

# Intellectual Property & Antitrust

*Contributing editor*  
**Peter J Levitas**



2017

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# Intellectual Property & Antitrust 2017

*Contributing editor*

**Peter J Levitas**

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Published by  
Law Business Research Ltd  
87 Lancaster Road  
London, W11 1QQ, UK  
Tel: +44 20 3708 4199  
Fax: +44 20 7229 6910

© Law Business Research Ltd 2016  
No photocopying without a CLA licence.  
First published 2007  
Eleventh edition  
ISSN 1753-0628

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Printed and distributed by  
Encompass Print Solutions  
Tel: 0844 2480 112



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# South Africa

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## Intellectual property

### 1 Intellectual property law

**Under what statutes, regulations or case law are intellectual property rights granted? Are there restrictions on how IP rights may be enforced, licensed, or otherwise transferred? Do the rights exceed the minimum required by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?**

Intellectual property (IP) rights are granted in terms of statutory and common law. The statutes governing IP rights include the following.

#### Copyright Act No. 98 of 1978

South Africa is a signatory to various international agreements relating to the protection of IP, including the Berne Convention and TRIPs. The Copyright Act protects original creative works (including works of a technical content) against unauthorised reproduction. Copyright may subsist in literary works, musical works, artistic works, cinematograph films, sound recordings, broadcasts, programme-carrying signals, published editions and computer programs. Copyright arises de facto and does not require registration (except in the case of cinematographic films, for which the Copyright Act provides for optional registration).

#### Trade Marks Act No. 194 of 1993

The protection of trademarks is regulated by both statute and the common law. The Trade Marks Act has created a registration system to record existing rights and provide for the enforcement of these rights. The terms of TRIPs are reflected in a number of provisions of the Trade Marks Act. Although the legislation was originally developed to create a system for registering trademarks, substantive rights have developed that, in some instances, extend the rights contained in the common law. The registration of a trademark is valid for 10 years and is renewable in perpetuity. Where a trademark is not registered, a person using it may still enjoy protections under the common law.

#### Patents Act No. 57 of 1978

The Patents Act is generally based on the British Patents Act and the European Patent Convention, and is in line with international norms set in the Paris Convention and TRIPs. South Africa is a party to the Patent Cooperation Treaty. Patents are granted for 20 years from the date on which the complete specification is filed with the patent office. Their term cannot be extended. The Patents Act grants the registrar of patents the power to refuse an application if it appears that the invention might be used in a manner contrary to law or if it relates to the production or use of nuclear energy. There is no substantive examination of patent applications in South Africa and patents will be registered provided they meet the formal and procedural requirements set out in the statute.

#### Designs Act No. 195 of 1993

The Designs Act is in line with the Paris Convention and TRIPs. However South Africa is not a party to the Hague Agreement Concerning the International Deposit of Industrial Designs. The Designs Act provides for the registration of both aesthetic and functional designs. A design may be registered with the designs office (which forms part of the patents office) and will be registered if the application meets the formal

requirements. As with patents, there is no substantive examination of the design. An aesthetic design registration has a duration of 15 years, while a functional design registration endures for 10 years from the date of application.

#### Plant Breeders' Rights Act No. 15 of 1976

The Plant Breeders' Rights Act extends protection in relation to the cultivation of new plants in line with TRIPs. South Africa is a member of the International Union for the Protection of New Varieties of Plants. The Plant Breeders' Rights Act allows for the application for and registration of IP in a newly developed variety of plant provided that it is distinct, uniform and stable. Registrations in terms of this statute are administered by the registrar of plant breeders, which falls within the auspices of the Department of Agriculture. Plant breeders' rights endure for a period of 25 years in the case of vines and trees, and 20 years in relation to all other plants.

#### Performers' Protection Act No. 11 of 1967

This statute protects the rendition of a particular work by a performer, if a performance takes place and is broadcast live or is recorded in South Africa or any WTO country.

#### The Intellectual Property Laws Amendment Act No. 28 of 2013 (IP Laws Amendment Act)

The IP Laws Amendment Act amends the Performer's Protection, Copyright, Trade Marks and Designs Acts to extend protection of traditional knowledge.

While South Africa has no specific statute governing trade secrets, protection for trade secrets arises from the common law. Third parties may be permitted access to information without destroying the information's status as a trade secret so long as access is granted under a confidentiality agreement and disclosure of the information is made on a restricted and limited basis.

Ownership or rights in IP can be transferred much like other forms of property, although specific requirements may be applicable. An assignment of a patent or design must be made in writing and while it is not a requirement, the assignment may also be recorded against the patent or design register. If the assignment is not recorded, the transfer will only be valid as between the contracting parties and the assignee will lack a basis on which to institute proceedings against any party that infringes its patent or design rights. A trademark must be assigned in writing and executed by, or on behalf of, the assignor in order to be valid. A trademark may be assigned separately from the goodwill attached to it; however, an unregistered trademark is not capable of assignment separately from the business for which it is used. The transfer of a trademark must be registered in the register of trademarks. A valid assignment of copyright must be in writing, must be executed by or on behalf of the assignor and the agreement should clearly indicate the subject of the agreement and the parties' intentions and consensus to transfer the IP. Traditional intellectual property may only be transferred in limited circumstances. The transfer of IP is also subject to South African exchange control laws.

The Patents Act (section 56) and Designs Act (section 21) provide for a party to apply to the commissioner of patents for a compulsory licence where patent or design rights are abused. Abuses under the

Patents Act and Designs Act include, where the patent is not being worked to an adequate extent, where demand for the patented product is not being met (through local production or imports), or if the patent owner refuses to license on reasonable terms, where it is in the public interest to issue licences.

The Competition Act No. 89 of 1998, as amended (Competition Act) also contains remedies that may involve compulsory licensing (if appropriate in the circumstances).

## 2 Responsible authorities

### Which authorities are responsible for granting, administering or enforcing IP rights?

The Companies and Intellectual Property Commission (CIPC) is responsible for the granting and administering of IP rights. The CIPC is an agency of the Department of Trade and Industry (DTI). The CIPC administers the registration of trademarks, patents, designs and (cinematography) copyright. Applications and registrations of trademarks are administered by the registrar of trademarks, and patents and designs by the registrar of patents. IP rights are privately enforced in civil proceedings. IP rights under the Plant Breeders Rights Act are administered by the Department of Agriculture.

## 3 Proceedings to enforce IP rights

### What types of legal or administrative proceedings are available for enforcing IP rights? To the extent your jurisdiction has both legal and administrative enforcement options for IP rights, briefly describe their interrelationship, if any.

IP rights are privately enforced through action or application court proceedings. The process in relation to patents is stipulated in the Patents Act, which provides that the court of the commissioner of patents is the court of first instance in relation to patent litigation. The court of the commissioner of patents has the status of a high court. The commissioner of patents is a judge of the South African High Court, appointed as such in terms of the Patents Act, and generally has experience in patent or IP matters. Administrative decisions taken by the registrar of patents may be taken on review or appealed to the court of the commissioner of patents. Decisions of the commissioner may be taken on appeal to a full bench of the high court or to the South African Supreme Court of Appeal. The commissioner of patents also hears copyright licensing disputes in the Copyright Tribunal.

## 4 Remedies

### What remedies are available to a party whose IP rights have been infringed? Do these remedies vary depending on whether one utilises judicial or administrative review or enforcement?

Remedies for the infringement of IP rights are provided in common law and additional statutory remedies are also available. In general, a party whose IP rights have been infringed may seek an interdict (final or interim), damages (or alternatively, a royalty-based compensation, which would have been paid under licence) and the delivery of infringing artefacts (or implements intended to be used to carry out the infringement of the IP).

The Business Names Act No. 27 of 1960 allows an aggrieved party to apply to the registrar of companies where another business is believed to be named or described so as to deceive or to mislead the public. The registrar of companies must inform the 'infringing' business of the application and allow it an opportunity to respond. Where the registrar is satisfied that the business is carried out under a name, title or description calculated to deceive or mislead the public, the registrar may order that the infringing business to cease to carry out operations under the misleading name.

## 5 Nexus between competition and IP rights

### Do any statutes, regulations or case law in your jurisdiction address the interplay between competition law and IP law?

The interplay between competition and IP law is not specifically addressed in any statute or regulation. The DTI has published a

draft National Policy on Intellectual Property (Government Gazette No. 36816, Notice 918 of 2013), which confirms the jurisdiction of the competition authorities in relation to competition issues arising from abuses of IP rights. Question 14 outlines the general approach of the competition authorities in matters involving IP rights. A party that wishes to raise competition issues in relation to an IP dispute must make out a case on competition grounds. IP disputes that do not raise competition concerns will not be dealt with by the competition authorities (*Nqobion Arts Business Enterprise v The Business Place and another*, 80/IR/Aug05). In *DW Integrators CC v SAS Institute (Pty) Ltd* (14/IR/Nov99), the Competition Tribunal was asked to give interim relief where an owner of IP in information delivery software refused to provide a licence to a firm providing consulting services in relation to the software. DW Integrators (the consulting firm) argued that the refusal to grant it a licence to the software program amounted to an exclusionary act by a dominant firm, which impeded DW Integrator's ability to participate and compete in the market for consulting services in relation to the software. The Competition Tribunal noted that caution is warranted in the authorities' intervention in matters concerning competition and IP rights. However, it is clear that the Competition Tribunal considered itself competent to order an appropriate remedy (eg, compulsory licensing) if an abuse of dominance had been established.

## 6 Patent cooperation treaties and other agreements

### Does your jurisdiction participate in any patent cooperation treaties or other similar agreements?

Amendments in terms of the IP Laws Amendment Act have been made to the Patents Act to bring in line with TRIPs. South Africa is a member of the WTO, is a party to the Paris Convention, and has bound itself to the Patent Cooperation Treaty and the Budapest Treaty.

## 7 Remedies for deceptive practices

### With respect to trademarks, do competition or consumer protection laws provide remedies for deceptive practices?

The Consumer Protection Act No. 68 of 2008 prohibits the application of trade descriptions (being any description of goods other than a trademark) in such a way that may mislead consumers. In addition, the Merchandise Marks Act No. 17 of 1941 prohibits the use or alteration of trademarks in a way that may mislead consumers.

## 8 Technological protection measures and digital rights management

### With respect to copyright protection, is WIPO protection of technological protection measures and digital rights management enforced in your jurisdiction? Do statutes, regulation or case law limit the ability of manufacturers to incorporate TPM or DRM protection limiting the platforms on which content can be played? Has TPM or DRM protection been challenged under the competition laws?

While the use of TPMs is not expressly provided for in the IP laws, they appear to be supported in terms of the Electronic Communications and Transactions Act No. 25 of 2002 (ECTA). The production, sale, possession or use of a device to overcome security measures designed to protect data or access thereto, are criminal offences under the ECTA. The use of TPMs and DRM has not been challenged under competition laws. These protection measures are not in and of themselves anticompetitive, and would fall to be assessed in accordance with the provisions of the Competition Act.

## 9 Industry standards

### What consideration has been given in statutes, regulation or case law to the impact of the adoption of proprietary technologies in industry standards?

There is currently no legislation or case law that deals with the adoption of proprietary technologies in industry standards (nor in relation to the related concepts of patent hold up, patent ambush or royalty stacking).

Issues in relation to standard setting from a competition perspective were dealt with in the *Netstar v Tracotec* case (99/CAC/May10).

Although the case did not deal expressly with IP rights, it concerned the setting of industry standards by firms operating within the industry and whether the establishment of such standards – which a complainant argued constituted a barrier to its participation in the market – amounted to prohibited conduct. While setting of industry standards is not illegal per se, the practice may attract competition scrutiny, especially when carried out by competitors. Industry standard setting may also fall to be considered in terms of the abuse of dominance provisions of the Competition Act – in particular where there is a refusal to license. While not expressly referred to, the principle of fair, reasonable and non-discriminatory licensing has been applied by the competition authorities in cases where compulsory licensing of IP rights has been ordered.

## Competition

### 10 Competition legislation

#### What statutes set out competition law?

Competition law is regulated in terms of the Competition Act, including the regulations promulgated in terms of the Competition Act. The Competition Amendment Act No. 1 of 2009 was passed into law but is not yet fully in force.

### 11 IP rights in competition legislation

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

The Competition Act does not specifically regulate IP rights but does make specific provision for an application for exemption from the provisions of the Competition Act for an agreement or practice that relates to the exercise of IP rights, including a right acquired or protected in terms of the Performers' Protection Act, Patents Act, Copyright Act, Trade Marks Act and Designs Act. The exemption provision in relation to IP is separate from other exemption provisions.

### 12 Review and investigation of competitive effects from exercise of IP rights

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

The Competition Commission (the Commission) has jurisdiction to investigate the competitive effect of all economic activity within, or having an effect within South Africa, including effects stemming from the exercise of IP rights. The jurisdiction of the Commission may be concurrent with sector-specific regulators. The Commission has concluded several memoranda of understanding with sector regulators, the aim of which is to outline the interactions between regulators where issues of concurrency arise. There are, however, no agreements relating to the intersection of competition and IP law. It should be noted that the Commission is not, however, the decision-making body under the Competition Act and a determination regarding the competitive effect of conduct relating to the exercise of IP will be made by the Competition Tribunal.

### 13 Competition-related remedies for private parties

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

The Competition Act specifically allows for damages for anticompetitive conduct to be sought by a private party in civil proceedings. A claimant is, however, precluded from seeking civil damages where it has been awarded damages in the proceedings before the competition authorities. The right to claim damages arises upon a decision of the Competition Tribunal in relation to the conduct, is suspended in circumstances where the decision of the Competition Tribunal is taken on appeal or review, and revives upon the conclusion of the matter following the appeal process. The Competition Act stipulates that a person instituting a damages claim must file a certificate issued by the chairperson of the Competition Tribunal with the registrar of the court or the judge president of the Competition Appeal Court (CAC), which certifies that the conduct constituting the basis for the action has been found to be a prohibited practice in terms of the Competition Act. The notice also sets out the date of the Tribunal or CAC finding and the section in terms of which the Tribunal or the CAC made its finding. The

certificate is required as a court may not consider the merits of any competition issues brought before it, and must instead refer the issue for determination by the competition authorities. The certificate serves as conclusive proof of a finding of the competition authorities and is binding on a civil court.

### 14 Competition guidelines

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

The competition authorities have not issued official guidelines addressing the overlap of IP and competition law. However, in 2001 the Commission published an article (*Competition News*, edition 4, June 2001, 'Intellectual Property and Competition Law') that considered the intersection of IP and competition law and the approach of foreign regulators. In the article, the Commission recognised the bias a regulator may apply in favour of the owner of an IP right, but also noted that the anticompetitive effect of an IP right may outweigh the pro-competitive gains associated with the granting of that right. The article sets out principles that the Commission considers pertinent in its examination of cases involving IP rights and competition issues. First, the Commission recognises the basic rights granted under IP law and that the protection of these rights is important for economic progress and development. The Commission does not view IP rights as necessarily creating market power. The article notes that if the exercise of an IP right does not adversely impact the competitive outcomes in the relevant market, it should not be prohibited. The Commission recognises that IP rights yield long-term pro-competitive benefits, which are to be weighed against the short-term 'anticompetitive' effects. It should also be noted that this analysis for the assessment of the competitive impact of IP does not differ from that used to assess all other competition issues under the Competition Act. The Commission has also issued a Franchising Notice (see question 25) and a brief Policy Note on Generic Pharmaceuticals and Competition Policy in South Africa (see question 27), which both deal with issues arising from the intersection of competition and IP law.

### 15 Exemptions from competition law

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

There are no specific exemptions in relation to the exercise of particular IP rights. The Competition Act allows firms to apply for exemption for conduct relating to the exercise of IP rights (see question 11).

### 16 Copyright exhaustion

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

The Patents Act and Designs Act both expressly provide for the exhaustion of rights in a patented article or registered design. A holder of IP is entitled to restrict the application of the doctrine contractually (*Stauffer Chemical Co v Agricura Limited* [1979] (BP 168 (CP))). The competition authorities have not considered a challenge to the right to contract out of the doctrine of exhaustion; however, restrictions imposed by a producer in relation to the downstream sale of its products are appropriately considered under the provisions of the Competition Act relating to vertical arrangements. South African competition law recognises that vertical arrangements that seek to limit the channels through which products are sold (eg, exclusive distribution agreements) have pro-competitive and efficiency outcomes. Such arrangements are therefore not per se anticompetitive but are assessed by weighing pro-competitive outcomes with any anticompetitive effects (ie, a 'rule of reason' analysis).

### 17 Import control

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

The *Frank & Hirsch (Pty) Ltd v Roopanand Brothers (Pty) Ltd* [1993] ((4) SA 279 (AD)) case illustrates how a rights holder may be able to rely on copyright protections to prevent the unauthorised importation

of its products. This is possible in cases where the grey goods infringe copyrights that subsist in the imported goods. If the rights holder enjoys copyright protection in relation to the goods worldwide, the imported product does not infringe copyright when it reaches South Africa. However, a rights holder may assign its copyright in South Africa to a third party such that only the third party may lawfully reproduce the goods in which the copyright subsists. In so doing, the erstwhile rights holder makes it illegal to import products containing the copyrighted material (including imports of products which it, itself, had produced) and may proceed to enforce its rights against importers of grey goods on this basis.

From a competition law perspective, a producer's right to designate exclusive vertical distributors for or within regions in South Africa is well accepted. The competition implications of such vertical arrangements are properly assessed under a rule of reason analysis.

## 18 Jurisdictional interaction between competition laws and IP rights

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

The Competition Act provides that if a party to an action in a civil court raises issues relating to conduct that is prohibited in terms of the Competition Act, the court must not consider the issue on the merits but must refer that issue to the Tribunal in circumstances where the court is satisfied that the competition issues have not been raised in a frivolous or vexatious manner and the resolution of the competition issue is required to determine the final outcome of the action. If the CAC or Competition Tribunal has made an order in relation to the issue raised, the civil court must apply the determination in its consideration of the action. If parties raise IP disputes with the competition authorities, which are found not to concern competition law issues, the competition authority may dismiss the proceedings on this basis (*Nqobon Arts Business Enterprise*, 80/IR/Aug05). As noted in question 3, the court of the commissioner of patents is the court of first instance in relation to patent litigation.

## Merger review

### 19 Powers of competition authority

**Does the competition authority have the same authority with respect to reviewing mergers involving IP rights as it does with respect to any other merger?**

Yes. Section 12(1) of the Competition Act provides that a merger will occur where one firm acquires or establishes direct or indirect control over the 'whole or part of the business of another firm'. The transfer of assets, including intangible assets such as patents or trademarks, may, in certain circumstances constitute an acquisition of a business and, depending on whether the stipulated financial thresholds are met, would constitute a notifiable merger. This position was reiterated by the Competition Tribunal and the CAC in *Multichoice and SABC v Caxton and CTP Publishers* (020717 and 140/CAC/Mar16). In such circumstances, the acquisition would require approval from the competition authorities before it may be implemented. If it is the case that the IP transferred does not amount to whole or part of the business of a firm, the transaction will fall short of the definition of a merger and will not be notifiable. The competition authorities' concern in their consideration of the merger is not whether the parties are entitled to transfer the right, but rather, the competitive impact of the transfer – specifically, whether the transfer would result in the substantial lessening or prevention of competition in a particular market.

### 20 Analysis of the competitive impact of a merger involving IP rights

**Does the competition authority's analysis of the competitive impact of a merger involving IP rights differ from a traditional analysis in which IP rights are not involved? If so, how?**

The competition authorities are enjoined to consider the same factors in their substantive analysis in relation to all mergers they consider (section 12A of the Competition Act). The acquisition of IP rights will therefore attract the same scrutiny of the competition authorities as in any other merger – particularly in order to determine whether the acquisition of IP rights would lead to the substantial lessening or prevention of competition in the relevant market and whether it is likely to give rise to any technological, efficiency or pro-competitive gains. In the interests of completeness, the Competition Act also requires an assessment of public interest considerations which include: the effect of the merger on a particular industrial sector or region, employment, the ability of small businesses or firms controlled by historically disadvantaged persons to become competitive and the ability of national industries to compete in international markets. Additional considerations into which IP rights may factor include: the ease of entry into the market (ownership or licensing of particular IP rights may impact barriers to entry), levels and trends of concentration in the market, the degree of countervailing power and the dynamic characteristics of the market, including growth, innovation and product differentiation.

### 21 Challenge of a merger

**In what circumstances might the competition authority challenge a merger involving the transfer or concentration of IP rights? Does this differ from the circumstances in which the competition authority might challenge a merger in which IP rights were not a focus?**

The substantive competition analysis in relation to the transfer of IP rights does not differ from that applied in relation to any other transaction. A transaction may be prohibited or approved subject to conditions where the transfer of the IP right would lead to the substantial lessening or prevention of competition, which cannot be counterbalanced by any pro-competitive or efficiency gains.

### 22 Remedies to address the competitive effects of mergers involving IP

**What remedies are available to address competitive effects generated by a merger when those effects revolve around the transfer of IP rights?**

The competition authorities are able to impose behavioural and structural remedies in order to mitigate the competition concerns raised by a merger.

In the *Nestlé SA v Pfizer Infant Business* (65/LM/Jun12) transaction, the Competition Tribunal found that the acquisition of certain IP rights would lead to high levels of concentration in the market. The competition authorities dismissed a permanent divestiture of the IP as inappropriate in the circumstances and instead imposed a condition on Nestlé (the acquirer) requiring it to license its acquired IP rights to a third party. This licensing arrangement was to be followed by a 'black-out' period during which Nestlé undertook not to use the trademarks in South Africa and to allow the third party an opportunity to rebrand. The exclusive licensing and 'black-out' periods each subsisted for a period of 10 years, after which time Nestlé would be allowed to reintroduce the acquired IP. The condition also included undertakings from Nestlé to provide the third-party licensee with access to product formulations, process technology (including trade secrets and know how) and information on key product ingredients relating to the licensed IP.

In the *Nampak Products Ltd and Burcap Plastics* merger (71/LM/Oct06) the Competition Tribunal recognised that new technology would lead to innovation and competition in the markets in question. It was, however, concerned that the acquirer, a dominant player in the market, would be able to leverage its position in the market to acquire exclusive licences for the use of new technology in order to exclude its actual and potential competitors from competing (or at least increase the costs of their acquisition of licensing in new technologies). In these circumstances, the Competition Tribunal ordered the acquirer

### Update and trends

The question of IP rights and their intersection with competition law is becoming more topical in South Africa. It is anticipated that this may initially be focused on the pharmaceutical sector, although it should also be anticipated that firms holding significant positions by virtue of IP rights that are not attributable to innovation and investment in the ordinary course may also attract scrutiny.

to undertake not to acquire any further exclusive licences in relation to the new technology for a period of three years following the merger.

The *Pioneer Hi-Bred and Pannar Seed* merger (113/CAC/Nov11) included undertakings from the merged entity to license plant materials developed by the target firm to public institutions on a non-exclusive and perpetual basis, for reasonable compensation.

### Specific competition law violations

#### 23 Conspiracy

##### Can the exercise, licensing or transfer of IP rights create price-fixing or conspiracy liability?

The exercise and licensing of IP is generally assessed under the vertical or abuse of dominance provisions of the Competition Act. However, if the exercise, transfer or licensing of IP rights amounts to an agreement or concerted practice by firms in a horizontal relationship to fix prices or trading conditions or divide markets by allocating customers, suppliers, territories or goods, it may amount to a prohibited restrictive horizontal practice under the Competition Act. These are per se unlawful practices and a firm allegedly engaging in such practices does not, in the ordinary course, have scope to claim efficiency or pro-competitive justifications. An agreement or concerted practice between competitors involving IP rights that does not amount to a per se contravention but that substantially prevents or lessens competition in a market may also be prohibited, unless the parties to the agreement or practice can prove that technological, efficiency or other pro-competitive gains outweigh its anticompetitive effect.

#### 24 Reverse payment patent settlements

##### How have the competition laws been applied to reverse payment patent settlements in your jurisdiction?

Reverse payment patent settlements have not yet been considered by the competition authorities; however, such an arrangement may well amount to a horizontal restrictive practice to the extent that it constitutes an agreement between competitors to divide markets, for example, a per se contravention of the Competition Act. The conduct of parties in relation to patent pools or copyright collectives, insofar as they concern arrangements between competitors, may well be assessed under the restrictive horizontal practice provisions of the Competition Act (section 4).

#### 25 (Resale) price maintenance

##### Can the exercise, licensing, or transfer of IP rights create liability under (resale) price maintenance statutes or case law?

It is generally recognised that vertical arrangements are competition enhancing; however, the Competition Act contains a per se prohibition against minimum resale price maintenance (MRPM). The Franchising Notice issued by the Commission confirms the jurisdiction of the competition authorities in relation to franchising arrangements. This notice confirms that a supplier (or franchiser) may only recommend a minimum resale price and may not dictate discounts that may be provided by downstream customers. It should be noted, however, that parties to 'genuine agency agreements' may not be regarded as being in a vertical relationship and price restrictions imposed by a supplier under a genuine agency agreement do not fall within the ambit of the prohibition on MRPM. In a genuine agency agreement, an agent sells the goods or services on behalf of the principal, rather than onselling the supplier's goods or services, and in these circumstances the principal may dictate the price at which products are sold downstream.

#### 26 Exclusive dealing, tying and leveraging

##### Can the exercise, licensing, or transfer of IP rights create liability under statutes or case law relating to exclusive dealing, tying and leveraging?

See question 27.

#### 27 Abuse of dominance

##### Can the exercise, licensing, or transfer of IP rights create liability under statutes or case law relating to monopolisation or abuse of dominance?

A firm's monopoly or position of dominance in the market is not in itself a contravention of the Competition Act. The Competition Act prohibits a dominant firm from engaging in excessive pricing, exclusionary conduct or price discrimination, but provides for an assessment akin to a rule of reason analysis (and allows various justifications to be raised). There is a statutory presumption of dominance that applies when a firm's market share is greater than 45 per cent.

Where dominance has been established (such as by virtue of the firm's exclusive IP rights, or otherwise) the firm may not:

- charge an excessive price to the detriment of consumers;
- refuse to give a competitor access to an essential facility when doing so is economically feasible;
- require or induce a supplier or customer not to deal with a competitor;
- refuse to supply scarce goods to a competitor when doing so is economically feasible;
- engage in tying or bundling;
- sell goods or services below their marginal cost;
- buy up scarce supplies of intermediate goods or services that are required by a competitor;
- otherwise engage in an exclusionary act that has an anticompetitive effect that cannot be outweighed by any pro-competitive or efficiency gains; and
- price discriminate in equivalent transactions.

It is important to note that the approach to IP under our competition laws is generally assessed on the basis of the effects doctrine and that harm to competition must be demonstrated for a contravention to arise. Owning IP, even where it confers a dominant position, is not seen as unlawful in the ordinary course and the authorities have shown justified reluctance to interfere with IP rights.

However, as an example, in the *Sasol Chemical Industries (Sasol Polymers)* case (131/CAC/Jun14) the CAC stated that the holding of an IP right cannot be regarded as a license to engage in excessive pricing in respect of the products produced using the IP. Dominant firms are required to ensure that the price of relevant patented products or services bears a reasonable relation to the economic value of the good or service. The assessment of economic value may take into consideration, among other things, the levels of innovation and research and development that are attributable to the IP.

As a further example, the Commission initiated an investigation into the practices of GlaxoSmithKline South Africa (Pty) Ltd and Boehringer Ingelheim (Pty) Ltd following the filing of a complaint by several individuals, trade unions and a non-governmental HIV/AIDS activist organisation (the TAC) in relation to patented antiretroviral (ARV) medication. The Commission investigated allegations that the pharmaceutical companies had charged excessive prices in relation to ARVs, refused to grant competitors access to an essential facility and otherwise engaged in exclusionary conduct. The complaints were settled (with no admission of guilt) between the parties before proceedings were brought before the Competition Tribunal; however, the issues raised and the terms of settlement reached are instructive. The terms of settlement included undertakings by the pharmaceutical companies to grant licences to generic manufacturers, permit the export of ARVs to other sub-Saharan African countries, permit the importation of ARVs where competitors lacked local manufacturing capacity, permit the combination of patented ARVs with other ARV medication and not to extract a royalty of more than 5 per cent of the net sales of the relevant ARVs (*Competition News*, edition 49, June 2014 'Generic Pharmaceuticals and Competition Policy in South Africa, a Brief Policy'). A similar complaint was raised by the TAC against Merck & Co,

Inc/MSD (Pty) Ltd (MSD) in relation to the ARV medicine efavirenz. The TAC claimed that MSD's refusal to grant additional licences for the import, manufacture, use or disposal of efavirenz, or co-formulated or co-packaged generic products containing efavirenz, amounted to an exclusionary practice in contravention of the Competition Act. The complaint also resulted in settlement in terms of which MSD concluded licensing agreements with several parties.

## 28 Refusal to deal and essential facilities

### Can the exercise, licensing, or transfer of IP rights create liability under statutes or case law relating to refusal to deal and refusal to grant access to essential facilities?

An 'essential facility' is defined in the Competition Act as an infrastructure or a resource that cannot reasonably be duplicated, and without access to which competitors cannot reasonably provide goods or services to their customers. Thus, a refusal to provide a competitor access to an essential facility may amount to an abuse of dominance. The CAC advocated a conservative approach to the question of the essential facilities doctrine in the *Glaxo Wellcome v National Association of Pharmaceutical Wholesalers* case (15/CAC/Febo2). The CAC noted that to grant access to an essential facility is a substantial intervention on the part of a competition authority and that widening the scope of the essential facilities doctrine can have harmful economic effects such as discouraging investment in infrastructure – an 'investor might be reluctant to invest for fear of a third party demanding a 'free-ride' on the fruits of such investment.' The competition implications of a refusal to license IP were investigated in the context of the pharmaceutical industry (see question 27) and although the case was not brought before the competition authorities, it is clear that refusals to license may well amount to exclusionary conduct in contravention of the Competition Act. It should be noted, however, that harm to competition is generally required in the context of the competitive impact of IP rights.

## Remedies

### 29 Remedies for violations of competition law involving IP

#### What sanctions or remedies can the competition authorities or courts impose for violations of competition law involving IP?

The Competition Tribunal may, in relation to a prohibited practice, interdict a prohibited practice, order a party to supply or distribute goods or services on terms reasonably required to end a prohibited practice, impose an administrative penalty and order access to an essential facility. The Competition Tribunal may also declare the conduct of a firm to be a prohibited practice and may declare the whole or any part of an infringing agreement to be void. The Competition Tribunal may also order compulsory licensing or the divestiture of assets where the prohibited conduct relates to an abuse of dominance; however, it is clear from the wording of the Competition Act that an order for such divestiture will not be granted lightly. Divestiture orders in relation to

abuse of dominance may be made if the conduct is a substantially a repeat offence and there are no alternate remedies. A divestiture order made by the Competition Tribunal must also be confirmed by the CAC.

### 30 Competition law remedies specific to IP

#### Do special remedies exist under your competition laws that are specific to IP matters?

The Competition Act does not provide for any IP-specific remedies. The competition authorities have applied innovative remedies to address competition issues relating to IP (see questions 22 and 29).

### 31 Scrutiny of settlement agreements

#### How would a settlement agreement terminating an IP infringement dispute be scrutinised from a competition perspective? What are the key factors informing such an analysis?

A firm's monopoly by virtue of its ownership of IP is not a contravention of the Competition Act and a firm may take necessary steps in order to enforce its rights as against third parties. If such enforcement of rights is the clear objective of the parties in the conclusion of a settlement agreement, the agreement should be properly construed in this context and not as an agreement as between competitors to divide markets or other such prohibited conduct.

## Economics and application of competition law

### 32 Economics

#### What role has competition economics played in the application of competition law in cases involving IP rights?

Economics plays a significant role in the assessment of both mergers and prohibited conduct.

## Recent cases and sanctions

### 33 Recent cases

#### Have there been any recent high-profile cases dealing with the intersection of competition law and IP rights?

Relevant competition law cases that have included considerations of IP rights include the following:

- *Sasol Chemical Industries v Competition Commission* (131/CAC/ Jun14);
- *Nestle SA v Pfizer Infant Business* (65/LM/Jun12);
- *Pioneer Hi-Bred v Pannar Seed* (113/CAC/Nov11); and
- *Hazel Tau and others v GlaxoSmithKline and Boehringer Ingelheim* (this case was not considered by the Competition Tribunal but the complaints documents and the statements of the Commission provide helpful insight in relation to competition concerns relating to IP).



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**34 Remedies and sanctions**

**What competition remedies or sanctions have been imposed in the IP context?**

See questions 22 and 29.

## Getting the Deal Through

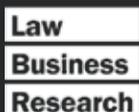
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Intellectual Property  
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