

Competition Law and Intellectual Property Rights: Controlling Abuse or Abusing Control?

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Published by:



CUTS Centre for Competition, Investment & Economic Regulation

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Citation:

Pham, Alice (2008), 'Competition Law and Intellectual Property Rights:

Controlling Abuse or Abusing Control?', CUTS International, Jaipur, India

Printed by: Jaipur Printers P. Ltd., Jaipur 302 001

ISBN 978-81-8257-107-5

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#0814, SUGGESTED CONTRIBUTION: INR200/US\$15

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Abbreviations and Acronyms

BMS	Bristol-Myers Squibb
CADE	Administrative Council for the Defence of Competition
CPU	Central Processing Unit
EC	European Commission
ECJ	European Court of Justice
EEA	European Economic Area
EEC	European Economic Commission
EULA	End User Licence Agreement
FTC	Federal Trade Commission
GIs	Geographical Indications
IP	Intellectual Property
IPRs	Intellectual Property Rights
ITP	Independent Television Publications
LDCs	Least Developed Countries
MRTP	Monopolies and Restrictive Trade Practices
OEMs	Original Equipment Manufacturers
RTE	Radio Telefis Eireann
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
TNCs	Trans-National Corporations
TRIPs	Trade-Related Aspects of Intellectual Property Rights
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation

Executive Summary

The relationship between competition law and intellectual property rights (IPRs) policy is sometimes mistakenly regarded as pure juxtaposition and contradiction. IPRs policy designates boundaries within which competitors may exercise legal exclusivity (monopolies) over their innovations. In principle, therefore, it creates market power by limiting static competition and promoting dynamic competition. This is seen at first sight as defeating the principles of static market access and level playing fields promoted by competition rules, in particular the restrictions on horizontal and vertical restraints, or on the abuse of dominant positions.

However, competition is not the end goal of competition law, similarly as intellectual property (IP) protection is not the end goal of IPRs policy, but a means to achieve improved efficiency and better welfare in the long run. Competition may also motivate a drive for innovation, as firms compete to exploit first-mover advantages, learning-curve advantages, as well as to gain IPRs protection. Both regimes can thus function to promote consumer welfare in the same manner, while showing similarities and differences in their respective consideration of short and long term effects.

IPRs and competition laws have substantial interface in their regulation of various issues of the business world. Briefly, their interface can be seen from two main perspectives: (i) the impact of IPRs in shaping the disciplines of competition law; and (ii) the application of competition law on the post-grant use of IPRs. IPRs policy can exert some restrictions on a pure prohibition of horizontal and vertical restraints by competition law, usually as an exemption. Competition laws of most countries often expressly or implicitly reserves its application on owners of exclusive rights (recipients of intellectual property protection granted by the State).

On the other hand, IPRs are fully subject to general antitrust principles because what is conferred upon its owner is precisely that autonomy of decision in competition and freedom of contracting according to individual preferences that results from any private property, no matter tangible or intangible, and that is the object of and connecting factor for restraints of competition. Competition law, thus, while having no impact on the very existence of IPRs, operates to contain the exercise of the property rights within the proper bounds and limits which are inherent in the exclusivity acquired by the ownership of intellectual assets. Broadly, IPRs-related competition issues include:

- Exclusionary terms in the licensing of IPRs, specifically the inclusion in licensing contracts of restrictive clauses such as territorial restraints, exclusive dealing arrangements, tying or grant-back requirements;
- Use of IPRs to reinforce or extend the abuse of dominant position on the market, unlawfully;
- IPRs as an element of mergers and cooperative arrangements; and
- Refusal to deal.

The incidence of IPRs-related anticompetitive practices can be treated as a ground for granting a compulsory licence – the licence awarded by the State over a specific IP without the willingness of the IP holder. This is a common practice in both the developed and the developing worlds. Besides, competition concerns may also be raised when the holders of IPRs resort to prevent parallel imports (i.e., goods brought into a country without the authorisation of the patent, trademark or copyright holders after those goods were placed legitimately into the circulation elsewhere). Many competition authorities might be concerned to the extent that restrictions on parallel imports increase the rents flowing to right owners; not to say other potential anti-competitive effects of their market power. Compulsory license and parallel imports, however, remain debatable issues which lie on the delicate interface between IPRs policy and competition rules.

The development of proper frameworks to address the IPRs/competition interface has been given considerable importance in many national jurisdictions, especially developed countries. The situations in developing countries, however, are rather less optimistic, due to their level of economic development, the scope and implementation of the laws as well as other specific local factors.

Currently, over 100 countries worldwide have competition laws, with more than half of them in the category of developing countries. With respect to IP laws, history suggests that implementation of a system to protect IP is a costly affair for developing countries, and they have often fine-tuned their IP regimes (if any) in consonance with their development requirements, rather than applying strict rules as developed countries had done.

Developing countries normally tailor competition policies, if any, including specific regulations on the interface between IPRs and competition to their own conditions and goals, unrestricted by international rules and free from demands or coercion by developed countries. In doing so they need not mechanically adopt the models of competition policies applied in industrialised countries. Such policies should be simpler in developing countries than in developed countries in order to be capable of being enforced by much weaker States. The policies should essentially aim at the promotion of long-term growth of productivity, that is, of dynamic rather than static efficiency.

Beyond the national borders and the purview of domestic legislation, the desirability and necessity of a binding competition agreement within the framework of World Trade Organisation (WTO), on the background of the close relevance between competition policy and IPRs and from the perspective of the Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement as yet, also needs to be handled with great prudence.

This monograph examines the interface between competition law issues and the protection of IPRs – both complementarities and conflicts. It discusses the IPRs-related competition issues, highlighting abuse of a dominance position due to IPRs. In addition, the paper provides an overview of the competition law and IPRs in developing countries. Written in an easy to understand language, this monograph aims to serve the purpose of reaching out to relevant stakeholders as well as general readers.

1

Introduction

Competition law and Intellectual Property Rights (IPRs) policies are bound together by the economics of innovation and an intricate web of legal rules that seek to balance the scope and effect of each policy. IPRs protection is a policy tool meant to foster innovation, which benefits consumers through the development of new and improved goods and services, and spurs economic growth. It bestows on innovators the rights to legitimately exclude, for a limited period of time, other parties from the benefits arising from new knowledge, and more specifically from the commercial use of innovative products and processes based on that new knowledge. In other words, innovators or IPRs holders are rewarded with a temporary monopoly by the law to recoup the costs incurred in the research and innovation process. As a result, IPRs holders earn rightful and reasonable profits, so that they have incentives to engage in further innovation.

Competition law, on the other hand, has always been regarded by most as essential mechanism in curbing market distortions, disciplining anti-competitive practices, preventing monopoly and abuse of monopoly, inducing optimum allocation of resources and benefiting consumers with fair prices, wider choices and better qualities. It, therefore, ensures that the monopolistic power associated with IPRs is not excessively compounded or leveraged and extended to the detriment of competition. Besides, while seeking to protect competition and the competitive process, which, in turn, prods innovators to be the first in the market with a new product or service at a price and quality that consumers want, competition law underscores the importance of stimulating innovation as a competitive input, and thus also works to enhance consumer welfare.

Indeed, the relationship between IPRs and competition law has been a complex and widely debated one. It is not just one of balances between

conflicting or complementary systems/principles, but also one of different levels of market regulation¹ as well. Errors or systematic biases in the interpretation or application of one policy's rules can harm the other policy's effectiveness.² A challenge for both policies is to find the proper balance of competition and innovation protection.

This monograph examines the interface between competition law issues and the protection of IPRs, including the underlying principles. It analyses some IPRs related competition issues and the role of competition law in regulating some anti-competitive dimensions in the exercise of IPRs. In addition, the paper looks at the competition provisions contained in the World Trade Organisation (WTO) Agreement on TRIPs and discusses the desirability of multilateral competition disciplines within the WTO framework from the perspective of the relevance between IPRs and competition issues. Given the vastness of the subject, views expressed in this monograph are necessarily selective and suggestive rather than comprehensive and conclusive.

1.1 What is Competition Policy and Law?

Competition policy can succinctly be defined as those government measures that directly affect the behaviour of enterprises and the structure of industry. The objective of competition policy is to promote efficiency and maximise welfare³. Competition policy essentially comprises two elements: the first involves putting in place a set of policies that promotes competition in local and national markets, which includes a liberalised trade policy, openness to foreign investments and economic deregulation; and the second comprises legislation, judicial decisions and regulations specifically aimed at preventing anti-competitive business practices and unnecessary government interventions, avoiding concentration and abuse of market power and thus preserving the competitive structure of markets. This element is referred to as competition/antitrust law.

A well designed and effective competition law is likely to promote the creation of an enabling business environment, which improves static and dynamic efficiency, and leads to efficient resource allocation in which the abuse of market power is prevented by stimulating competition. In addition, competition law prevents artificial entry barriers, facilitates market access and compliments other competition-promoting activities.

1.2 IPRs and IPRs Policy

A definition of IPRs says: “they are a composite of ideas, inventions and creative expressions” plus the “public willingness to bestow the status of property” on them⁴. As in the case of tangible property, IPRs give their owners the right to exclude others from access to or use of protected subject matter for a limited period of time, and subsequently the right to license others to exploit the innovations when they themselves are not well situated to engage in large-scale commercial exploitation.

The main legal instruments for protecting IPRs are patents, copyright (and neighbouring rights), industrial designs, geographical indications (GIs), trade secrets and trademarks. Special *sui generis* forms of protection have also emerged, which addresses the specific needs of knowledge-producers, for example, utility models, plant breeder’s rights, and integrated circuits rights. Moreover, many countries enforce trade secret laws to protect undisclosed information that gives a competitive advantage to its owner. These legal instruments are just one of the pieces that form a national system of intellectual property (IP) protection. The institutions in charge of administering the IPRs system, as well as the mechanism available for enforcing these rights, are other crucial elements of the system’s overall effectiveness⁵.

The conventional economic rationale for IPRs protection is that they promote innovation, including its dissemination and commercialisation by establishing enforceable property rights for creators of new and useful products; ensuring more efficient processes and original work of expression; and preventing rapid imitation from reducing the commercial value of innovation and eroding incentives to invest to the detriment of consumers. This rationale is typically used to explain the economics of patents and copyright laws. With respect to trademarks and industrial designs, the basis for protection is frequently framed in terms of incentives for investments in reputation (quality) rather than innovation *per se*. Trade secrets, in turn, are rationalised as a necessary supplement to the patent system, with the main positive role being to foster “sub-patentable” or incremental innovations.⁶

2

Framing the Competition-IPRs Relationship

The discussion about the relationship between competition law and IPRs policy has been a legendary one for its scope and various dimensions, and this section touches upon the relation between the two. However, the discussion by itself has proved the strong relevance between the two regulatory systems.

2.1 Conflicting Relations?

The relationship between competition law and IPRs policy used to be mistakenly depicted as a pure juxtaposition or sheer contradiction for quite sometime. Basically, IPRs designate boundaries within which competitors may exercise legal exclusivity (monopolies) over their innovation; therefore, in principle, create market power⁷ by limiting static competition in order to promote investments in dynamic competition. IPRs are, therefore, at first sight, seen at variance with the principles of static market access and level playing fields sought by competition rules, in particular the restrictions on horizontal and vertical restraints, or on the abuse of dominant positions.⁸ This is, however, not necessarily the case.

Empirically, it has been observed⁹ that rights over IP, while ensuring the exclusion of rival firms from the exploitation of protected technologies and derived products and processes, do not necessarily bestow their holders with market power. In fact, there often exist various technologies, which can be considered potential substitutes to confer effective constraints to the potential monopoly-type conduct of IPRs holders. For example, Microsoft Corporation holds the copyright for Windows, a very popular operating system used for Intel-compatible personal computer. However, possession of the IP for

Windows and legal exclusivity over its use/exploitation alone do not give Microsoft market power, since there are many other substitutes, such as Mac OS, or Linux. What gave Microsoft the monopoly power in the market was the application of barriers to entry, which tilts the competitive balance in favour of the software giant.¹⁰

Only when alternative technologies are not available,¹¹ IPRs can be said to grant their holders monopolistic positions in the defined relevant markets. And even then that alone does not create an antitrust violation. Antitrust/competition law recognises that an IPR's creation of monopoly power can be necessary to achieve a greater gain for consumers. Moreover, antitrust/competition law does not outlaw monopoly in all circumstances. For example, monopoly achieved solely with "superior skill, foresight, and industry"¹² does not violate the antitrust/competition law. It is only when monopoly is acquired or maintained, or extended through unlawfully anti-competitive means that it can be ruled unlawful.

From a theoretical perspective, IP is a *quid pro quo* for competition. "Competition, whether static or dynamic, is not a natural phenomenon occurring all by itself with respect to all kinds of goods...[but rather] a complex evolutionary system".¹³ The present competitive market is the result of an evolution from manufacture of and trade in homogeneous natural goods to markets for highly diversified and artificially tangible or intangible goods.

Similarly, competition has changed from rivalry by production and natural imitation to an evolutionary process of systematic creation and innovation. "The ever increasing forms and numbers of IP titles, the elevation of standards of protection and the territorial broadening of the scope of protection only mirror in law the diversity of the goods actually offered in competition, and reveal the normality of such competition."¹⁴ To put it simply, IPRs policy protects the IP based products and processes that firms use as inputs in the dynamically competitive process in the marketplace, and thus is nowhere near being in contradiction or conflicting with the ultimate goal of competition law.

2.2 Complementing Each Other?

It follows from the above discussion that when we think of the relationship between these two regulatory systems at a high level of abstraction, rather than being simply antithetical to each other, they complement each other in “promoting an efficient marketplace and long-run dynamic competition through innovation”.¹⁵ As discussed above, IPRs policy creates and protects the right of innovators to exclude (*ius excluendi*) others from using their ideas or forms of expression. This provides economic agents with the incentives to engage in efforts that produce technological innovation and/or new forms of artistic expression. This will create more inputs for competition on the future market, as well as promote dynamic efficiency, which is characterised by increasing quality and diversity of goods and growth generated through increased productive efficiency.

However, in the short run, and in some circumstances when patents, copyrights or other IPRs confer market power (through exclusivity), they may lead to restriction of production, a supra-competitive price, and what economists call a deadweight loss. Moreover, in the rational exercise of its self-interest, an IPR holder may sue would-be rivals for infringement, deterring entry to compete, or prolong its market power by precluding access to technology necessary for the next generation of products to emerge.¹⁶ This is where competition law comes in to help IPRs protection to be fair and on the right track of its virtue towards the welfare goal.

Thus, competition is not the end goal of competition law just as IP protection is not the end goal of IPRs policy but only a means to achieve improved efficiency and better welfare in the long run. In some circumstances, the society would be better off by allowing for limited market restrictions, monopolistic profits and short-term allocative inefficiency when these can be proven to promote dynamic efficiency and long-term economic growth. This has even been explicitly included among those factors to be taken into account by competition authorities in some competition statutes. For example, it has been asserted that allowing price to rise above the marginal cost through a succession of temporary monopolies can spur dynamic competition. Analysts also argue that rapid innovation, increased importance of declining average costs, and network externalities have created conditions ideal for “dynamic” competition for monopoly, in which temporary monopolies rise and fall in the rhythm of rapid entry and exit.¹⁷

Moreover, competition may drive a race for innovation, as firms compete to exploit first-mover advantages, learning-curve advantages, as well as to gain IPRs protection.¹⁸ It is also one of the tasks of competition law to protect this type of competition: competition in the innovation race or competition for the market as distinguished from competition in the product market. Nevertheless, it should be noted as well that competition cannot serve as the sole driver of innovation. Inventors sometimes cannot appropriate value from the invention without the grant of IPRs, making IPRs protection an important incentive for innovation in such settings.

Both regimes can thus function to promote consumer welfare in the same manner, while showing similarities and differences in their consideration of short and long run effects on consumer welfare. “[Patent] law and the incipency elements of antitrust law are similar in that they both are ultimately based on inherently uncertain predictions of what is going to happen in the future. The difference is that in the antitrust regime we sometimes are concerned about conduct that in the short-term may be benign or even helpful to consumers, but that may be harmful in the long run, whereas in the [patent] regime, we are willing to tolerate immediate consumer harm, e.g. monopoly pricing in the expectation that in the long run it will benefit consumers by encouraging innovation”.¹⁹

We can sum up the above discussion with the words of the US Department of Justice (DoJ) and the Federal Trade Commission (FTC), which in their 1995 “Antitrust Guidelines for the Licensing of Intellectual Property”, have stated:

“The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The intellectual property laws provide incentives for innovation and its dissemination and commercialisation by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers”.

These types of guidelines need to be re-examined and appropriately adjusted in the context of the “New Economy”, which is characterised by an increased dependence on products and services that are the embodiment of ideas. A major challenge is, thus, to identify policies that will ensure an efficient operation of the competitive process that underlies this IP revolution. More narrowly, questions abound concerning the relationship between competition and IPRs laws, or the right way to bring out the benefits of as well as reinforce the complementarities between these two regulatory systems for the sake of dynamic efficiency and consumer welfare in the new era.

3

Interfacing the Two Regulatory Regimes

Given the strong link between the two, IPRs and competition laws have a substantial interface in their regulation of various issues of the business world. Briefly, their interface can be seen from two main facets: (i) the impact of IPRs in shaping the disciplines of competition law; and (ii) the application of competition law on the post-grant use of IPRs.

3.1 IPRs Standards as Competition Regulation

IPRs policy can exert some restrictions on a pure prohibition of horizontal and vertical restraints by competition law, usually as an exemption. Economic rationale dictates that general antitrust principles nowadays must frequently give way to considerations like transaction cost minimisation or pre-competitive cooperation whenever IP is central to collective arrangements or joint ventures on product markets.

In this respect, IPRs policy acts as an institutional regulatory framework for the proper operation of markets for intangible subject matter, and is therefore exempt from antitrust control. Competition laws of most countries, therefore, expressly or implicitly exempt from their application the exclusive rights inherent in IP protection granted by the state, which are considered to justify restrictions that would otherwise be subject to antitrust scrutiny.

For instance, Section 1 of Article 81 (ex Article 85) of the Treaty of Rome²⁰ prohibits all agreements “which may affect trade between Member States” and which have as their object or effect the prevention, restriction or distortion of competition within the common market. However, Section 3 of the same

article provides for individual and block exemptions for agreements, which contribute “to improving the production or distribution of goods or to promoting technical or economic progress” (See Box 1 for a related case law).

Box 1: Maize Seed and the European Commission Block Exemption Regulations

The European Court of Justice (ECJ), in Case 258/78 *Nungesser vs. Commission*, reviewed a challenge by the European Commission (EC) to agreements related to the marketing of a new hybrid maize seed.

Plant breeders' right in the seeds was held by INRA, a French research institute, which had developed them. INRA contracted with Nungesser for the reproduction and sales of the seeds in Germany. The agreement between INRA and Nungesser provided *inter alia*, that Nungesser had the exclusive licence for Germany (i.e. it would not grant further licences in the German territory) and that INRA would seek to prevent the seeds grown in France from being exported to Germany except to Nungesser. Eventually, other seed varieties superseded the INRA seed, and at least two dealers in Germany imported the improved seeds from dealers in France. Nungesser invoked its licence rights and successfully restrained imports by these two dealers. The EC found the agreements, by their nature, to be an exclusive licensing practice, which is in violation of Article 85(1) and not to be exempted under Article 85(3).

In review of the EC's challenge, the ECJ found that the grant of an exclusive licence to Germany, standing alone, only created an 'open exclusive licence', which was necessary for the successful introduction of the new technology into the market and which did not seek to block parallel imports from elsewhere in the Community, hence, did not amount to a restriction of competition within Article 85(1). The ECJ, on that basis, reversed the Commission's ruling on this point.

However, regarding the territorial restraints added to the open exclusive licence whereby INRA would seek to prevent the seeds grown in France from being exported to Germany except to Nungesser, these efforts were found by the Court to create absolute territorial protection and hence to be contrary to the Treaty of Rome's provisions as they could result in the 'artificial maintenance of separate national markets'. The Court, therefore,

Contd...

affirmed the Commission's denial of an exemption under Article 85(3) *per se* for the provisions creating absolute territorial protection, which goes beyond what is indispensable for inducing the dealer to cultivate and market the maize seed.

The *Maize Seed* case provided the basis for successive regulations on block exemptions in this field. The EC's patent licensing block exemption, Regulation (EEC) No. 2349/84 on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, was published two years after that. This exemplifies how IPR standards are applied as competition regulation in European case law.

Source: 78/823/EEC: Commission Decision relating to a proceeding under Article 85 of the EEC Treaty (IV/28.824 – Breeders' rights – Maize seed), Official Journal L 286, 12/10/1978 p.0023 – 0037.

Meanwhile, the US law requires a rule-of-reason standard to be applied to all antitrust actions concerning patent, know-how or copyright licensing; specifically expressed in antitrust analysis of horizontal or vertical restraints. The US DoJ published its Vertical Restraints Guidelines in 1985, which state:

“These Guidelines also do not apply to restrictions in licences of intellectual property (e.g. patent, a copyright, trade secret, and know-how). Such restrictions often are essential to ensure that new technology realises its maximum legitimate return and benefits consumers as quickly and efficiently as possible. Moreover, intellectual property licences often involve the co-ordination of complementary, not competing, inputs. Thus, a rule of reason analysis is appropriate. Unless restrictions in intellectual property licences involve naked restraints of trade unrelated to development of the intellectual property, or are used to co-ordinate a cartel among the owners of competing intellectual properties, or suppress the creation of development of competing intellectual properties, the restrictions should not be condemned. However, because the anti-competitive risks and the pro-competitive benefits of restrictions in licences are somewhat different from the potential of typical vertical restraints, the rule of reason analysis may also differ from (and be even more lenient than) that set out in these Guidelines”.

The Monopolies and Restrictive Trade Practices (MRTP) Act of India exempted from its purview of application “any monopolistic or restrictive trade practice necessary to safeguard the rights of patentees under the Indian patents act with regard to certain infringements and conditions that may be laid down in the licence(s) (section 15(a) & (b)). The Competition Act 2002 of India, under section 3(5), declares that its provisions will not restrict “the right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of his rights which have been or may be conferred upon him under: (a) the Copyright Act, 1957 (14 of 1957); (b) the Patents Act, 1970 (39 of 1970); (c) the Trade and Merchandise Marks Act, 1958 (43 of 1958) or the Trade Marks Act, 1999 (47 of 1999); (d) the Geographical Indications of Goods (Registration and Protection) Act, 1999 (48 of 1999); (e) the Designs Act, 2000 (16 of 2000); (f) the Semiconductor Integrated Circuits Layout-design Act, 2000 (37 of 2000)”.

3.2 Regulation of IPRs through Competition Law

On the other hand, “as a piece of individual property, IPRs are fully subject to general antitrust principles because what is conferred upon its owner is precisely that autonomy of decision in competition and freedom of contracting according to individual preferences that results from any private property, no matter tangible or intangible, and that is the object of and connecting factor for restraints of competition”.²¹ Competition law, thus, while having no impact on the very existence of IPRs, operates to contain the exercise of the property rights within the proper bounds and limits which are inherent in the exclusivity conferred by the ownership of intellectual assets. This is where one descends from lofty principles and broadly defined objectives to practical implementation to deal with the tensions between the two policies when the exercise of IPRs gives rise to some competition concerns because of the anti-competitive dimensions that it may embody.

In Brazil, for example, both the Antitrust Law (Law 8,884/94) and the Patent Law (Law 9,279/96) contain the basic rules that govern the relationship between free competition and industrial property rights. Article 21 of the Antitrust Law, in particular, entitles the Administrative Council for the Defence of Competition (CADE) to examine the effects of patents, trademarks, industrial design and utility models under the market efficiency and competition perspective. Copyrights and un-patented technology are also regarded as elements that may alter the competition structure of the market and therefore their use may be scrutinised by the authorities.²²

In South Africa, the relationship between competition law and IPRs is governed by the South African Competition Act 89 of 1998. The Act came into force on September 01, 1999, and is applicable to all economic activities in South Africa, which would include all types of IPRs. Thus, the exercise of all types of IPRs is subordinated to scrutiny under the provisions of the Competition Act relating to restrictive horizontal (Section 4), vertical (Section 5) practices, and abuse of a dominant position (Sections 7 to 9).²³ Broadly speaking, IPRs-related competition issues include:

- Exclusionary terms in the licensing of IPRs, specifically the inclusion of restrictive clauses such as territorial restraints, exclusive dealing arrangements, tying or grant-back requirements in licensing contracts;
- Use of IPRs to reinforce or extend the abuse of dominant position on the market unlawfully;
- IPRs as an element of mergers and cooperative arrangements; and
- Refusal to deal.

4

Controlling Abuses or Regulation of IPRs-Related Competition Issues

4.1 Competition Concerns in Exclusionary Licensing Agreements

Licensing constitutes an important part of the IPRs regime, or to be more specific, industrial property rights.²⁴ Far from restricting competition, in principle, it extends the opportunities for traders by stimulating their connection to the patent holders via agreements to promote competition by facilitating the wider dissemination of the protected technologies/knowledge as well as products and services using the protected patent as input. Indeed, what may give a licensing agreement its business-restrictive character are the specific contractual agreements and market conditions, which create more or less essential restrictions if the agreement is to have any value.

An important principle of competition *vis-à-vis* licensing, as with any other property transfer, lies in drawing a clear distinction between the horizontal or vertical effects of licensing agreements, or whether they have substantial aspects of both. A licensing agreement has a vertical dimension when it affects activities that are in a complementary relationship, e.g. the case of a licensing agreement between IPRs holders and firms using those rights as inputs for their activities (see Box 1). Vertical arrangements are often viewed²⁵ as tools to co-ordinate the incentives of downstream licencees with the interests of upstream licensors, so as to reduce transaction costs, opportunistic behaviour and free-riding opportunities by either upstream or downstream firms.

Generally, vertical IPRs licensing arrangements are treated rather leniently under the antitrust rule of reason in most jurisdictions²⁶ with an exception to provisions aimed at fixing the resale price of goods and services by incorporating IP. Vertical price fixing (resale price maintenance) is banned *per se* in most jurisdictions including IPRs licensing agreements. Vertical agreements can lead to anti-competitive effects when they are imposed on downstream firms by companies holding a strong and unrivalled market position.

In addition to a vertical dimension, licensors and licencees may also have a horizontal relationship when they would have been actual or likely potential competitors in a relevant market in the absence of the licensing agreement. Though such a relationship does not always indicate that the agreement is anti-competitive, it is more likely to cause competition concerns. Anti-competitive elements emerge, for example, when holders of substitutable technologies enter into cross-licensing agreements, aimed at setting commonly agreed prices for the (competing) products and services incorporating those technologies. Other types of horizontal agreements among holders of competing technologies, such as joint ventures can also adversely affect competition.

Table 1: Anti-competitive Dimensions of Licensing Arrangements		
Contractual agreement	Main features	Associated competition concerns
Territorial restraint	<ul style="list-style-type: none"> • Territorial restraint is an agreement between the licensor and the licensee that the licensor will assign a certain territory to the single agreed licensee – thereby preserving an exclusive market for that licensee. • Territorial restraint agreements may cause a reduction in intra-brand competition but may be a necessary condition to enhance inter-brand competition.²⁷ 	<ul style="list-style-type: none"> • Territorial restraints will be <i>per se</i> unlawful only when they are used as a sham to cover a market allocation or price fixing agreement: • They can facilitate the implementation of disguised cartel arrangements to allocate the market among colluding firms. For instance, competing firms holding a significant proportion of the total number of patents specific to a particular class of products could agree on issuing exclusive licences to a jointly owned corporation, which would then divide up the market among the

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		<p>associated firms through territorial restraint agreements.</p> <ul style="list-style-type: none"> • Territorial restraint agreements may also be a direct tool to facilitate collusion among competing licensors by making it easier to monitor downstream violations to cartel agreements.
Exclusive Dealing	<ul style="list-style-type: none"> • Apart from providing exclusive rights in a given territory, as in the case of territorial restraints, a licensing agreement can also entail commitments by the licensee to deal exclusively with the licensor. • Exclusive dealing arrangements prevent licensees from licensing, selling, distributing, or manufacturing products which employ technologies supplied by competitors of the licensors. • Exclusive dealing agreements do not always have anti-competitive objectives. They may be aimed at avoiding free riding between competing licensors, or promoting the development of the licensed technologies by both parties. 	<ul style="list-style-type: none"> • Competition aspects arising from restrictions on a licensee's ability to deal in competing technologies can be analysed on the basis of: (i) the duration of the exclusivity; (ii) the rationale for the restriction; and (iii) the degree of foreclosure caused by the restriction to rival licensors. • The anti-competitive foreclosure risk may be significant when the firms entering into exclusive dealing arrangements already hold a large share of the relevant product market. It also depends to a large degree on the availability of alternative manufacturing capacity for existing or new licensors.
Tie-in	<ul style="list-style-type: none"> • Conditioning the ability of a licensee to license one or more items of IP on the licensee's purchase of another item of IP or a good or a service has been held in some cases to constitute illegal tying.²⁸ • Tying requirements may "result in significant efficiencies and pro-competitive benefits", for instance, when they help to guarantee the effectiveness of the licensed technology, to reduce the risk inherent in the licensing of 	<ul style="list-style-type: none"> • Tie-in is generally deemed <i>per se</i> unlawful if: (i) it involves two separate products or services; and (ii) the seller has market power in the tying product and has the ability to extend this market power in the tied product, due to favourable market conditions (high entry barriers, etc.); (iii) the arrangement has an adverse effect on competition in the relevant market for the tied product; and (iv) efficiency justifications for the arrangement do not outweigh the anti-competitive effects.

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	innovation with uncertain commercial value.	<ul style="list-style-type: none"> • Tying agreements may facilitate horizontal collusion among licensors if the licensors use them as a device to detect cheating on a cartel arrangement.
Grant-back	<ul style="list-style-type: none"> • A grant-back requirement is an agreement by which a licensee agrees to extend to the licensor of IP the right to use the licensee's improvement to the licensed technology. • Grant-backs can have pro-competitive effects, especially if they are non-exclusive. Such agreements provide a means for the licensee and the licensor to share risk and reward the licensor for facilitating further innovation based on or informed by the licensed technology, thereby promoting innovation as well as the subsequent licensing of the result of the innovation. 	<ul style="list-style-type: none"> • The antitrust consequences of a grant-back depend on a number of factors: (1) whether the grant-back includes technology that goes beyond the originally licensed IP; (2) whether the grant-back is in the form of an assignment, exclusive licence, non-exclusive licence or an option; (3) the duration of the licensee's grant-back obligation; (4) the market power of the parties; (5) whether the parties are competitors; (6) the effect of the grant-back on the parties' incentive to innovate; and (7) whether the grant-back promotes dissemination of improvements developed by the licensee, etc. • Grant-backs may also raise competition concerns as they facilitate undue enhancement or maintenance of a dominant position.

4.2 IPRs and the Abuse of a Dominant Position

IPRs, by their very nature, create a form of monopoly or, in other words, a degree of economic exclusivity. The creation of that legitimate exclusivity, however, does not necessarily establish the ability to exercise market power. Even in case it does confer market power (as already discussed in the previous part) that dominant position in the market does not by itself constitute an infringement of competition law nor does it impose on the IPR holders the obligation to license that property to others. Besides, competition authorities are normally concerned with the abuse of the dominant position, whatever the source of such dominance, rather than with any abuse of IPRs. Much, however, also depends on the facts of each case involved.

For example, in two cases involving design rights in spare parts for cars, the ECJ held that refusal to license these rights could not constitute abuses *per se* as the exercises of exclusivity were legitimate, given that the refusal to license was part of the autonomy granted to the IPR-holder.²⁹ However, the court also ruled that Article 82 of the Treaty of Rome (ex Article 86) on abuses of dominance would be applicable when specifically abusive conduct was involved, such as the arbitrary refusal to supply spare parts to independent repairers, setting prices at an unfair level or terminate the production of spare parts for a particular model.

The ECJ went even further in the Magill³⁰ case involving the issue of whether the owner of copyright-protected TV programme listings could exclude competitors from the derivative market for weekly TV guides. It held that the refusal to license constituted abuse in exceptional circumstances because of the lack of actual or potential substitutes and the prevention of product innovation (contravening Article 82), the abusive leveraging in a secondary market and the lack of legitimate justification. A defence based upon the exercise of IPRs was expressly rejected, and the IPR holder was denied the right to refuse the licence. Thus, the court focused on whether the conduct was anti-competitive or not, rather than on whether it was within or outside the scope of the grant of the IPRs.

Other cases of IPRs-related abuse of dominance include:

- **Monopoly pricing:** This is rarely a serious competition concern in developed countries due to the abundance of market substitutes. In developing countries, because the number of available substitutes may be more limited and because most IPRs-protected products are owned by foreign interests, monitoring to discipline monopoly pricing practices by IPRs holders is of greater significance.
- **Restrictions on end users:** One very interesting case in point which sheds some light on restrictions on end users as abuse of dominant position is the Microsoft case, which also embodies a monopoly-pricing dimension (see Box 2).

Box 2: Microsoft's Abuse of Dominance

Microsoft is the legitimate owner of the IPRs over the personal computer operating system (PC/OS), which is the company's original creation. The PC/OS is an essential facility – both for users to be able to perform applications such as word processing, spreadsheet etc., and for the application software developers to be able to offer a marketable product for users. This enabled Microsoft to enjoy a monopoly over the licensing of operating systems for PCs (with a 90-percent-plus market share and a substantial applications barrier to entry). Restriction on end-users and monopoly pricing are found among the various abusive conducts committed by the software giant.

Microsoft does not sell its software to anyone. Instead, it parcels out different bundles of rights with respect to its software. These rights, which are bundled together as a "licence" are the only "products" that Microsoft conveys. Microsoft retains the title and all rights to its software except for those rights, which it expressly conveys through one of these licences.

Microsoft enters into a type of licence with the original equipment manufacturers (OEMs) which permit them 'to pre-install [the software] on PCs sold to end users.' Moreover, Microsoft provides a wholly different licence, known as the end-user licence agreement (EULA), to consumers. Microsoft grants the right to 'use the software on the PCs' to and only to end-users. Microsoft's end-user licence is a take-it-or-leave-it proposition and not a product of negotiation.

The EULA states: "By installing, copying, downloading, accessing or otherwise using the software product, you agree to be bound by the terms of this [Agreement]". Thus, the end users accept the EULA by clicking 'Agreement' on the computer or taking other action to indicate acceptance of Microsoft's offer of licence rights. The end users choose to enter the EULA licence with Microsoft only when they first begin to use the OS, not at the times of purchase, payment, or other incidents of the transaction.

As Microsoft possesses the monopoly over licensing the PC/OS, OEMs have had no 'other viable choice [and Microsoft has] ... effectively forced OEMs to pre-install Microsoft OS on their PCs and to act as Microsoft's agents in offering end-user licences for acceptance or rejection by customers under terms strictly and exclusively dictated by Microsoft'.

Like OEMs, retailers and others also acted as agents to convey Microsoft's offer to enter the EULA. The retailers also did not purchase or receive title to the end-use rights or other aspects of the product, namely, the EULA,

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which indeed expressly provides that it is between Microsoft and the end users. As a direct result of Microsoft's restrictive and exclusionary practices, end users were caused to suffer unique injury. They were deprived of the benefits of competition, including but not limited to technological innovation, market choice, product variety, and substitutable supply.

From 1995 onwards, Microsoft continued to expand its antitrust violations. Previously, under the old EULA with Microsoft and in the software markets generally, end users had numerous rights, e.g. to reuse the licence on another PC; to resell the licence; and the right to return the license and obtain a refund if they did not want to accept the licence, etc. However, with the cheaper or technologically superior PC/OS and other products no longer being marketed in the margins of the market due to its abuses of monopoly, Microsoft was given the room to charge a higher profit-maximising price and impose far more anti-competitive restrictions on end users.

Microsoft did so. It tripled its prices and affected a series of new restrictions on its licensee end users who acquired PCs through the OEM channel. For example, Microsoft prevented end users from effectively returning the Microsoft PC/OS for a refund (notwithstanding the terms of Microsoft's end-user licence). Also, Microsoft prohibited end users from using on newly purchased PCs the PC/OS installed on their old PCs. Similarly, Microsoft prohibited end users from reselling on a stand-alone basis the PC/OS licences acquired when they had purchased their PCs.

Microsoft's new EULA restrictions were intended to force the consumer to acquire a new EULA with each new PC and thereby deprived consumers of other products and denied other products to consumers. Over time, Microsoft coupled these restrictions with other anti-competitive steps. These included Microsoft's nearly two-fold increase during 1998 of its prices for licences of its old and dated (but not obsolete) PC/OS to the same level of prices charged for licences of its new PC/OS (from US\$49 to US\$89).

Source: J. Frederick Motz, US District Judge, Opinion on the Microsoft Corp. Antitrust Litigation, for the United States District Court of Maryland, MDL No. 1332, January 2001

4.3 IPRs as an Element of Mergers and Cooperative Arrangements

Merger control

When firms are involved in acquisitions or mergers, or in the creation of concentrating joint ventures (which have similar effects as a merger, and thus subject to merger control), there is an increasing tendency for the instruments of transfer to include specific provisions for the use, disposal or licensing of the respective parties' IPRs of respective parties. Technically, these provisions might restrict competition and sometimes to a substantial and unacceptable degree. The broad test of whether the restrictions are acceptable or not is whether they are ancillary to the main transaction: that is, whether they are a necessary and reasonable part of it. If they are, they can be referred to as "ancillary restraints (or restrictions)" and can be accepted as such. If they are not ancillary to the main transaction, they are liable to infringe the rules on competition. The obligation to license out IPRs then may constitute one of the remedies for anti-competitive aspects of a merger, i.e. divestitures of IPRs involved as a means to preserve competition.

For example, in the Boeing/McDonnell Douglas case,³¹ the merger was cleared only on condition that other aeroplane manufacturers obtained non-exclusive licences to patents and underlying know-how held by Boeing. In the Ciba-Geigy/Sandoz merger case,³² the European Commission's (EC's) concerns relating to the parties' dominant position in the market for *methoprene* (an ingredient in animal flea control products) were satisfied by an undertaking to grant non-exclusive licences on fair and reasonable terms for its production.

Similar concerns relating to the market for gene therapy were also resolved by a 10-year obligation to provide non-exclusive patent licences to requesting third parties on commercially competitive terms. Meanwhile, in the US,³³ concerns by the FTC relating to effects of the merger upon "innovation markets" were also resolved through a divestiture of Sandoz's US and Canadian flea control business and a technology transfer agreement enabling the purchaser of the business to produce its own *methoprene*, as well as the obligation to grant non-exclusive licenses on certain gene therapy patent rights and other technology, and to refrain from acquiring exclusive rights over other genes.

Cooperative arrangements between IPR holders

IPRs may also be used as a horizontal restriction and thus contribute to the formation, existence or activities of a classic cartel. In this regard, we can mention pooling and cross-licensing practices, which may, intentionally or otherwise, serve this purpose. Pooling and cross-licensing arrangements are agreements of two or more holders of different items of IP to license one another or the third parties. Pooling or cross-licensing of IPRs may bring about many pro-competitive benefits, such as integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation. At the same time, they can also be used by the licensors to obtain many anti-competitive objectives. For example, a pool could be used in an effort to fix prices, limit output or assign territories or fields of use. Pooling and cross-licensing, however, merit separate treatment as they pose increased risk of collusion among competitors. They are, therefore, horizontal by nature while most of the other agreements are mainly vertically restrictive.

Of the many anti-competitive effects which may result from a IPRs pooling or cross-licensing agreement, some are given below:

- Collective price or output restraints in pooling arrangements, such as the joint marketing of pooled IPRs with collective price setting or co-ordinated output restrictions, may be anti-competitive *per se* if they do not contribute to an efficiency-enhancing integration of economic activity among the participants.
- In the absence of offsetting efficiencies, IPRs cross-licensing agreement would diminish competition among entities that would have been actual or potential competitors in a relevant market in the absence of the cross-licence, resulting in restraints of trade.
- Pooling agreements generally need not be open to all who would like to join. However, exclusion from cross-licensing and pooling arrangements among parties that collectively possess market power may harm competition under some circumstances, e.g. when excluded firms cannot effectively compete in the relevant market for the good incorporating the licensed technologies.
- Pooling arrangements may also be efficiency-reducing if the arrangement deters or discourages participants from engaging in R&D, thus retarding innovation. For example, a pooling arrangement that requires members to grant licences to each other for current and future technology at minimal cost may reduce the incentives of its members to engage in R&D because

members of the pool have to share their successful R&D and each of the members can free ride on the accomplishments of other pool members.

Similarly, cartel agreements by licencees can be implemented through ostensible vertical distribution arrangements. For example, this could occur if they induced their licensors to impose resale price maintenance, thus fixing prices at the licensee level. However, to be effective in reducing competition, such restraints would have to apply to a substantial proportion of firms at the licensee level, otherwise the cartelising licencees would be vulnerable to competition from non-restrained firms.

4.4 Refusal to Deal

A widely accepted premise of IP laws is that IP holders are under no obligation to license subject matters protected to others. This principle is generally held to be true even when a firm is in possession of a monopolistic position in a market as a result of its ownership of IP. An early non-antitrust decision by the US Supreme Court stated that the ability to exclude competitors from the use of a new patent ‘may be said to have been of the very essence of the rights conferred by the patent, as it is the privilege of any owner of property to use or not to use without question of motive’.³⁴ On the other hand, from the perspective of IPR/competition law interface, there may pose the question of whether such duty exists.

Courts in the EU and the US have at times held that refusals to license a patent violate competition law. However, in neither jurisdiction though they are among the most advanced jurisdictions in terms of IP and competition law, have they provided clear direction as to whether a refusal to deal is anti-competitive where it involves IP. Slightly different was the case of Brazil, where Article 21 of the Antitrust Law enlists the “non-exploitation or the inadequate use of IPRs and technology of a company” as a strong indication that the free competition rules have been violated”.³⁵

While the non-fraudulent acquisition of patent rights through government grant does not violate the antitrust laws nor is it inherently illegal for a single party to accumulate patents and absent fraud or bad faith, antitrust jurisdiction does hold that when a party aggressively engages in accumulation, non-use, and enforcement of IPRs over the essential inputs in a particular market for the purpose of destroying competition in that market, it may be subject to antitrust liability. Thus, a duty to license this portfolio of rights might be

found, or compulsory licensing might be imposed as a remedy to cure the violation.

4.5 Compulsory Licensing

“A compulsory licence is an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state...A survey of international IP law reveals that the three most prevalent compulsory licensing provisions are applicable where a dependent patent is being blocked; where a patent is not being worked; or where an invention relates to food or medicine. Additionally, compulsory licensing may be implemented as a remedy in antitrust or misuse situations, where the invention is important to national defence or where the entity acquiring the compulsory licence is the sovereign”.³⁶ In these cases, the public interest in broader access to the patented invention is considered more important than the private interest of the right holder to fully exploit his exclusive rights. The designated third party should generally compensate the patent holder through payment of remuneration. Compulsory licences do not deny patent holders the right to act against non-licensed parties.

With regard to the IPR/competition interface, compulsory licensing can be granted on the grounds of the existence of: (i) a refusal to licence and (ii) anti-competitive exercises of IPRs by patent holders. Refusal to deal as a ground for granting a compulsory licence has been provided in many national laws, such as the patent laws of China, Argentina and Israel.

In the UK and in other countries that have followed the model of UK legislation, refusal to deal may lead to a compulsory licence when an export market is not being supplied, the working of any other patented invention which makes a substantial contribution is prevented or hindered, or the establishment or development of commercial or industrial activities in the country is unfairly prejudiced.³⁷ Similarly, in South Africa, a licence can be granted in the case of the refusal to grant a licence on reasonable terms, where trade or industry or agriculture or the establishment of a new trade or industry in the country is prejudiced, and it is in the public interest that a licence is granted.³⁸

As regards anti-competitive practices, the Competition Act of Canada, for example, gives the Federal Court power to expunge trademarks, to license patents (including setting all terms and conditions), to void existing licences

and generally to abridge or nullify normal patent or trademark rights where the trademarks or patents have been used to injure trade or commerce unduly or to prevent or lessen competition unduly.³⁹

Box 3: Some Assorted Cases of Compulsory Licensing

The US

In general, the US position on compulsory licensing is that “compulsory licences for the benefit of private competitors are not favoured by the tradition of America statute law, except as sanctions for actual violation of the antitrust laws”.^(a)

US FTC vs. Ciba – Geigy HO, Ciba – Geigy Corp., Chiron Corp., Sandoz Corp. and Novartis AG^(b)

On March 24, 1997, the US FTC issued a Decision and Order concerning the merger between Swiss companies Ciba-Geigy and Sandoz into Novartis. The combined entity would also control Chiron Corp., a biotechnology company. The FTC concluded that the merger would violate US antitrust laws because the merged companies are current or potential competitors for several pharmaceutical, agrochemical and biotechnology products. The FTC required divestiture of several products, and ordered compulsory licences of IPRs for a number of other healthcare inventions. For example, Ciba-Geigy, Sandoz and Chiron were required to license a large portfolio of patents, data and know-how relating to HSV-tk products, haemophilia gene rights and other products to Rhone-Poulenc Rorer. The new merged entity and Chiron were also required to grant non-exclusive licences to any interested party of patents and other rights relating to Cytokine products.

In the case of the non-exclusive Cytokine licences (which involve gene therapy), and the Anderson gene therapy patent the FTC specified that the royalties can be no greater than three percent of the net sales price.

Intergraph Corp. vs. Intel Corp., 253 F.3d 695 (Fed. Cir. 2001)^(c)

This case involves Intel, a firm that accounts for almost 80 percent of the world's supply of microprocessors. Because Intel and others control key patents on Central Processing Unit (CPU) technology, barriers to entry in the industry are high. The barriers are heightened further by important network and feedback effects due to the combination of Intel chips with the Windows Microsoft's operating system. In order to smoothen the incorporation of Intel's upcoming technologies into the complementary

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goods, Intel has implemented the practice of giving its main customers advance information about new and upcoming processor prototypes.

Intergraph, a producer of graphics workstations, initiated the first case against Intel by suing the company and others for infringement on its CPU patents. Intel countered by removing Intergraph from the list of companies benefiting from advance notification of technical details about its forthcoming CPUs. Besides, the defendant threatened to discontinue the sale of microprocessors to the plaintiff if the latter carried on with its refusal to sell to it the patents it held on CPU technology. Intergraph won a preliminary injunction based on the argument that Intel's microprocessors and associated trade secrets were *essential facilities* under the antitrust laws. The court ordered Intel to deal with Intergraph under standard terms. The apparent implication was that the essential facilities doctrine, developed mainly to regulate access to essential physical equipment, applies to intangible assets.

However, Intel appealed and won. The Federal Circuit Court held that Intel's refusal contravened neither antitrust nor patent laws. The Court held that two conditions required to make Intel's conduct unlawful were not met. First, Intel's microchips were not an *essential input* because other suppliers (AMD, Motorola, Sun, and IBM) were able to sell close substitutes. Second, the goal pursued by Intel's in refusing to sell was not to create a monopoly in the downstream market as the firm had no intention of entering into downstream activities.

The EC *Magill* ^(d)

The ECJ, in its decision of April 06, 1995, confirmed that Radio Telefis Eireann (RTE) and Independent Television Publications Limited (ITP), who were the only sources of basic information on programme scheduling, which is indispensable raw material for compiling a weekly television guide, could not rely on national copyright provisions to refuse to provide that information to third parties. Such a refusal, the Court held, in this case constituted the exercise of an IPR beyond its specific subject matter and, thus, an abuse of a dominant position under Article 86 of the Treaty of Rome.

The court argued that RTE and ITP held a dominant position because they were the only source in Ireland of the basic information necessary to produce weekly television programming guides and were thus in a position to reserve for themselves the secondary market for weekly television guides by excluding all competition from that market. The Court held that, while refusal to grant a licence in exercising an IPR is not of itself an abuse of a

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dominant position, it might be an abuse where special circumstances exist. Such circumstances included the lack of an actual or potential substitute for a weekly television guide, the existence of a specific, constant and regular demand for such a guide, and the fact that the refusal to grant a licence to Magill to produce such a guide prevented the appearance of a new product on the market which RTE and ITP did not offer.

Developing Countries

The general perception in developing nations is that that protection of IP only serves to assist the developed nations in maintaining their economic power and international control. For developing nations, it is a commonly expressed thinking that their economic advancement is a goal, which if achieved, benefits all nations. Since knowledge is the common heritage of mankind, and since this knowledge would contribute to their economic development, some submit that the IP of all nations should be provided to them at little or no cost. Therefore, developing countries are generally strong advocates of maintaining a system, which allows compulsory licensing, thereby limiting the scope of protection and rights available to foreign companies and individuals.

Sources:

- a. Frost, *Legal Incidents of Non-Use of Patented Inventions Reconsidered*, 14 *George Washington Law Review*, 273, 435 (1945)
- b. Correa, *Intellectual Property Rights and the Use of Compulsory Licenses: Options for Developing Countries*, T.R.A.D.E Working Papers No. 5, South Center, 1999
- c. Encaoua & Hollander, *Competition policy and Innovation*, 2002
- d. *Brief summary of ECJ's Magill Decision*, 6 April 1995, Joint Cases C-241/91 and C-242/91 P

The existence of anti-competitive practices is also considered a ground for the granting of compulsory licences in the laws of Chile,⁴⁰ Argentina,⁴¹ and the Andean Group countries,⁴² among others. In these cases, the anti-competitive rules are included in the patent laws themselves, an option that may be more practical and straightforward for countries with weak or no competition laws. So far, however, there is no evidence on the actual application of these provisions. In South Africa, a compulsory licence can be granted if the demand for a protected product is being met by importation and the price charged by the patentee is “excessive in relation to the price charged therefore in countries where the patented article is manufactured by or under licence from the patentee or his predecessor or successor in title”.⁴³

Box 4: Compulsory Licensing under Patents Law of India

The Patent Act 1970 of India (Section 84, 90) provides for compulsory licensing of a patented invention to an interested person (only after the expiration of three years from the date of sealing of the patent) on the grounds:

- (i) That the reasonable requirements of the public with respect to the patented invention have not been satisfied, which may be the consequence of:
- inadequate manufacture in India or failure to grant licences on reasonable terms, resulting in: (1) prejudice to an existing trade or industry or its development; (2) prejudice to the establishment of a new trade or industry in India; (3) prejudice to the trade or industry of any person or class of persons; (4) demand for the patented article not being met by local manufacture; (5) failure to develop an export market for the patented articles made in India; and (6) prejudice to the establishment of commercial activities in India;
 - prejudice to the establishment or development of trade or industry in India in goods not protected by the patent arising from restrictive conditions imposed by the patentee;
 - non-working of the patent in India on a commercial scale;
 - demand for the patented article being met by importation from abroad; and
 - commercial working of the patented invention in India being hindered or prevented by import of the patented articles from abroad.
- (ii) That the patented invention is not available to the public at a reasonable price.

Since then the Act has been replaced by new laws and significant subsequent amendments. The latest in the series of these amendments are contained in the Patents (Amendment) Act, 2002 and the Patents Rules, 2003. The Patents (Second Amendment) Act, 2002 came into force on May 20, 2003, which provides for compulsory licensing as a necessary safeguard for protecting the public interest. Generally, three years after a patent is sealed, any interested party can allege that the invention is not reasonably available to the public and can request the grant of a compulsory licence.

The criteria to be considered to grant a compulsory licence under the new Act now include a national emergency, (and local manufacture is not one such criterion) etc. Interestingly, under Section 84, a specific inclusion has been made enabling third parties to seek for a compulsory licence on

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the ground that the invention is not manufactured in India. Similarly, in Section 89, the bill introduces non-working in India as a specific criterion for the revocation of the patent. Section 90(c), which provides non-working in India under certain circumstances as a ground for imposing a compulsory licence, has not been revoked. This is envisioned as a balancing mechanism, but there is a likelihood of it being interpreted as violating the right of the patent holder to import as established under Article 27 and 28 of TRIPs. Article 27.1 of TRIPs provides that patent rights shall be enjoyed without discrimination as to the place of invention, field of technology and whether the products are imported or locally produced.

The Indian Government opines that its provision is in line with Article 31 of TRIPs that allows for the use of the patents within certain terms and conditions. It is also interesting to note that several countries including the Honduras, Argentina, Brazil (which has several types of compulsory licences, including lack of local working, national emergency, dependent patents, public interest and abuse of the rights) and China have incorporated provision relating to compulsory licensing.

The new Act also introduces a checking mechanism that requires an applicant for a compulsory licence to prove that s/he approached the patentee with reasonable terms for a licence. Similarly, where the patent holder imposes a condition for a grant-back, prevention of challenges to the validity of the patent is deemed to be against public interest. This is a very welcome provision and is absolutely required considering that the bargaining power of an individual or company, compared with a patent holder, is always less.

4.6 Parallel Import

Another issue of direct and significant interface between the exercise of IPRs and competition law not yet mentioned above is parallel import, which are goods brought into a country without the authorisation of the patent, trademark or copyright holders after those goods were placed legitimately into the circulation elsewhere. Unlike pirated copyright goods⁴⁴ or counterfeit trademark goods,⁴⁵ parallel imports are legitimate products, as argued by some, since the IPR holders have agreed to put them into the market and thus implicitly authorised their subsequent use, be it being imported by an unauthorised distributor.

Policies regulating parallel imports stem from specification of the exhaustion of IPRs. The term “exhaustion” refers to the territorial rights of IPR holders

after the first legitimate sale of their IP-protected products. There are three variants of exhaustion doctrines, namely:

- (1) **National exhaustion:** IPRs end upon first authorised sale within a nation but IPRs owners may prevent parallel trade with other countries.
- (2) **Regional exhaustion:** IPRs are exhausted upon first authorised sale in a particular region only.
- (3) **International exhaustion:** IPRs are exhausted upon first sale anywhere and parallel imports are permitted (also referred to as the “doctrine of first sale”).

Treatments and opinions about parallel imports vary widely. For example, Japan permits parallel imports in patented and trademarked goods unless contract provisions explicitly bar them or unless their original sale was subject to foreign price regulation. The US policy on parallel imports is mixed. Restrictions on parallel imports exist only for certain types of goods. A ‘common-control exception’ is maintained in the case of trademarked goods, where trademark owners are permitted to block parallel imports except when both the foreign and US trademark owners are in a parent-subsidiary relationship. Owners of US patents and copyrights are protected against parallel imports.⁴⁶

The EU provides an exemplary case of a regional exhaustion regime. In the EU, the proprietor of an IP is prevented from taking infringement action against parallel imports that come from another Member State. However, the proprietor may act against parallel imports from outside the European Economic Area (EEA). The ECJ set a case law regarding this issue by its 1998 decision in the case of *Silhouette International Schmied GmbH & Co vs. Hartlauer Handelsgesellschaft mbH*.⁴⁷

The position of the People’s Republic of China as to the status of parallel imports is unclear because the new Trademark Law promulgated in 2001 does not deal with the exhaustion of trademarks. Prior to this new law, the first parallel import case decided in China found Thai made Lux soaps to be in breach of the local trademark. However, the correctness and applicability of this case is questionable, particularly in light of the new regime.⁴⁸

In Mexico, while there is no legal provision expressly addressing the possibility to institute legal proceedings against the importation of patented goods manufactured and introduced in the commerce of a foreign country with the consent of the patent owner, there is a legal basis for the owner of a Mexican

patent to oppose the unauthorised importation of a patented product from a foreign country including situations where the patented product was placed in the market place of the foreign country with the consent of the patent owner.⁴⁹ On the other hand, Mexican trademark law endorses the notion of international exhaustion of trademark rights. The owner of a Mexican trademark registration cannot rely on the rights flown from the Mexican trademark registration to oppose the importation of trademarked products placed in the marketplace of a foreign country by the trademark owner or with his consent. Express provision exists in the Mexican statute in the sense that a Mexican trademark registration shall not produce legal effects in these specific circumstances.⁵⁰

No multilateral binding agreements have ever directly addressed the issue of parallel imports; neither the TRIPs Agreement nor the 1996 World Intellectual Property Organisation (WIPO) Copyright Treaty; leaving countries to deal with the issue in the manner they feel appropriate. Article 6 of the TRIPs specifically states that: “nothing in this Agreement shall be used to address the issue of the exhaustion of IPRs”. Parallel trade, in its generic term, tends to have more to do with regulation of cross-border movement of goods rather than competition policies. Regulation of parallel imports, however, lies in the borderline between IPRs provisions and competition rules.

National IPRs regulators may choose to restrict parallel imports to ensure the legitimate benefits of right owners and/or licencees. Unambiguously, these restrictions raise profits derived from IPRs through providing suppliers of IP-protected products with exclusive rights to import the products concerned beyond the set of exclusive rights already articulated. However, these restrictions may, at the same time, confer or enhance market power on these suppliers through broader exclusivity, to the detriment of competition; and allow them to exercise that power through price discrimination in geographically segmenting markets to the detriment of consumers.

It is a fundamental premise of the IPR system that right owners should secure a reward sufficient to ensure socially useful investments in creative effort – but not more. Providing right owners with more income than is needed to encourage investment in creative efforts can be as socially harmful as not providing enough income to support these efforts. Competition authorities are thus concerned to the extent that restrictions on parallel imports increase the rents flowing to right owners, not to say other potential anti-competitive effects of their market power.

Even when parallel trade is permitted under international exhaustion systems, competition concerns may also be triggered as the use of IPRs by right holders to prevent parallel importation amounts to a restriction on competition. For instance, overseas right owners of IP protected products and concerned domestic suppliers of the products in national markets may enter into exclusive dealing arrangements to eliminate parallel imports through price discrimination, territorial restraints or supply restriction, etc. Apart from questions about the legality of these arrangements, there may be substantial anti-competitive effects caused by the exercise of coercive powers by the right holders to control the flows of goods as well.

On the contrary, businesses also have a legitimate interest in being able to prevent parallel imports. In most sectors, manufacturers of products need to be able to control the distribution of their products in different markets for the same reasons that require them to tailor their products to each market (for example, in conformity with the appropriate safety, technical, regulatory norms, as well as with culture, customers' taste and expectations) to ensure the brand image. In addition, orderly distribution also helps to ensure the abilities of businesses to control the timing of marketing of their products or make it easier to detect counterfeit and pirated goods.

On the other hand, one of the main arguments for not preventing parallel imports is that it will increase competition, thereby leading to a general reduction in prices for consumers. However, it is unclear if this is really the case as the commercial incentive for parallel trading is the ability to profit from arbitrage between the lower-price market and the higher-priced market. It is, therefore, more likely that the parallel trader keeps the differences in prices as profit rather than pass it on to the consumer in the form of a cheaper price. The question of whether regulating parallel imports is beneficial or harmful is thus an empirical question and depends on circumstances. It is impossible to place confidence in either the prescription for banning parallel imports or mandating that there be a free global regime in parallel trade.

The best advice seems simply to permit the *status quo* to continue, with each country or region selecting its own policy.⁵¹ However, it is always important for regulators to strike the right balance between the two regulatory systems – IPRs and competition – in each circumstance. And to do that, they need to be well conversant with the nature of the issue.

5

Competition Law and IPRs in Developing Countries

IPRs and competition law can operate as complements to foster innovation, and promote dynamic efficiency for economic growth and enhanced welfare. Therefore, the development of proper frameworks to address the IPRs/competition interface has been given considerable importance in many national jurisdictions, especially developed countries. The situation in developing countries, however, is rather less optimistic, given their level of economic development and the scope of their legal regimes as well as other specific local contexts.

Currently, over 70 countries worldwide have competition laws, with half of them in the category of developing countries. The number of developing countries that has adopted competition laws has increased significantly in the 1990s. Prior to that period, some developing countries (e.g. India, South Africa) have had a considerable tradition in antitrust policies, but even then, enforcement practices have been poor.⁵² The typical situation, however, was still that developing countries did not have a competition law; the application of classical antitrust policies were, in practice, replaced by a wide range of State measures aimed at controlling economic power, such as price control regimes, establishment of state-owned enterprises (SOEs), and the prior screening and approval of foreign direct investment and transfer of technology agreements. The slow adoption of competition laws in developing countries may be attributed, in part, to the lack of a perceived need for them since governments felt to some extent that a similar role could be played by other forms of state intervention.⁵³

In respect of IP laws, history suggests that the implementation of a system to protect IP is a costly enterprise for developing countries, and they have

often fine-tuned their IP regimes (if any) as per their development requirements rather than applying strictly strict rules as developed countries do. The most obvious expense is administrative: that is, training and managing the patent system bureaucracy. As over 80 percent of all patents granted in least developed countries (LDCs) belong to citizens from developed countries, it is hardly surprising that Third World countries see little advantage in developing an elaborate and costly administrative mechanism to enforce the protection of IP of foreign transnational corporations (TNCs).

In addition, this may in part explain the general perception of developing countries that protection of IP only serves to assist the developed countries in maintaining their economic power and international control. A commonly expressed opinion of developing countries is that their economic advancement is a goal, which if achieved, benefits all countries. Since knowledge is the common heritage of mankind, and since this knowledge would contribute to their economic development, some submit that the IP of all countries should be provided to them at little or no cost.

There are additional economic reasons for the hesitancy of many developing countries to implement strong protection of IP. In order to advance, developing countries need maximum access to the IP of developed countries. So long as their IP laws and the enforcement thereof, are weak, the piracy of IP pays off handsomely. Through piracy, developing countries can procure needed goods and services at little cost, while industries that specialise in producing counterfeit goods employ thousands of workers. When compared to these tangible gains, the threat that investment from Western countries might be withdrawn is secondary to immediate development needs.

Due to these differing needs, developing and the developed countries have vastly differing viewpoints concerning competition policies. Developing countries normally tailor competition policies, (if any) including specific regulations on the interface between IPRs and competition, to their own conditions and goals, unrestricted by international rules and coercion by developed countries. In doing so they do not need to mechanically adopt the models of competition policies applied in industrialised countries. Such policies need to be simpler in developing countries than in developed countries to be enforceable by much weaker states, and to promote long term growth of productivity, that is, of dynamic rather than static efficiency.⁵⁴

Box 5: A Deadly Dearth of Drugs

South Africa, like other nations of sub-Saharan Africa (SSA) region, is caught in the grips of the AIDS/HIV epidemic. More than 13 percent of its population is infected with HIV, and among some select population groups, such as army troops, the infection rate approaches 50 percent. And South Africa has already suffered an estimated one million AIDS deaths – nearly double the number of people who have died in the US.

The AIDS crisis hit South Africa hard. What's worse is that the standard two- and three-drug therapies used in the West, which can cost more than US\$12,000 a year at market prices, are not an option for the vast majority of South Africans, whose annual income averages less than US\$3,000. And so in 1997, faced with a rapidly growing emergency, the South African Government passed an amendment to its Medicines and Related Substances Act, under which, the Ministry of Health could begin compulsory licensing and parallel importation of affordable drugs.

Parallel importing meant to allow South Africa to import desperately needed medicines from countries where they were available for less – sometimes far less – than a drug company would charge in South Africa. With parallel importing, South Africa could go abroad and buy Western-made drugs in bulk at great savings.

Under compulsory licensing, South Africa could compel a drug company to authorise local manufacturers to produce generic versions of drugs. Compulsory licensing can reduce the price of drugs by as much as 90 percent. Among the first drugs South Africa tried to manufacture was Taxol, a cancer fighter also sold by Bristol-Myers Squibb (BMS) to treat the AIDS-related Kaposi's sarcoma.

The pharmaceutical industry's reaction to South Africa's effort to bring lifesaving drugs to its people was swift. More than 40 major drug companies jointly filed a suit in South Africa's Constitutional Court, barring the amendment from taking effect by claiming that compulsory licensing and parallel imports infringed on their patent rights.

In October 1998, the US Congress temporarily cut off foreign aid to South Africa in an effort to precipitate action from that country. Charlene Barshefsky, the US trade representative, denied South Africa certain tariff breaks and placed the country on a 'watch list' pending review and possible further action.

And then a curious sequence of events ensued. On September 09, 1999, drug industry leaders suddenly announced they had suspended their suit against South Africa. Eight days later, the US Trade Representative Charlene Barshefsky announced that all was now well between the US and South Africa because Pretoria had agreed to abide by international law. During those two years, an estimated 300,000 South Africans died of AIDS.

Source: http://www.motherjones.com/commentary/power_plays/2000/01/AIDS_drugs.html

6

The International Dimensions

6.1 TRIPs or Regulation of Abuses?

The negotiation of the TRIPs Agreement was thought by many to have greatly expanded the purview of the WTO into domestic regulatory standards. The Agreement came into effect from January 01, 1995 and is till date the most comprehensive multilateral agreement on IPRs. It seeks to achieve reductions of distortions and impediments to international trade and promote adequate protective measures for IPRs as an essential provision by protecting the innovator's interest.

It is embodied in TRIPs some kind of response to concerns that protection of IPRs would invite unwarranted exploitation of market power. The definition of rights in the TRIPs Agreement seeks to strike an adequate and inherent balance with the concerns for competition. This is expressed in terms of scope and of duration of rights, but is equally expressed in explicit limitations of these rights. Article 27 of the Agreement, defining the scope and limitations of patents, is perhaps the most prominent example. The Agreement also contains a number of provisions relating to the use of IPRs with relevance to competition rules.

First, there are general considerations in paragraph 1 of the Preamble that are accompanied by Article 8(2), allowing Members to take appropriate measures in order to prevent abusive practices. The Preamble reads:

“Appropriate measures, provided they are consistent with this Agreement, may be needed to prevent the abuse of intellectual property rights by rights holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology”.

Second, there are some very precise provisions concerning competition law. They allow fair use and the possibility of compulsory licensing or the granting of dependent patents, i.e. the granting of a right by public authorities, and against the will of a patent owner to make use of a patent to the extent necessary to develop a new product. In practice, this allows countries to permit limited use of innovation achievements for private and non-commercial purposes, for example, in research and/or experiments.

Article 31 of TRIPs provides for the grant of compulsory licences, under a variety of situations, such as the interest of public health, national emergencies, nil or inadequate exploitation of the patent in the country, anti-competitive practices by the patentees or their assignees and overall national interests.

The Agreements, however, do not restrict the freedom of members to determine the grounds for compulsory licences other than those explicitly mentioned therein (with the only exception being “semiconductor technology” which can only be subject to compulsory licences for public non-commercial use and to remedy anti-competitive practices). Diverse grounds are therefore to be determined by respective national laws.

A provision of particular importance in the present context is Article 40. It provides considerable discretion to a Member in specifying licensing practices or conditions that may constitute an abuse of IPRs. The Article goes on to specify three examples of potentially abusive licensing practices – exclusive grant-back conditions, conditions preventing challenges to validity, and coercive package licensing. Broadly, the Article could cover any potential abuse of IPRs.

6.2 Abusing Control – A Multinational Competition Framework

In this globalisation era, the need to implement stronger IPRs raises important concerns about anti-competitive cross-border behaviour. IPRs-related transactions between gigantic firms with anti-competitive dimensions are on the rise, causing huge damages to consumers especially in developing countries. And even countries may engage in opportunistic or strategic use of competition law in order to extract rents from foreign firms or consumers. In this context, there remains a striking discrepancy between the state of multilateral protection and harmonisation in the area of IPRs on one hand, and that in the competition area, on the other. Given the interface between

IPRs and competition policy, therefore, it is worthwhile to ask whether a proper balance of respective interests in preserving IPRs and a competitive economic environment requires the establishment of global discipline on competition.

One essential fact is that TRIPs does recognise “that some licensing practices or conditions pertaining to IPRs, which restrain competition, may have an adverse effect on trade and may impede the transfer and dissemination of technology”.⁵⁵ However, the Agreement, rather than multilateralising and harmonising specific rules regulating anti-competitive abuses of IPRs, simply refers Member States to their national laws. And it does so without really preventing conflicts of enforcement and policy except, arguably, for an unwelcome limitation to the effect that national competition law may only control “abuses” in the exercise of IPRs licensing.⁵⁶ Therefore, its significance and legal scope may heavily depend on what competition rules Member States will adopt so as to ensure “effective protection against unfair competition”⁵⁷ and control of anti-competitive practices. Literally, the negotiation of agreed minimum standards for such competition rules is bound to become an important subject in the implementation of the TRIPs Agreement.

The establishment of a set of global minimum disciplines on competition may be to the ultimate benefit of the enforcement of the TRIPs Agreement. However, when it comes to negotiating such a multilateral framework within the WTO, problems arise in terms of the conflicting interests and diverging positions amongst Member States, not only between industrialised and developing countries, but also amongst industrialised countries as well as within WTO Members and amongst different constituencies. While going into depth in the various dimensions of the differing stances by WTO Member States is not the theme of this paper, some of which touch upon the relevance between the exercise of IPRs and competition policy are briefly mentioned (see Table 2).

Besides, the TRIPs Agreement has also been criticised for its limitations when it comes to the interests and the legitimate development rights of developing countries. Before TRIPs, countries were able to set their own IPR policies and many developing countries exempted essential consumer items, especially pharmaceutical drugs, food products and biological materials (including seeds and plant varieties) from patentability.

Table 2: Diverging Interests and Positions of WTO Members towards Global Competition Disciplines from the Perspective of IP		
	For	Against
Industrialised WTO members (also major trading partner) (with fully developed competition policies and laws)	<ul style="list-style-type: none"> • The abolishment of anti-competitive practices abroad subject to national authorities • Improvement for legal assistance in prosecuting IPRs-related competition cases • Entitlement to intervene on third markets 	<ul style="list-style-type: none"> • Extraterritorial application of own national competition rules can bring about global reach in order to defend negative effects on their own market (rule of reason, effects' doctrine) • Preservation of full impact of IPRs under TRIPs, i.e. market allocation by way of national exhaustion of rights
Developing members (with none or without fully developed legislations)	<ul style="list-style-type: none"> • Reduction of excessive impacts of IPRs within their respective jurisdictions, e.g. international exhaustion and parallel imports. (To the extent that the matter cannot be resolved within TRIPs, it may thus be assisted by a multilateral framework on competition.) • Improvement for legal assistance in prosecuting competition cases 	<ul style="list-style-type: none"> • Concerns about sovereignty, national policy independence and own approach. (Within the scope of the current TRIPs Agreement, they still can decide independently, and in accordance with the cultural and economic traditions, to what extent competition should be regulated or not)

Source: Cottier and Meitingner (1998), the TRIPs Agreement without a Competition Agreement, Venice

Now under TRIPs, exclusions are possible only under an explicit provision from the Agreement. Prices of some consumer products are fixed by companies owning IPRs far above competitive levels, though developing countries are under pressure not to exercise their right under TRIPs to relax IPRs in certain circumstances while rich countries are adamant in placing the right to monopoly and super profits above the right of patients to health and life.⁵⁸ Therefore, when the issue on the table is to negotiate global minimum standards on competition or a harmonisation of differing national policies in this area, one critical opposition is that the 'homogenisation' of competition policies would deprive developing countries of important developmental instruments in the same manner as TRIPs has affected them so far. A

multilateral framework within the WTO on competition issues, with relevance to the regulation of IPRs, may help to control abuses and may be simply an abuse of control against less developed countries as well. Failure to redress this thin end of the wedge may well be an irredeemable mistake with critical consequences.

7

Conclusion

This working paper is a first step in attempts to enhance understanding of the interface between competition law and IPRs protection rules as well as some relevant issues on the subject matter.

To the extent that the interface is reflected hereby, it is complex and multifaceted. There are many complementary elements: the IPR system promotes innovation, which is a key form of competition; on the other hand, competition policy, by keeping market open and effective, preserves the primary source of pressure to innovate and diffuse innovation. But there are also conflicts – such as when an IPR serves to entrench market power. A regulatory balance, therefore, should be maintained and simplistic approaches should be avoided at all costs. As emphasised by William Baer, Director of the US FTC:

“Enforcement of competition laws no longer begins with the assumption that restrictive use of IP is necessarily anti-competitive. Current enforcement instead starts with three basic assumptions about intellectual property: First, intellectual property is comparable to other forms of property, so that ownership provides the same rights and responsibilities; second the existence of intellectual property does not automatically mean that the owner has market power; and third, the licensing of IP may often be necessary in order for the owner efficiently to combine complementary factors of production, and thus may be pro-competitive”.⁵⁹

Beyond the national borders and the purview of domestic legislation, the desirability and necessity of a binding competition agreement within the framework of WTO, on the background of the close relevance of competition

policy and IPRs and from the perspective of the TRIPs Agreement also needs to be handled with great prudence. Any negotiators, especially from less developed countries, need to think twice before starting the process towards such an agreement as it is a matter of their own interests and rights. Otherwise, a catch-22 situation as with the TRIPs Agreement will once again arise to the detriment of their own countries and people, not anyone else.

Endnotes

- 1 Ullrich (2001), *Intellectual Property, Access to Information, and Antitrust: Harmony, Disharmony, and International harmonisation*, p.366, published in Dreyfuss, Zimmerman and First (ed.), “*Expanding the Boundaries of Intellectual Property*”, Oxford University Press, 2001
- 2 US Federal Trade Commission (2003), *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Chapter 1, p.2
- 3 The definition of welfare in regard is the sum of consumers surplus and producers surplus
- 4 Sherwood (1990), as cited by Carlos A. Primo Braga in *The Uruguay Round and the developing countries* (1996), edited by Will Martin and L. Alan Winters
- 5 Braga C.A, *Trade-related intellectual property issues: The Uruguay Round agreement and its economic implications*, in Martin W. and Winters L.A. (eds), *The Uruguay Round and the developing countries*, 1996, p.342
- 6 Jurisprudences generally have it that, in order to be ‘patentable’, an invention has to meet three requirements, which are ‘novelty’, ‘inventiveness’, and ‘utility’ (or ‘industrial applicability’). Many countries, both developed and developing, however, have recognised the need to protect the inventions, which result from what might be termed a ‘sub-patentable’ type of innovation, and have therefore introduced a second tier of patent-like protection. Such systems are usually referred to as utility model or petty patent systems.
- 7 Market power is hereby termed as the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.
- 8 Cottier and Meitingger (1998), *The TRIPs Agreement without a Competition Agreement*, p.3
- 9 For more details, see OECD (1989), *Competition Policy and Intellectual Property Rights*, pp.14-17
- 10 For more information, please see CUTS (forthcoming), *Microsoft – An antitrust case study*
- 11 In a survey conducted in 1981 by the OECD, licensors reported that they face no alternate supplier only in 27 percent of the cases. In 34 percent, the number of alternate suppliers is low, ranging from 2 to 5. In around 30 percent of the cases, more than 10 alternate suppliers are available. (For more details, see supra note 9 - p.15)
- 12 *United States vs. Aluminium Co. of America*, 148 F.2d 416, 430 (2d Cir, 1945) (“The successful competitor, having been urged to compete, must not be turned upon when he wins”). See also *United States vs. Grinnell Corp.*, 384 U.S. 563, 571 (1996) (the offence of monopoly is distinct from “growth or development as a consequence of a superior conduct, business acumen, or historic accident”).
- 13 See supra note 1, p.372
- 14 *Ibid*
- 15 Anthony, S.F, *Antitrust and Intellectual Property Law: From Adversaries to Partners*, 28 AIPLA Q.J.1 (2000) at <http://www.ftc.gov/speeches/other/aipia.htm>

- 16 Patent laws, in particular, can also encourage the diffusion of knowledge by making the grant of a patent conditional upon the disclosure of essential characteristics of the innovation for which the patent is sought. This facilitates access by other follow-on innovators to the knowledge embodied in the patent. A further incentive to diffusion, as well as commercialisation, is provided by provisions that make it possible to exploit intellectual assets via licensing arrangements.
- 17 Ordovery, J.A (2002), *Antitrust for the New Economy or New Economics for Antitrust*, 2002, at <http://www.ftc.gov/opp/intellect/020220januszordover.pdf>
- 18 The US FTC reports that, in the pharmaceutical industry, participants asserted that 60% of inventions would not have been developed and 65 percent would not have been commercially introduced absent patent protection. (See supra note 2)
- 19 Leary, T.B (2001), *The Patent-Antitrust Interface*, Remarks before the ABA Section of Antitrust Law Program in Philadelphia, Pennsylvania at: <http://www.ftc.gov/speeches/leary/ipspeech.htm>
- 20 The Treaty of Rome refers to the treaty signed on March 25, 1957, which established the European Economic Community (EEC). The treaty's original full name was the Treaty establishing the European Economic Community — however the Treaty of Maastricht amended it and among other things removed the word “Economic” from the name of both the community and the treaty. The treaty is therefore now generally called the Treaty establishing the European Community (TEC) or the EC Treaty. Article 81 and 82 (ex Article 85 and 86) of this treaty set the framework for regulating competition issues in the EC.
- 21 Supra note 1, p.374
- 22 Report Q187 to the International Association for the Protection of Intellectual Property (APPI) in the name of the Brazilian Group by Gustavo S. Leonardos, Cláudio Roberto Barbosa, José Carlos Vaz E Dias and João Marcelo de Lima Assafim on ‘*Limitations on exclusive IP Rights by competition law*’
- 23 See the South African Competition Commission's website at www.compcom.co.za
- 24 One survey of licensors in the US found that licensing income had “grown in strategic importance in recent years. The reason cited most frequently for licensing programmes was to gain royalties over time, followed by new market development. (According to FJ Contractor, *Technology Licensing Practices in US Companies: Corporate and Public Policy Implications*, Columbia Journal of World Business, 1983)
- 25 For more details, see, for example, Gangi (1999), *Competition Policy and the Exercise of Intellectual Property Rights*; drawn upon a document prepared by the author for the June 1999 meeting of the Group of Experts on Competition Law and Policy of the Member countries of UNCTAD or UNCTAD (1999), *Competition Policy and Vertical Restraints*, UNCTAD/ITCD/CLP/Misc.8
- 26 For more details, see, for example, Department of Justice (1985), *Vertical Restraints Guidelines*, US
- 27 See, for example, the US Supreme Court's decision in the GTE-Sylvania case, where the Court noted the many pro-competitive aspects of vertical restraints generally, one of which was the promotion of interbrand competition, and thus found per se illegality of vertical territorial restraints to be unwarranted.

- 28 Department of Justice & Federal Trade Commission (1995), *Antitrust Guidelines for the Licensing of Intellectual Property*, US, Part 5.3
- 29 See ECJ 5.10.1988, *CICRA/Renault*, 53/87, ECR 1988, 6039; EC, 5.10.1988, *Volvo/Veng*, 238/87, ECR 198, 6211, as cited by UNCTAD (2002), *Competition Policy and the Exercise of Intellectual Property Rights*, TD/B/COM.2/CLP/22/Rev.1, p.10
- 30 See ECJ, 6.4.1995, *RTE and ITP/Commission*, C-241/91 P, C-242/91 P, ECR 1995, I-743. (*Ibid.*)
- 31 For more details on this case, see, for example, Boeder T. & Dorman G.J, *The Boeing/McDonnell Douglas Merger: The Economics, Antitrust Law and Politics of the Aerospace Industry*, NERA Economic Consulting, 2000 at www.perkinscoie.com/content/serviceareas/resourcecenter/antitrust/boeing_mcdonnell.pdf
- 32 *Ciba/Geigy/Sandoz*, Case No. IV/M. 737, EC Decision of 17 July 1996, OJ L 201 (29 July 1997)
- 33 *Ciba-Geigy Ltd. et al.*, FTC Dkt. No. C-3725, *Consent Order and Complaint* (24 March 1997), reported in 5 Trade Reg. Rpt. (CCH) 24, 182
- 34 *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908)
- 35 See supra note 22
- 36 Arnold G.J (1993), *International Compulsory Licensing: The Rationales and The Reality*, PTC Research Foundation of the Franklin Pierce Law Center, IDEA: The Journal of Law and Technology
- 37 See Section 48.3.d of the UK Patent Act, as revised in 1977
- 38 See Section 56(2)(d), Patents Act No. 57 of 1978 of South Africa
- 39 See Section 32 of The Canadian Competition Act, RSC 1985, c C-34, as amended
- 40 See Law No. 19.039 Establishing the Rules Applicable to Industrial Titles and the Protection of Industrial Property Rights (of 24 January 1991) of Chile
- 41 See Law No. 24.481 of 1995 on Patents and Utility Models (as amended by Law No. 24.572) (consolidated text approved by Decree No. 260/96 of March 20, 1996) of Argentina
- 42 See Article 61-69 of the Decision 486 of 2000 of the Andean Community of Nations on Common Intellectual Property Regime at <http://www.sice.oas.org/Trade/Junac/Decisiones/DEC486be.asp>
- 43 See Section 56(2)(e), Patents Act No. 57 of 1978 of South Africa
- 44 ‘Pirated copyright goods’ shall mean any goods which are copies made without the consent of the rights holder or person duly authorised by the rights holder in the country of production, and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or related right under the law of the country of importation.
- 45 ‘Counterfeit trademark goods’ shall mean any goods, including packaging, bearing without authorisation a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringe the rights of the owner of the trademark in question under the law of the country of importation.

- 46 Quite interestingly, the US Supreme Court has once ruled that US copyright laws do not prohibit parallel imports into the US. The court ruled that once a US company sells a copyrighted product abroad, it loses its right to control the distribution. Even though the product may have been intended for sale somewhere else in the world at a lower price, it can be imported back for sale in the US (*Quality King Distributors, Inc. vs. L'Anza Research International, Inc.*, 118 S.Ct. 1125 (Mar. 9, 1998).
- 47 However, a year later, the English High Court ruled that it was still possible for trademarked goods to be bought outside the European Economic Area and then resold inside the area against manufacturer's wish. Thus this ruling limits the effect of 'Silhouette' case. The English High Court Judge said, "Silhouette [case] has bestowed on a trademark owner a parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of the trademark right". The case in point concerned Davidoff, the maker of cigars and perfumes, which tried to sue parallel trader A&G Imports for trademark infringement for importing some of its product from Singapore. However, the legal issue will remain in limbo because the judge has referred the case to the European Court for a final decision.
- 48 For more details, see Laight M. & Chen S., Recent Development in Intellectual Property, Bird & Bird, Hong Kong and Beijing at www.buildingipvalue.com/05_AP/312_315.htm
- 49 See Articles 25, 22, II and 223, XXV, Industrial Property Law of 1991 as Amended (IPL) of Mexico (Report of Q. 156 on *International Exhaustion of Industrial Property Rights*, prepared by Horacio Rangel-Ortiz in the name of the Mexican Group, submitted to the International Association for the Protection of Intellectual Property AIPPI)
- 50 See Article 92, II, Industrial Property Law of 1991 as Amended (IPL) of Mexico (*Ibid.*)
- 51 Maskus and Lahouel (1999), *Competition Policy and Intellectual Property Rights in Developing Countries: Interests in Unilateral Initiatives and a WTO Agreement*, Presentation at the World Bank Conference on Developing Countries and the Millennium Round, Geneva, pp.16-20
- 52 For more information, see the various findings of CUTS 7-Up project, a recently concluded research and advocacy project on competition regimes in seven developing countries (India, South Africa, Zambia, Tanzania, Pakistan, Bangladesh, and Kenya), which can be found at www.cuts-ccier.org
- 53 Correa C.M (2000), *The Strengthening of IPRs in Developing Countries and Complementary Legislation*, University of Buenos Aires, p.8
- 54 Singh and Dhumale, (1999, p. 12), as cited by Correa (2000), *Ibid.*
- 55 Article 40(1), TRIPs
- 56 Supra note 1, p.401
- 57 Article 39, TRIPs
- 58 Gopalan, *Synchronising Trade Related Laws in WTO Environment*, PHI Seeds Ltd., Chennai, India
- 59 Baer W, *Antitrust Enforcement and High Technology Markets*, address to the American Bar Association, November 12, 1998

ISBN 978-81-8267-107-6

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