina* case, discussed *infra*, D.2.3. (b).

and, in the course of time, will emphasize this second brand while trying to reduce the importance of the acquired brand, thereby 're-branding' his product.¹⁴³

b) Market-opening remedies

As explained above, the Commission's Notice on remedies provides specific guidance for the licensing of key technologies as an alternative to divestitures.¹⁴⁴ Such licences can mainly serve to decrease entry barriers and to create or maintain market access.¹⁴⁵ In its *Gencor* decision, the CFI held that, generally, merger control law aims at controlling market structures while the control of market conduct generally is to take place under Articles 81 and 82 EC. However,

"the categorisation of a proposed commitment as behavioural or structural is [...] immaterial. It is true that commitments which are structural in nature, such as a commitment to reduce the market share of the entity arising from a concentration by the sale of a subsidiary, are, as a rule, preferable from the point of view of the Regulation's objective, inasmuch as they prevent once and for all, or at least for some time, the emergence or strengthening of the dominant position previously identified by the Commission and do not, moreover, require medium or long-term monitoring measures. Nevertheless, the possibility cannot automatically be ruled out that commitments which prima facie are behavioural, for instance *not to use a trademark for a certain period*, or to make part of the production capacity of the entity arising from the concentration available to third-party competitors, or, more generally, to grant access to essential facilities on non-discriminatory terms, may themselves also be capable of preventing the emergence or strengthening of a dominant position. It is thus necessary to examine on a case-by-case basis the commitments offered by the undertakings concerned."¹⁴⁶

Where a concentration leads to control over key technologies, market-opening remedies usually aim at allowing access to technology. In that context, licence agreements may open up to competitors areas protected by patent law. The Commission usually assesses: (i) whether the suggested licence will allow the licensee to overcome the main entry barriers; (ii) whether the licensor is able to circumvent the effects of the licence, for instance by withholding technical support; (iii) whether the licence fees are adequate; and (iv) whether the commitment requires a continued supervision of conduct.¹⁴⁷ The mere opening of markets does not automatically lead to intensified competition. Accordingly there must be a sufficient likelihood that new players will enter the market in order to effectively limit the market power of the new entity.¹⁴⁸ For instance, in *Vivendi/Canal+/Seagram*,¹⁴⁹ the Commission accepted a package of commitments which included access for competitors to Universal's films. Other examples include *Vodafone Airtouch*¹⁵⁰ (access to roaming tariffs and wholesale services) and *BSkyB/Kirch Pay TV*¹⁵¹ (access to Kirch's technical pay TV platform and Kirch's pay TV services in order to lower

¹⁴³ See Werner Berg, *Zusagen in der Europäischen Fusionskontrolle*, EuZW 2003, 362, 366-367.

¹⁴⁴ See D.2.2.), *supra*. Paragraph 29 of the Notice on remedies (note 99, *supra*) provides: "Where the competition problem is created by control over key technology, a divestiture of such technology is the preferable remedy as it eliminates a lasting relationship between the merged entity and its competitors. However, the Commission may accept licensing arrangements (preferably exclusive licences without any field-of-use restrictions on the licensee) as an alternative to divestiture where, for instance, a divestiture would have impeded efficient, on-going research. The Commission has pursued this approach in mergers involving, for example, the pharmaceutical industry." (emphasis added)

¹⁴⁵ See, e.g., Stoffregen, in: Schröter/Jakob/Mederer, *Kommentar zum Europäischen Wettbewerbsrecht*, 2003, note 27 to Article 8 EMCR.

¹⁴⁶ Case T-102/96, *Gencor v Commission*, [1999] ECR II-753.

¹⁴⁷ See Stoffregen, in: Schröter/Jakob/Mederer, *Kommentar zum Europäischen Wettbewerbsrecht*, 2003, note 28 to Article 8 EMCR.

¹⁴⁸ See *id.*, note 30 to Article 8 EMCR.

¹⁴⁹ *Vivendi/Canal+/Seagram*, Decision of 13.10.2000, M.2050, OJ 31.10.2000 C311/3.

¹⁵⁰ *Vodafone/Airtouch*, Decision of 21.5.1999, M.1430, OJ 15.10.1999 C295/2.

¹⁵¹ *BSkyB/Kirch Pay TV*, Decision of 21.3.2000, JV.37, OJ 15.4.2000 C110/45.

barriers to entry on the German pay-TV market and prevent KirchPayTV from leveraging its dominance on this market into the market for digital interactive television services).

The Commission has on various occasions combined structural remedies like divestitures with market-opening mechanisms. Thus, in *Pfizer/Warner-Lambert*,¹⁵² the merger of Pfizer Inc. and Warner-Lambert Inc. (by which one of the largest pharmaceutical companies with revenues of US\$27.7 billion was created) received clearance from the Commission because the undertakings had addressed the Commission's competitive concerns – for instance, by doing away with overlaps in various fields of treatments through divestitures and the granting of licences.

Another example of the licensing of important technologies is the Commission's *Boeing/McDonnell Douglas* Decision.¹⁵³ The Commission decided to declare the acquisition of MDC by Boeing compatible with the common market subject to full compliance with undertakings given to the Commission by Boeing. Boeing had made proposals to remedy the strengthening of its dominant position, which was caused by factors such as the combination of DAC's competitive potential with Boeing's dominant position, increased opportunities to conclude exclusive supply agreements which would virtually close off the market, and spin-offs from military activities, particularly R&D for the large commercial jet aircraft business. With respect to the links between the military and the civil aircraft business, Boeing offered to grant competitors non-exclusive licences for patents and related know-how concerning applications of government-funded R&D. It also undertook to submit, over a ten-year period, an annual report to the Commission on non-classified aeronautics R&D projects in which it was involved. Those undertakings aimed at increasing the transparency of the links between military and civil business.¹⁵⁴

¹⁵² *Pfizer/Warner-Lambert*, Decision of 22.5.2000, M.1878.

¹⁵³ *Boeing/McDonnell Douglas*, Decision of 30.7.1997, M.877. See also C.2.2, *supra*.

¹⁵⁴ The commitments relating to IP rights were dealt with in great detail in the Commission's decision: "Boeing will, upon request by a commercial aircraft manufacturer, licence on a non-exclusive, reasonable royalty-bearing basis, any 'government-funded patent' which could be used in the manufacture or sale of commercial jet aircraft. Boeing will also licence the know-how related to such a patent which is necessary for the full, effective and rapid exploitation of the patent.

'Government-funded patent' means any patent which claims an invention conceived or first actually reduced to practice by Boeing in the performance of one or more of its contracts with the US Government, and which Boeing legally may so license.

Boeing also will license on a non-exclusive, reasonable royalty-bearing basis any blocking patent, including the related know-how as defined in the first paragraph, to another aircraft manufacturer which agrees to similar terms for cross-licensing of its blocking patents.

If Boeing and the other commercial aircraft manufacturer cannot agree on the royalty or whether the patent is a 'government-funded patent' which could be used in the manufacture or sale of commercial jet aircraft or whether the patent is blocking, such disagreement shall be submitted to independent arbitration under terms and procedures to be mutually agreed between Boeing and the other manufacturer.

For a period of 10 years, or until such earlier time as the Commission agreed that similar information is provided pursuant to governmental bilateral agreements or a significant change has occurred in the competitive environment including market share and product line, Boeing will supply to the Commission an annual report of its current unexpired patents which claim an invention conceived or first actually reduced to practice by Boeing in the performance of one or more of its contracts with the US Government. [...]

B. Assessment

As regards, the strengthening of Boeing's dominant position resulting from its large increase in the defence and space business, the undertakings submitted by Boeing have the following consequences:

- the commitment on patents gives other aircraft manufacturers access to intellectual property gained by publicly funded R&D and also with respect to blocking patents, meets the general concern about Boeing's increased patents portfolio". See *Boeing/McDonnell Douglas*, Decision of 30.7.1997, M.877, paras. 117, 122.

Similarly, in *Ciba-Geigy/Sandoz*, the Novartis merger was only cleared subject to the licensing of certain IP rights.¹⁵⁵ The Commission allowed the combination of Ciba-Geigy and Sandoz subject to compliance with an obligation in the area of animal health products, a segment on which the parties were considered to be particularly strong due to their control of three out of five existing ingredients. The access to those ingredients was vital for competitors and the parties therefore proposed the following undertaking:

"Both undertakings hereby declare their willingness on behalf of Novartis AG to provide within a time period of 2 years after the merger constituting Novartis to any serious and appropriate interested party for application in small animal ectoparasiticides for sale in Europe an [*sic*] non-exclusive and unlimited licence for the production of the active ingredient RS and S Methoprene. The licensee will have access to the necessary technical data and the master file. The term of this licence will be fair and reasonable, with the turnover-related licence fee not exceeding 5% and the duration not exceeding 10 years, and with the initial contribution payable to cover costs being offset against the licence fee. If the turnover of the licensee is realized with products containing several active ingredients, the licence fee will be calculated only for the part of the product containing Methoprene. For the time between the conclusion of the contract and the commencement of production by the licensee, but subject to a maximum period of two years, Novartis is willing to supply Methoprene to the licensee on normal market conditions."¹⁵⁶

The Commission's assessment of this undertaking is instructive:

"Through the merger, the *parties will acquire an extremely strong position* in the market for SAEs, in particular as regards IGR active ingredients which are critical to future market developments and which they supply to a number of market competitors. [...]

The proposed *undertaking enables competitors to purchase a licence* for the production of RS and S Methoprene. *As a result, the adverse competition consequences caused by the combination of the IP-rights for the three IGR active ingredients are avoided.* Methoprene will remain available in the market place for use by competitors in the development of the next generation of IGRs. A complete technical package incorporating the details of the master file will be made available to competitors. This will facilitate the development of Methoprene-based IGRs by competitors. The *granting of licences will therefore maintain market access* for other producers who will have to compete against the other significant advantages of Novartis.

At the same time, *existing competitors will have the ability to free themselves of any supply dependency* on Novartis for Methoprene, whether of the S or RS type. Consequently, in implementing their business strategy in the SAE sector, they will be unconstrained by any supply dependency on Novartis for Methoprene.

In the light of the above, the Commission considers that while Novartis will still be the leading SAE producer in Europe and will enjoy a strong market position, it is no longer foreseeable with sufficient probability that the merging parties will be able to behave to a significant extent independently of their competitors."¹⁵⁷

The Commission also dealt with the question of how to effectively monitor compliance with the remedy:

"In order to enable the Commission *to monitor* the implementation of the undertaking during the two-year period, the parties are required to submit a *three-monthly report* containing the following information:

- Methoprene licence requests received,
- Methoprene licence requests granted,
- where a Methoprene licence request is not granted, the reasons for refusal,
- details of Methoprene RS and S supplied, either in the form of active ingredients or contained in finished products, to third parties."¹⁵⁸

¹⁵⁵ *Ciba-Geigy/Sandoz*, Decision of 17.7.1996, M.737, OJ 29.7.1997 L201/1, paras. 275-280. Note that the pharmaceutical industry is emphasized by the Commission as an example for the licensing of IP rights as opposed to divestitures; see para. 29 of the Notice on remedies (note 99, *supra*).

¹⁵⁶ *Ciba-Geigy/Sandoz*, Decision of 17.7.1996, M.737, OJ 29.7.1997 L201/1, para. 275.

¹⁵⁷ *Id.*, paras. 276-279 (emphasis added).

¹⁵⁸ *Id.*, para. 280 (emphasis added).

There is an abundance of other decisions that also have dealt with market-opening issues in connection with technology and IP questions, and with patents in particular.¹⁵⁹

In the field of trademarks, the *Nestlé/Ralston Purina* Decision¹⁶⁰ provides a good illustration of the Commission's approach. The notification related to the planned acquisition of control over Ralston Purina, which mainly produced and distributed pet foods through Nestlé, a manufacturer and distributor of a large variety of foods, including pet foods. The Commission articulated competition concerns with respect to, *inter alia*, the market for dried cat food in Spain. Here, the Commission combined an 'up-front buyer' commitment¹⁶¹ with a 'crown jewels' commitment.¹⁶² The first alternative of the two-pronged commitment consisted of the grant of a licence for the two brand families 'Friskies' and 'Felix' for a duration three years and the transfer of associated assets including production facilities for Spain, plus a subsequent standstill obligation for an additional five years. The licensee would have been obliged, for the duration of the licence, to re-brand the products, while at the same time Nestlé and Ralston Purina would be prevented from exporting the brand into Spain for the duration of the standstill period. The Commission was not convinced by the viability of the first commitment and therefore asked for a second, alternative commitment: the sale of a 50% stake held by Ralston Purina in a joint venture that handled Ralston Purina's entire animal food business for Spain. This alternative sale should include the joint venture's right to use all relevant trademarks on an exclusive basis for three years.

In the *SEB/Moulinex* case,¹⁶³ the Commission had to assess the effects of a concentration on the market for small household appliances. SEB, a French manufacturer of such goods, offered its goods under brands such as Tefal, Rowenta Calor and SEB. Moulinex, also a French firm, was a direct competitor of SEB and owned brands such as Moulinex, Krups and Swan. On the European scale, the concentration would have significantly changed market conditions in Germany, Austria, Denmark, Sweden and Norway for various products. The non-French aspects of the concentration were cleared after SEB had offered to grant exclusive licences for the 'Moulinex' trademark for a duration of five years in nine countries. After the expiration of the exclusive licences, SEB would abstain for an additional three-year period from exporting goods under the trademark 'Moulinex' into the countries in question. Similar to the Ralston Purina case, this remedy was tailored to allow licensees sufficient time to gradually introduce their own brand names.

Similar to the field of technology questions, there are many other European decisions on merger remedies that have aimed to address trademark-related concerns about market openness and entry barriers.¹⁶⁴

¹⁵⁹ See, e.g., *AstraZeneca/Novartis*, Decision of 26.7.2000, M.1806; *Bombardier/ADtranz*, Decision of 3.4.2001, M.2139; *Glaxo Wellcome/SmithKline Beecham*, Decision of 8.5.2000, M.1846; *Shell/BASF (Project Nicole)*, Decision of 29.3.2000, M.1751; *Akzo Nobel/Hoechst Roussel Vet*, Decision of 22.11.1999, M.1681; *MMS/DASA/Astrium*, Decision of 21.3.2000, M.1636; *Glaxo/Wellcome*, Decision of 28.2.1995, M.555; *Alcan/Pechiney (II)*, Decision of 29.9.2003, M.3225; *Siemens/Drägerwerk/JV*, Decision of 30.4.2003, M.2861; *Tetra Laval/Sidel II*, M.2416; *Vivendi/Canal+/Seagram*, Decision of 13.10.2000, M.2050; *Dow Chemical/Union Carbide*, Decision of 3.5.2000, M.1671; *Allied Signal/Honeywell*, Decision of 1.12.1999, M.1601; *Hoechst/Rhône-Poulenc (Aventis)*, M.1378; *Hoffmann-La Roche/Boehringer Mannheim*, Decision of 4.2.1998, M.950.

¹⁶⁰ *Nestlé/Ralston Purina*, Decision of 27.7.2001, M.2337. See also Berg (note 143, *supra*), p. 365.

¹⁶¹ See Notice on remedies (note 99, *supra*), para. 20.

¹⁶² See Notice on remedies (note 99, *supra*), paras. 22-23.

¹⁶³ *SEB/Moulinex*, M.2621.

¹⁶⁴ See, e.g., *Pernod Ricard/Diageo/Seagram*, Decision of 8.5.2001, M.2268 ('hold separate' obligation for trademarks under which rum was distributed); *Procter & Gamble/Wella*, Decision of 30.7.2003, M.3149; *Imperial Tobacco/Reemtsma Cigarettenfabriken*, Decision of 8.5.2002, M.2779; *Unilever/Bestfoods*,

E. Summary

The acquisition and other forms of transfer of IP rights, as well as the existence and use of IP rights and related rights can raise various merger control issues. First, the acquisition of an IP right may constitute a concentration and may therefore trigger the duty to notify the transaction to the FCO or to the Commission. Although there are no European decisions to date that deal with the question of whether an IP right transfer in itself (i.e., without a simultaneous transfer of other assets, business units, *etc.*) can qualify as a concentration, there are various indications for this to be the case. Under German case law, the question has been affirmed. In a recent FCO decision, the corresponding legal principle has even been applied to the transfer of a right to which no current turnover could be attributed. This decision was set aside by the OLG Düsseldorf in June 2005, but the FCO, disagreeing with the OLG Düsseldorf, has appealed to the BGH, the decision of which is still pending. Second, with respect to the substantive standards, IP rights mainly become relevant for the assessment of competition concerns in two situations which are often closely connected: (a) where the concentration would lead to a pooling of significant amounts of IP rights (in certain situations also referred to as ‘ring fencing’), and (b) where IP rights operate as barriers to entry or reinforce such entry barriers. Third, in the context of merger remedies, the relevance of IP rights primarily comes into play with respect to divestitures of assets, such as IP rights or know-how, and market-opening mechanisms, such as the licensing or other granting of access to vital protected technology, know-how or trademarks. In both instances, the relevance of granting access to IP rights mainly lies in the lowering of entry barriers as a response to antitrust concerns otherwise raised by the concentration.

Decision of 28.9.2000, M.1990; *Rhodia/Donau Chemie/Albright & Wilson*, M.1517; *Kimberly-Clark/Scott*, Decision of 16.1.1996, M.623, OJ 23.7.1996 L183/1; *Du Pont/ICI*, Decision of 2.10.1997, M.984.