Global Analysis of the Intersection of Antitrust and Intellectual Property

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The tension at the intersection of antitrust and intellectual property ("IP") law has increasingly been making headlines around the world in recent years. Fundamentally, IP regulation is designed to promote competition by creating incentives for innovation. IP gives the holder a return on investment by granting the exclusive use of the IP within a defined scope and timeframe, including negotiating the terms of licenses to third parties. Antitrust laws do not prevent the holder from exercising its rights within this framework, but protect competition by prohibiting conduct that allows the holder to unilaterally extend the market power conveyed by this IP beyond its lawful scope or to facilitate unlawful coordination with competitors. To this end, the same general rules apply to IP as to any property.

While antitrust and IP regimes are generally complementary, the line is not always clearly defined. This has increasingly important implications in key enforcement areas where decisionmakers must balance incentives for investment and innovation against risks of foreclosure and coordination. In particular, these issues may arise: (i) when IP rights give rise to market power or a dominant position that may trigger different standards of conduct for competitors; (ii) in circumstances where there is the potential for holdup where a patent may be included as an essential element of a new industry standard in exchange for a commitment to license to competitors on fair, reasonable, and non-discriminatory ("FRAND") terms; and (iii) when efforts to protect or extend the validity of a patent can be unlawful or facilitate coordination with competitors. These issues are increasingly in the public spotlight with high profile matters involving standard setting in the technology sector and scrutiny of pricing in the pharmaceutical sector.

Decisionmakers around the world have taken different approaches to developing effective rules governing conduct at the intersection of antitrust and IP regulation. Even jurisdictions with sophisticated IP regulation and extensive antitrust precedent must constantly adapt as markets and applications evolve. In the process, some create clear regulatory rules and presumptions in the antitrust assessment, while others apply more flexible effects-based standards. Similarly, some jurisdictions (particularly those with a history of price regulation) may take a more active role in directly resolving disputes, while others may rely more heavily on indirectly promoting the market conditions that foster broader competition. These differences
are enhanced by economic imbalances, particularly for countries that are more reliant on licensing technologies developed in jurisdictions with stronger IP regulation.

In many cases, application of these rules can therefore have significant extraterritorial effect in high stakes environments. Nuances in the enforcement approach across different regimes present a particular challenge for companies competing globally in IP-reliant industries. We hope that this review will be a useful resource for practitioners navigating this diverse and dynamic environment. While there is unlikely to ever be a single solution that applies neatly to all jurisdictions, we further hope this initiative can help to advance the dialogue on current practice and foster more international convergence.
Message from the Committee Co-Chairs
Lisl Dunlop, Ethan Litwin and Elizabeth Wang

Welcome to our second issue of the International Antitrust Law Committee’s annual newsletter, Perspectives on International Antitrust. Thanks to Alysha Manji-Knight, the editor of this edition, for her incredibly hard work in putting the issue together; our authors for their wonderful contributions; Committee vice-chairs who served on the steering group for this issue; and finally members of the International Antitrust Law Committee who answered the call to assist with editing and finalizing this issue for publication.

The International Antitrust Law Committee serves as an international network of antitrust practitioners and government officials, and provides an unparalleled opportunity to learn about current thinking on competition enforcement around the world. One of our Committee’s principal functions is to keep our members informed about significant international competition law developments. We do this through regular reports on our Committee listserv, through our “Hot Topics” bulletins, our contribution to the Section of International Law’s Year In Review, annual publication of a detailed long-form Year In Review, and now through Perspectives.

The goal of Perspectives is to provide a forum for discussion and in-depth analysis of global issues and developments in competition law. This issue surveys the differing treatment of the interface between competition law and intellectual property law in fifteen jurisdictions, from the Americas, Asia and Europe. The interface between antitrust and IP has been an ongoing hot topic for the international antitrust community, as evidenced by the many conferences, regulator guidelines and comments submitted on regulatory proposals by the American Bar Association. In this issue of Perspectives, our contributors each provide background on the key antitrust and intellectual property laws in their jurisdictions and highlight the key cases and issues that are the focus of debate. In addition, for the United States, attorneys from the U.S. Federal Trade Commission have contributed an analysis of the updated Antitrust Guidelines for the Licensing of Intellectual Property issued by the FTC and the United States Department of Justice Antitrust Division in 2017.

We hope that this issue will be a useful resource for our members and the broader antitrust community – and that you enjoy reading it! We would love to hear your feedback on the issue, as well as any ideas for future publications.
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The intersection between intellectual property (IP) law and competition law in Argentina is interesting in that, although there are limited to no judicial or administrative precedents in this area nor guidelines from Argentina’s competition agency, this area is still regulated. In fact, the scope of regulation is broader than might be expected and is indeed broader than regulation in many other countries. In Argentina, the majority of IP issues relate to competition and as such one would expect that such IP issues would be regulated by Argentina’s competition law. However, this is not the case. Instead, IP issues, including IP competition issues are regulated under Argentina’s IP laws.

There is a lot of uncertainty surrounding the IP regulatory regime in Argentina at this time. Further, the competition related provisions included under the IP legislation have not been applied by either the competition agencies nor by the agencies in charge of enforcing IP rights.

Legislation

Competition regulation
Although Argentina’s Competition regulation, anchored in № 25,156 (“Competition Act”), does not include any specific provisions involving IP rights, it is broad enough to encompass most of the practices that involve both IP law and competition law. Such practices may include refusals to license IP rights, patent ambushes, product hopping, reverse payment settlements and other practices that seek to extend the scope of IP rights, as well as certain practices involving standard essential patents (“SEPs”). Competition regulation, as explained in more detail below, is also broad enough to encompass the analysis of innovation in the context of merger control and how restrictions on innovation may harm competition.

Article 1 of Argentina’s Competition Act establishes a general and comprehensive-rule stating that any act that creates the risk to affect or distort competition may amount to an infringement, as long as the “general economic interest” is affected.

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1 Partner at Beccar Varela. Head of Beccar Varela’s Competition and Antitrust department.
Article 1 also prohibits abuse of dominance. Article 2 of Argentina’s Competition Act sets out conduct that may affect competition, including refusals to sell (which may be easily applied to refusals to license) and conduct that limits technical development.

However, as previously noted, Argentina’s competition legislation does not include specific guidance to address acquisition or exercise of IP rights.

Notwithstanding the above, the analysis of innovation in the context of merger control (that in many scenarios is directly related to the relationship between IP law and competition law) has been addressed by competition policy. Argentine merger guidelines\(^2\), which apply to both horizontal and vertical mergers, establish that for the purpose of evaluating a transaction subject to merger control, the Argentine Competition Commission should not limit its analysis to the impact that the transaction may have on prices. This applies to transactions which involve markets where competition affects other variables, among which innovation is expressly mentioned. The impact on these variables should be carefully considered. Furthermore, the factors that need to be contemplated by the Competition Commission in order to analyze potential harm to competition resulting from a transaction, include “the degree of innovation” of the competitor that will no longer be an independent player.\(^3\) In summary, in certain contexts, the ownership of significant IP rights or research capabilities in certain markets may be problematic from a competition law perspective, as is the case in other jurisdictions.

The current Argentine legislation does not include any provision to suggest that the analysis of IP from a competition law perspective should depart from the “symmetry principle”. According to this principle, conduct involving IP should be afforded the same treatment (or at least not be subjected to “worse” treatment) as other kinds of property. Further, agencies should be wary not to presume that IP creates market power or dominance. Although Argentina’s regulations do not include any express endorsement of this principle, they seem to be consistent with its conclusions. Moreover, no precedent has rejected this principle, nor implied that it is not applicable.

In a context where antitrust enforcement is well established but no specific precedent exists, there is uncertainty as to the extent the Argentine Competition Commission, and especially a Court, would be willing to conclude that certain

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\(^2\) Resolution Nº 164/2001, Chapter I, par. 2.

\(^3\) Chapter III par. 1).
conduct that fits clearly within the rights granted by IP regulation (e.g., refusal to license) could be considered illicit from a competition perspective. Beyond this, however, there seems to be no doubt that any conduct that is not protected by IP rights could infringe Argentina’s competition regulation where the general criteria for the infringement is met.

The main consequences for infringing Argentina’s competition through conduct that involves IP rights are the same as the consequences for other non-IP rights infringements, namely: (i) an order to cease the harmful acts or conduct; (ii) a fine that may range from AR$ 10,000 to AR$ 150,000,000 (approximately US$ 880,000 as of January 2018, although these amounts are expected to rise considerably through an amendment to Argentina’s Competition Act); and (iii) the imposition of a daily fine of up to AR$ 1,000,000 (approximately US$ 59,000 as of August 2017) to parties that do not comply with the Commission’s orders.

Copyright (“Droit D’Auteur”) regulation

Argentina’s law N° 11,723 (“Intellectual Property Act”) includes standard limitations to the rights granted to the originators of protected works. These limitations could arguably protect or foster competition in a general way, including time restrictions that are compatible with international treaties.

Similar to regulations in other jurisdictions, a first limitation is established by the principle, often referred to as “idea-expression dichotomy”, which states that neither abstract ideas nor the practical application of proceedings described in a work are protected by the Intellectual Property Act. A second group of limitations includes a number of so called “exceptions”. A third group of limitations include limited compulsory licenses.

Similar to regulations in other jurisdictions, a first limitation is established by the principle, often referred to as “idea-expression dichotomy”, which states that neither abstract ideas nor the practical application of proceedings described in a work are protected by the Intellectual Property Act. A second group of limitations includes a number of so called “exceptions”.

The rationales underlying these limitations are multiple, however they are not necessarily related to the concerns triggered by IP from a competition law perspective; unlike those included in Argentina’s patent regulation described below.

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4 These exceptions include “the right of quotation” (Section 10), which is a limited kind of "fair use", the publication of scientific, political or parliamentary speeches in certain conditions (Section 28), the use or publication of "general interest" news (section 27), the execution of certain kinds of works by certain public institutions (Section 36), and the right of reproduction for the purposes of making software backup copies (Section 6).

5 These involve two specific scenarios: a work can be published ten years after the last publication and a work may be translated ten years after its author has passed away.
The only existing cases that have discussed refusals to deal are grounded in competition regulation exclusively, and involve TV signals. However, although a few preliminary injunctions have been issued in this context, there is no precedent where the Argentine Competition Commission has discussed refusals to deal/license in detail, nor cases where refusals to license TV signals have been considered an infringement.

**Patent regulation**
In addition to time limits and other standard restrictions to exclusive rights granted by patent law to its holders, which arguably also protects or fosters competition in a general way, Argentina’s N° 24.481 (“Patent Act”) includes a number of specific provisions addressing concerns for which competition regulation might seem better suited.

Among them is a general and notable provision, included at Article 38, which establishes that license agreements shall not include terms that “affect production, commercialization or technical development of a licensee nor restrict competition”. Examples of such clauses, listed in Article 39, include exclusive grant back provisions, provisions that prevent questioning the validity or scope of a patent, and provisions that establish “reciprocal licenses”. Curiously, this section also includes a reference to “any other provisions that may infringe Argentina’s Competition Act”. In addition, Article 39 of Argentina’s Patent Act includes a presumption whereby licensees may grant sub licenses unless the license agreement expressly prohibits so.

Article 44 of Argentina’s Patent Act, in turn, establishes that when the “corresponding agency” (i.e., the Argentine Competition Commission) has

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7 For example “Multicanal c/Fox Sports y otros” (2004).

8 Other local cases involving TV signals include discussions related to resale price maintenance, exclusivity obligations, price discrimination, predatory prices, tying, and other vertical and horizontal exclusionary or abusive practices that, however, seem to bear no special relationship with the fact that they involve IP rights.

9 Some restrictions which are also included in patent laws of other jurisdictions.

10 For example, uses of patented products or processes for teaching purposes or for academic research; the so-called “exhaustion principle” that establishes that once a product protected by a patent (or produced by means of a patented process) is commercialized without infringing any laws, its purchaser-owner may use it or commercialize it with no limitations. These two exceptions are included in Article 36 of Argentina’s Patent Act. Article 45, in turn, includes an obligation to grant a license for reasons of national security or sanitation emergency.
established that a patent holder has engaged in practices that affect competition, the local agency in charge of registering IP and enforcing IP norms, called the Instituto Nacional de la Propiedad Intelectual ("INPI")\(^\text{11}\), shall authorize the “exploitation” of a patent without the consent of its holder. Although this article includes a number of worrying examples as to the type of conduct which may trigger such authorization\(^\text{12}\), enforcement of competition regulation involving patents should, as explained above, be carried out by the Argentine Competition Commission and not by the INPI, and furthermore should not depart from the general principles described above. However, Article 44 has not been applied in practice, and it is expected that enforcement of competition in the context of patents (e.g. the eventual obligation to grant a license in certain limited scenarios) should be guided under Argentina’s Competition Act (without the need to resort to Article 44 of the Patent Act).

In line with this interpretation, leading scholars argue that Argentina’s Patent Act does not include a different catalogue of conduct that infringes competition, but merely establishes certain consequences that may result from competition infringements. Such infringements, however, should nonetheless be determined by the Competition Commission in accordance with the general rules and principles established by Argentina’s competition regulation.\(^\text{13}\)

Other provisions of Argentina’s Patent Act include references to compulsory licenses of different kinds:

Article 41 includes a general provision establishing that the INPI shall have the power to create limited exceptions to patent rights, as long as these exceptions do not interfere with its normal exploitation or harm its holder.

Article 42 establishes that when a potential user has not been able to obtain a license in “reasonable terms and conditions”, after a period following the request, the INPI shall be able to allow certain uses of the patent without the holder’s authorization, in addition to informing Argentina’s Competition Commission so that it can determine whether any infringements to competition regulation were involved in the refusal.

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\(^{11}\) In Spanish “Instituto Nacional de la Propiedad Intelectual”.

\(^{12}\) These examples include excessive or discriminatory prices (par. a), refusals to deal in reasonable commercial conditions (par. b), hampering of commercial or productive activities (par. c) and other practices that infringe Argentina’s Competition Act (par. d).

\(^{13}\) Cabanellas, Guillermo, Derecho Antimonopólico y de Defensa de la Competencia, Tomo I, Heliasta, Buenos Aires, 2005, p. 301 and 303.
Article 43 establishes that if three years after a patent is granted, or four years after a patent application is filed, the holder/applicant has neither exploited, implemented the patent nor made reasonable arrangements with the purpose of carrying out such exploitation or implementation, absent force majeure, third parties are able to request that the INPI grant a license without the holder’s authorization.\(^{14}\)

Article 46 deals with scenarios involving “derivative innovation”, which in the last ten years has triggered many discussions related to the relationship between competition regulation, IP regulation and innovation. Article 46 establishes that non-exclusive and non-assignable licenses shall be granted without the holder’s authorization if a second patent that infringes the first patent is requested as long as certain conditions are met, namely that: the second patent involves a significant technical advance compared to that resulting from the first patent, that the holder of the first patent is able to get a license of the second patent (with reasonable terms and conditions), and that it is not possible to authorize the use of the first patent without authorizing the use of the second. Pursuant to Article 47, in these cases the right holder shall receive a reasonable consideration in return, although such consideration should take into account whether the license was granted in order to remedy a conduct that harmed competition.

In practice, however, none of the above sections establishing compulsory licenses have been invoked by the INPI, and no compulsive licenses have been granted as a result thereof.

**Ongoing cases**
As previously noted, there is a lack of judicial and administrative precedents dealing with problems related to the intersection between intellectual property and competition law regulation. Further, there are very few ongoing investigations in this area. According to publicly available sources, Argentina’s Competition Commission is currently carrying out two investigations that involve IP rights.

The first of these investigations involves Monsanto, who according to complainants has abused its dominant position by including certain terms and conditions in its licensing and other agreements related to the so called “Intacta” technology for soy seeds. Claimants argue that these terms are abusive, can only be included in an agreement by a company with a dominant position, and distort competition.

\(^{14}\) In such a scenario, the INPI would have to establish reasonable consideration based on market value.
Allegedly, the terms that triggered the complaint involve certain obligations related to royalty payments and collection of royalties owed by third parties. Furthermore, certain obligations to pay royalties for uses of this technology are beyond the exclusive uses granted by local regulation. Moreover, restrictions involving companies that may be hired by the parties to these agreements in order to commercialize, store and export their production, allegedly must include a limited number from a list approved by Monsanto.

The second investigation involves a collection society, although details are not publicly available.
Australia

Sarah Moritz\textsuperscript{15} and Katherine Giles\textsuperscript{16}

INTRODUCTION

There is an tension between intellectual property ("IP") and competition laws in Australia, and little case law to provide guidance on this relationship. IP laws grant exclusive rights to the owner of that IP, and provide an incentive to innovate. In contrast competition law under Australia’s Competition and Consumer Act 2010 ("CCA") promotes competition and market structures that promote lower prices, and greater access to a variety of quality goods and services.\textsuperscript{17} Despite this, some commentators characterise IP and competition laws as complementary, both increasing consumer welfare.\textsuperscript{18} The question is whether existing legislation strikes the right balance now and into a disruptive digital future.

The balance between IP and competition laws has been under review in Australia since the mid-1980s. Most recently in 2015, the Harper Competition Policy Review ("Harper Report") recommended a 12-month review of Australia’s IP regime, and the repeal of the exemption for certain types of conduct involving IP so that Intellectual Property Rights ("IPRs") are subject to the CCA in the same manner as other property rights.\textsuperscript{19} This IP exemption does not exist in many other jurisdictions. This does not mean that the issues faced are not shared across jurisdictions, but the legal framework applied to those issues is different in Australia. There have been multiple calls over time for the IP exemption to be repealed, and for IPRs to be treated under Australian competition law like all other property rights. We expect that legislative reform is imminent.

\textsuperscript{15} Senior Associate at MinterEllison
\textsuperscript{16} Senior Associate at MinterEllison
\textsuperscript{17} Competition and Consumer Act 2010 (Cth) \S 2 (Austl.) (hereinafter "CCA").
ENFORCEMENT POLICIES AND GUIDANCE

Relevant IP statutes
Australian IP is protected under several different federal statutes, including the Copyright Act 1968 (Cth) ('CA'), Circuit Layouts Act 1989 (Cth) ('CLA'), Trade Marks Act 1995 (Cth) ('TMA'), Designs Act 2003 (Cth) ('DA'), Patents Act 1990 (Cth) ('PA'), and Plant Breeder’s Rights Act 1994 (Cth) ('PBRA').

Copyright works (literary, dramatic, musical or artistic), and subject matter other than works (sound recordings, cinematograph films, television and sound broadcasts and published editions), moral rights, and performers’ rights are protected under the CA. There is no copyright registration system in Australia, and protection applies automatically if the requisite criteria set out in the CA are met. Copyright does not protect ideas and information (only the expression in material form), data generated solely by computer, names, insubstantial headlines or titles.\(^\text{20}\) Generally copyright in works subsists for a period of 70 years after the end of the calendar year in which the author died. There are some variations to this. Literary works (other than computer programs), or dramatic or musical works, that have not been published, engravings where the author died before the engraving was published, pseudonymous and anonymous works, sound recordings and films, are protected for 70 years after the end of the calendar year in which the work was first published. Television sound broadcasts are protected for 50 years after the end of the calendar year in which the television or sound broadcast was made. Published editions are protected for 25 years after the end of the calendar year in which the published edition was first published. In some cases, designs and databases are protected as copyright works.

Circuit layouts are protected under the CLA. No registration is required, and the owner of a circuit layout is granted protection for a period of 10 years from the date of first commercial exploitation of the circuit layout.

The registered proprietor of a trade mark has the exclusive use of the trade mark under the TMA, for a period of 10 years, which may be renewed indefinitely. The owner of a registered trade mark is entitled to exclude others from using a substantially identical or substantially similar trade marks in relation to goods and services that are the same as or similar to the goods and services to which the trade mark is registered. Geographical indications are protected as certified trade marks under the TMA and administered by IP Australia. Specific geographical

indications for wines are protected under the Australian Grape and Wine Authority administered registration system through the Register of Protected Geographical Indications and Other Terms.

Similarly, the registered proprietor of a design, patent or plant variety also has exclusive rights. Registered designs are protected under the DA, and the owner has an exclusive right to manufacture or sell products that embody that design, for a period of 10 years. Registered patents are protected under the PA, and the owner of standard patent has the exclusive right to prevent others from exploiting a patented invention, for a period of 20 years (25 years for pharmaceuticals) from the filing or other priority date, and 10 years for innovation patents (with a lower standard of inventiveness). Registered varieties of plants are protected under the PBRA. The owner of a registered plant variety has exclusive rights in respect of the registered variety and dependent varieties, for a period of 20 years (25 years for trees and vines).

IP assets in Australia can also be protected under contract law and consumer law protections against misleading or deceptive conduct. Section 18 of the CCA prohibits a person engaging, in trade or commerce, in misleading or deceptive conduct, or conduct that is likely to mislead or deceive. This prohibition is often included in legal actions for trademark infringement and passing off. In addition, common law protections exist for confidential information and trade secrets, business reputation and goodwill in trade names, and under the Therapeutic Goods Act 1989 (Cth) and the Agricultural and Veterinary Chemicals Code Act 1994 (Cth).

**Relevant Criminal and Civil Provisions of the Competition and Consumer Act 2010**

Australia’s competition law legislation is contained in the Competition and Consumer Act 2010 (“CCA”). Like the majority of competition law systems, Australian competition law treats some conduct as so egregious that it is prohibited without requiring proof of its competitive effect. This includes horizontal arrangements between actual or potential competitors to fix prices, restrict output, share markets or rig bids that are treated as ‘cartel provisions’ under the CCA. Making, or giving effect to, a contract, arrangement or understanding (together, “arrangements”) containing a ‘cartel provision’ is prohibited under Part IV, Division 1 of the CCA, and is subject to both criminal and civil sanctions. A remnant of Australia’s previous cartel laws, the making of, or giving effect to, an arrangement between competitors for the purpose of preventing, restricting or limiting the supply or acquisition of goods or services by those competitors is also presently prohibited.
in an ‘exclusionary provision’. Consequently, the same conduct can be subject to both the cartel prohibition and treated as exclusionary conduct (with exclusionary provisions subject only to civil sanctions). As a result of the Harper Report, legislative reform was proposed to simplify Australia’s cartel laws by broadening the scope of prohibited cartel provisions to extend prohibited output restrictions to acquisition restrictions, and to repeal the separate prohibition on exclusionary provisions.

Vertical price fixing, by which a supplier specifies (whether directly or indirectly) the minimum prices for resale of goods, is also strictly prohibited in Australia. This practice is referred to as resale price maintenance (‘RPM’). Part VIII of the CCA contains provisions which describe in detail practices constituting RPM. Again, as a result of the Harper Report, legislative reform was proposed that would allow complainants to notify the Australian Competition and Consumer Commission (‘ACCC’) of potential RPM violations. The ACCC would have an ability to revoke the notification if it is satisfied that the public benefits outweigh the possible detriment of the proposed conduct.

Vertical arrangements between corporations at different levels of the distribution chain are, as a general rule prohibited under section 47 of the CCA only if they are entered for the purpose, or have the likely effect, of substantially lessening competition. This conduct is referred to as ‘exclusive dealing’ and can include restrictions imposed on a customer by a supplier, on a supplier by a customer, and on a lessee or licensee, by a lessor or licensor of a building or land. The exception to vertical restraints being subject to a competition test is third-line forcing, where a supplier supplies good or services to a customer, on the condition that the customer will acquire particular goods or services from an unrelated corporation. Third-line forcing remains strictly prohibited, although there is relatively streamlined ACCC notification process. The Harper reforms, if passed,

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21 CCA, ss 45 and 4D.
23 CCA, s 48.
25 CCA, s 47(10).
26 CCA, ss 47(2) and (3).
27 Id. ss 47(4) and (5).
28 Id. ss 47(8) and (9).
29 Id. ss 46(6) and (7).
would prohibit third-line forcing only if it has the purpose or likely effect of substantially lessening competition.\textsuperscript{30}

There is also a general ‘catch all’ prohibition on making or giving effect to a provision of a contract, arrangement or understanding that has the purpose, or is likely to have the effect, of substantially lessening competition.\textsuperscript{31} Arrangements captured by this prohibition are generally horizontal in nature, because anti-overlap provisions give rise to vertical arrangements being captured by more specific provisions in Part IV of the CCA.\textsuperscript{32}

**Misuse of market power**

Presently under section 46 of the CCA a corporation engages in a prohibited misuse of market power if: (1) the corporation has a substantial degree of power in a market; (2) the corporation takes advantage of that power; and (3) the corporation’s purpose for the conduct was one of three proscribed purposes, as follows:

- eliminate or substantially damage a competitor;
- prevent the entry of a person into the relevant market or any other market; or
- deter or prevent a person from engaging in competitive conduct.

Legislative reforms in Australia have recently introduced an effects-based test whereby a corporation with a substantial degree of power in a market will be prohibited from engaging in conduct, if it has the purpose or likely effect, of substantially lessening competition in that market, or any other market in which the corporation, or a related corporation, supplies or acquires goods or services.\textsuperscript{33} Importantly, conduct will constitute a misuse of market power, even if a corporation did not ‘take advantage’ of that power. The misuse of market power reforms would come into effect when the Competition Policy Review Bill commences. So it is tied to the successful passing of other Harper Report reforms currently before Parliament.

\textsuperscript{30} Competition Policy Review Bill, Schedule 7.
\textsuperscript{31} CCA, s 45.
\textsuperscript{32} Id. s45(6).
Mergers

The CCA prohibits the acquisition of shares or assets that would have the likely effect of substantially lessening competition in a Australian market.\(^{34}\) Acquisitions occurring entirely offshore by corporations not resident in or carrying on businesses in Australia directly are prohibited if they substantially lessen competition in an Australian market.\(^ {35}\) There are no compulsory filing or regulatory approval requirements for ACCC merger clearance in Australia, but it is standard practice to seek informal ACCC clearance. There are two other processes, both also voluntary, that do provide statutory protection: formal clearance from the ACCC (substantial lessening of competition test); and authorisation by the Australian Competition Tribunal (public benefits outweigh lessening of competition test). The Harper Report reforms currently before parliament will reform the existing merger approval process, such that the ACCC would be the body from whom merger parties seek formal merger authorisation, with the Australian Competition Tribunal being only a review body.\(^ {36}\)

Reform to Part IV of the CCA underway

Current legislative reforms include the introduction of a new civil prohibition on concerted practices.\(^ {37}\) This would prohibit competitors from engaging with one or more persons in a concerted practice that has the purpose, or likely effect, of substantially lessening competition.\(^ {38}\) ‘Concerted practice’ is not defined, however, guidance given as to its meaning indicates that it involves something less than a contract, arrangement or understanding, and the substitution of cooperation in place of the uncertainty of competition.\(^ {39}\) No arrangement or understanding would need to be formed between competitors, for the prohibited conduct to be engaged in. At the same time, the proposed legislation would repeal price signalling prohibitions that to date relate only to banking services. The history of these reforms is covered in more detail below in Part V of this chapter.

The CCA contains an exemption for most IPRs from competition laws

Section 51(3) of the CCA contains an exemption from most of the anticompetitive conduct prohibitions in Part IV of the CCA for conditions in licenses and assignments of certain IP. They are patented inventions or articles, goods to which

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\(^ {34}\) CCA, s50.
\(^ {35}\) Id. s50A.
\(^ {38}\) Id. Schedule 3 (proposed s45(1)(c)).
\(^ {39}\) Explanatory Memorandum, [3.19]-[3.28], Id; ACCC, Framework for Concerted Practices Guidelines (September, 2016), at 3.
a registered design is applied, subject matter in which copyright subsists, and circuit layouts in which protected rights exist, to the extent that the condition relates to the subject matter of the IPRs. In addition, the exemption applies to contracts, arrangements or understandings authorising the use of certification trade marks, and trade marks and registered users relating to the kinds, qualities or standards of goods bearing the mark that can be produced or supplied. Importantly, the exemption does not apply in relation to the misuse of market power prohibitions of Part IV (including misuse of market power in a trans-Tasman market), nor RPM.

Whereas the exemption in relation to trade marks is relatively narrow (and does not extend to the assignments), the exemption in relation to patents, copyright, designs and circuit layouts is broad. This is because conditions in a licence, relating to matters such as price, quantity, quality, customers and territory, are likely to be considered to ‘relate to’ to the subject matter of the copyright work, patent, design, or circuit layout.

Agreements to assign future IPRs, and technical expertise and knowhow, or goodwill, for example, in get up are not covered by section 51(3) of the CCA. This is particularly relevant in the context of franchising arrangements, where the value is in the get-up associated with the franchise. If provisions in licence agreements or assignments pertain to these matters, they need to be tested against the anticompetitive conduct prohibitions in Part IV of the CCA.

As IPRs (such as patents) grant monopoly rights (to a greater or lesser extent), the CCA does not exempt IPR holders from the prohibition on misuse of market power. The introduction of an effects test into the misuse of market power prohibition will mean that patent owners need to revisit whether they might have a substantial degree of power in relation to any market in which they operate. If so, they will need to devise a framework to consider the effect of their business operations on that or any other market in which they supply or acquire goods or services. This issue will be heightened where patent pools are concerned. Until the Harper Report reforms come into effect, provided a patent holder's conduct is not motivated by a purpose which the legislation proscribes, they will not risk breaching the CCA.

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40 CCA, s51(3)(a).
41 CCA, s51(3)(b).
42 CCA, s46.
Assignments of patents, designs and copyright to be considered under merger control rules

While a condition in an assignment of a patent, design or copyright is exempt under section 51(3)(a), the assignment itself is not. These IPRs are ‘assets’ within the meaning of section 50 of the CCA, which although undefined, captures property as well as other things of value. As a consequence, assignments of copyright, patents, designs and circuit layouts are subject to the merger control provisions of the CCA, which relevantly prohibit an acquisition of assets, if it would have the likely effect of substantially lessening competition (for example, through market control or domination).

Cases involving products that the subject of IPRs

There are only a small number of Australian cases exploring the relationship between IPRs and competition law, because conditions in licenses and assignments of IPRs are generally exempt from the majority of competition laws, as more fully described above. Accordingly, several of the cases referred to below pertain to suppliers or distributors of branded products rather than IPRs. Such cases illustrate issues likely to be faced by IPR holders, if the exemption in section 51(3) of the CCA is repealed.

The High Court of Australia in Transfield v Pty Ltd v Arlo International Ltd supported the proposition that ‘relates to’ in section 51(3) of the CCA should not be given a narrow construction.\(^{43}\) Arlo was the licensee of a patented process for the Arlo pole. The licence granted an exclusive sublicense to Transfield and required the licensee covenant at all times to use its best endeavours in fabricating, installing and selling the pole.\(^{44}\) The licensor of the patent sued the licensee for failure to comply with its obligations. The licensee argued that this part of the licence was unenforceable because it had the purpose or likely effect of substantially lessening competition in breach of section 45 of the CCA. Justices Stephen, Mason and Wilson rejected the interpretation that a clause requiring a licensee to use best endeavours to market and sell a patented product meant that the licensee could not sell competing products, and held that there was insufficient evidence of an anticompetitive purpose or effect.\(^{45}\) However, views were also expressed about the breadth of the exemption in section 51(3) of the CCA. Justice Mason observed the word ‘relates’ should not be interpreted narrowly or restrictively and that in bridging the

\(^{43}\) (1980) 144 CLR 83.
\(^{44}\) Transfield Pty Ltd v Arlo International Ltd (1980) 144 CLR 83 at 87.
\(^{45}\) Id. at 97, 102 and 108.
differences between competition law and the PA there is a recognition ‘that a patentee is justly entitled to impose conditions on the granting of a license or assignment of a patent in order to protect the patentee’s legal monopoly.’

The case of Mark Lyons Pty v Bursill Sportsgear Pty Ltd (1987) 75 ALR 581 is a reminder that if a party has a substantial degree of market power (for example, as sole supplier of a given brand) a refusal to supply in respect of the branded products risks contravening the misuse of market power prohibition as well as constituting exclusive dealing, as the court held in respect of Bursill. In that case, the Salomon ski boot supplier Bursill refused to supply Lyons after Lyons sold Salomon ski boots in cut-price discount sales, on the basis that these discount sales diluted the brand. Lyons alleged that Bursill’s conduct would substantially lessen competition. Justice Wilcox held that if a product is so distinctive that no other product or brand is seen by consumers as a substitute, there can be a market in one brand of products (although the relevant market was the Australian ski boot market), and that Bursill’s refusal to supply Lyons was for the prohibited purpose of deterring or preventing Lyons from engaging in competitive conduct.

In Trade Practices Commission v Sony (Australia) Pty Ltd (1990) ATPR 41-053 Sony sought to ensure that retailers complied with recommended prices by withholding supply if they did not. Justice Pincus in the Federal Court of Australia found that Sony had contravened section 48 of the CCA (then ‘TPA’) for resale price maintenance.

The case of Broderbund Software Inc v Computermate Products (Aust) Pty Ltd (1992) ATPR 41-155 (‘Broderbund v Computermate’) concerned the distribution of a computer program ‘Where in the World is Carmen Sandiego’. The applicants owned the copyright in the computer program and were the exclusive Australian distributor. They successfully sought to restrain the parallel importation and sale by Computermate of copies from the US. Justice Beaumont dismissed the respondents’ cross-claims that the exclusivity provision in the copyright licence was a misuse of market power, exclusionary provision, anticompetitive agreement, or exclusive dealing with an anticompetitive effect. While Justice Beaumont noted the cross-respondents relied on section 51(3) of the CCA, he did not consider that exemption, as he dismissed the respondent’s cross-claims.

46 Id. at 102-103.
48 Id. at 595, 597 – 598.
In *Universal Music Australia Pty Ltd v ACCC* (2003) 131 FCR 529, Universal Music Australia and Warner Music Australia sought to control the importation of CDs and prevent the sale of cheaper parallel import CDs in record stores, by indicating that they would refuse to supply record stores that sold cheaper imported CDs. At first instance, Justice Hill held that Universal and Warner contravened sections 46 (misuse of market power) and 47 (exclusive dealing) of the CCA, each having ‘temporary monopolies on a frequent basis’ in respect of individual CD titles, where no two titles were perfect substitutes for one another, and evidence that more than half of the consumers would not purchase a substitute.\(^{49}\) However, on appeal, the court held that the conduct of the appellant corporations did not contravene section 46 of the CCA, as neither had substantial power in the Australian wholesale recorded music market.\(^{50}\) That was the case even if it was a commercial imperative for retailers to stock or have access to the Australian catalogue of the major distributors. However, the conduct contravened section 47 of the CCA, because each had the purpose of substantially lessening competition in the relevant market.\(^{51}\)

*NT Power Generation Pty Ltd v Power and Water Authority* (2004) 219 CLR 90 (‘NT Power v PWA’) is a reminder that property rights can be the source of market power, and a property owner who declines to allow competitors to use that property is not immune from section 46 of the CCA, as section 46 can be used as a type of constructive ‘access regime’.\(^{52}\) The High Court said: ‘[f]urther, to suggest that there is a distinction between taking advantage of market power and taking advantage of property rights is to suggest a false dichotomy, which lacks any basis in the language of s 46 … [P]roperty rights can be a source of market power attracting liability under s 46 and intellectual property rights are often a very clear source of market power.’\(^{53}\) In this case, PAWA was a statutory corporation which both supplied and regulated the supply of electricity in the Northern Territory of Australia. PAWA had refused to grant NT Power access to its transmission and distribution infrastructure, which had the effect of precluding NT Power from being able to sell electricity generated by it. The court held that PAWA had taken advantage of its market power in the market for the sale of electricity, which arose

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\(^{50}\) Universal Music Australia Pty Ltd v ACCC (2003) 131 FCR 529 at [152] - [164].

\(^{51}\) Id. at [274].

\(^{52}\) NT Power Generation Pty Ltd v Power and Water Authority (2004) 219 CLR 90 at [85] and [125]-[126].

\(^{53}\) Id. at [125].
from its control of the infrastructure, for the purpose of injuring NT Power in that market, in breach of section 46 of the CCA.\textsuperscript{54}

More recently, in \textit{MPEG LA, LLC v Regency Media Pty Ltd} [2014] FCA 180 the Federal Court considered whether Regency Media had lawfully invoked section 145 of the PA. Section 145 provides that patent licences may be terminated by either party on giving 3 months’ notice in writing once the patents which are the subject of the licence are no longer in force. In addition, section 144 renders void the terms of patent assignments or licences, which prohibit the assignee or licensee from using products or processes supplied or owned by third parties, or which require the assignee or licensee to buy products not protected by the patent from the assignor or assignee. The Federal Court found that the expiry of some of the patents in the pool did not give rise to the right to terminate under section 145 and that no notice of termination could be given until all patented inventions identified in the licence had expired. The case was appealed and the appeal dismissed.\textsuperscript{55}

The decision of Justice Flick in \textit{ACCC v Pfizer Australia Pty Ltd} (2015) 323 ALR 429 is currently on appeal. However, it provides insight into the Federal Court’s view of the temporal nature of market power and patent ownership.\textsuperscript{56} The ACCC brought proceedings against Pfizer for misuse of market power and exclusive dealing in breach of the CCA. The ACCC’s claims related to Pfizer’s conduct in pursuing a strategy in advance of the expiration of Pfizer’s patent for atorvastatin in May 2012. In summary, the strategy involved ceasing the supply of prescription pharmaceuticals through wholesalers and supplying exclusively direct to community pharmacies, as well as providing rebates to pharmacies in respect of their acquisition of Pfizer’s Lipitor and generic atorvastatin. Justice Flick held that while Pfizer held a patent on the atorvastatin molecule at the relevant time, and had market power from mid-to-late 2011, as at January 2012 it no longer held a substantial degree of power in that market.\textsuperscript{57} Its market power gradually decreased as the expiration of its patent became imminent and was no longer enduring, nor could it be sustained throughout the period of the alleged conduct.\textsuperscript{58} Nor did Pfizer pursue its course of conduct ‘for the purpose of deterring or preventing a person from engaging in competitive conduct’ (as prohibited under section 46), nor for the

\textsuperscript{54} Id. at [114].
\textsuperscript{55} Regency Media Pty Ltd v MPEG LA, LLC (2014) 231 FCR 588.
\textsuperscript{56} Justices Greenwood, Middleton and Foster heard Federal Court of Australia Proceedings NSD 242 of 2015 on 23 to 27 November 2015. At writing, judgment had not been handed down.
\textsuperscript{57} ACCC v Pfizer Australia Pty Ltd [2015] FCA 113, at [333].
\textsuperscript{58} Id. at [251], [253] and [288].
purpose of ‘substantially lessening competition’ (as prohibited under section 47). Instead, Justice Flick held Pfizer’s ‘purpose’ for engaging in the conduct was not the purpose of ‘substantially lessening competition’, but to ensure its own corporate ‘survival’. While Justice Flick made mention of section 51(3) of the CCA, he did so only to refer to the decision in Transfield v Arlo and the fact that that provision assumed little relevance, given his conclusion that section 47 of the CCA had not been contravened.

Approach of ACCC to IP
The ACCC has not issued guidelines or other statements concerning the overlap of IP and competition laws. This is not surprising given the significant exception in section 51(3) of the CCA, and the fact that the ACCC largely sees IP and competition laws as complementary. However, the ACCC has recognised that “[t]he extent of any IP rights should balance: (i) on the one hand, the incentives for innovation in the creation of IP; and (ii) on the other, the incentives that access to IP material provides for efficient use of that IP and for innovation from such use.” And that “[w]hile it is largely accepted that the individual grant of copyright or intellectual property rights will rarely cause competition concerns . . . there may be instances where intellectual property rights may confer market power.” This is where IP and competition policy do conflict as IP owners are in a position to exert substantial market power or engage in anti-competitive conduct, and the ACCC among other stakeholders have advocated for the repeal of section 51(3) on this basis. In the recent Harper Report, the ACCC submitted that IPRs should be treated as all other property rights and, accordingly, subjected to all prohibitions in Part IV of the CCA.

Whilst there are no ACCC IP guidelines, the ACCC does play a role in authorising on net public benefit grounds, arrangements which might otherwise breach a provision of Part IV of the CCA, including licensing and collective bargaining arrangements for

59 Id. at [464].
60 Id. at [252] and [451].
61 Id. at [76]-[79].
62 See e.g. ACCC Submission, at 59 cited in Harper Report, at 101: “... rights holders are entitled to legitimately acquire market power by developing a superior product to their rivals, and pursuant to the policy purpose of IP regulation, the temporary market power from an IP right provides the very incentive to invest in the production of new IP. Such innovation is also a key goal of competition law. In this respect, IP and the competition law are for the most part complementary, both being directed towards improving economic welfare.”
66 Id. at 58, cited in Id. at 105.
creative works via collecting societies. The ACCC has authorised model agreements used by members of writers’ and directors’ guilds, and standard form arrangements for the acquisition and licensing of music. In addition, copyright licensing is subject to the scrutiny of the ACCC and also the Copyright Tribunal of Australia (in relation to the determination of collective licensing royalty rates). Collecting societies operate under a voluntary code of conduct. That code establishes minimum standards in terms of such matters as governance and accountability. Its effectiveness has been questioned and recently the Productivity Commission recommended that, given its experience managing similar arrangements in other industries, the ACCC undertake a review of the Code, “assessing its efficacy in balancing the interests of copyright collecting societies and licensees. The review should consider whether the current voluntary code: represents best practice, contains sufficient monitoring and review mechanisms, and if the code should be mandatory for all collecting societies.” The Federal Government has recommended that a review of the Code be undertaken by the Department of the Communications and the Arts, in consultation with the ACCC.

**PENALTIES**

We have noted in Part II the significant exemption of conditions in assignments or licences of IPRs from many prohibitions in the CCA. However, conduct involving

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67 See e.g. ACCC final decision authorising members of the Australian Writers’ Guild (‘AWG’) to collectively negotiate model agreements for members of the AWG when contracting with producers of film, television and digital media: Determination, Application for revocation of A91274 and the substitution of authorisation A91573 lodged by Australian Writers’ Guild in respect of collective bargaining with producers of film, television and digital media (June 23, 2017), authorisation number A91573. See also ACCC final decision authorising members of the Australian Directors’ Guild (‘ADG’) to collectively negotiate and give effect to a model agreement to be used by ADG members when contracting with producers of television for TV series and serials: Determination, Application for authorisation lodged by Australian Directors guild Limited in respect of collective negotiation of a model agreement to be used when contracting with producers of television for television series and serials (August 13, 2015), authorisation number A91499.

68 See e.g. ACCC authorisation of Australian Performing Right Association Ltd’s (‘APRA’) standard form arrangements for the acquisition and licensing of the performing rights in its music repertoire: Determination, Application for revocation and substitution of authorisations A91187-A91194 and A91211 lodged by the Australasian Performing Right Association Ltd in respect of arrangements for the acquisition and licensing of performing rights in music (June 6, 2014), authorisation numbers A91367 – A91375

69 The major copyright collecting societies in Australia are APRA, the Australasian Mechanical Copyright Owners' Society (‘AMCOS’), the Phonographic Performance Company of Australia (‘PPCA’), the Copyright Agency Limited (‘CAL’), Viscopy, and Screenrights, with the interests of writers, screen directors represented by other collecting societies.


71 Australian Government Response to the Productivity Commission Inquiry into Intellectual Property Arrangements (August 2017), at 5 (‘Australian Government Response to PC’).
IPRs is not free from the application of anticompetitive conduct provisions and it is relevant to consider the consequences, if IPR holders are held to have engaged in anticompetitive conduct. This is most likely in relation to (1) a misuse of market power, more so once the ‘effects test’ is introduced, (2) RPM, particularly where trade-marked and branded products are concerned and (3) assignments of IPRs, which are subject to merger control. In this part we outline the penalties and other remedies which are available in respect of contraventions of the CCA, and principles relevant to the determination of penalties. Of most practical relevance in relation to IPRs are the penalties available for misuse of market power and RPM; given they are not subject to the exception in section 51(1)(3) of the CCA. To date, the highest penalty ordered for misuse of market power in breach was A$14 million,\(^{72}\) and for RPM A$3.4 million.\(^{73}\)

**Anticompetitive conduct in general**

The remedies for contravening the civil prohibitions of anti-competitive conduct include, amongst other things, penalties,\(^ {74}\) declarations,\(^ {75}\) injunctions\(^ {76}\) and damages.\(^ {77}\) The ACCC may seek pecuniary penalties of up to the greater of A$10 million, three times the benefit to the contravening party, or where that benefit cannot be determined, 10% of group turnover for each contravention by a corporation.\(^ {78}\) The ACCC may also seek penalties of up to A$500,000 per contravention for individual officers or employees concerned in the contravention.

**Criminal cartel conduct**

Contravention of the criminal offences of ‘cartel conduct’ exposes corporations to the same penalties as for other prohibited conduct in Part IV of the CCA. However, in the case of individual officers or employees involved in the conduct, the individual is exposed to up to 10 years imprisonment and fines of A$220,000.\(^ {79}\) There are a range of other orders or remedies including, among others, declarations, injunctions, damages and orders disqualifying individuals from being involved in managing companies. Other consequences can include extradition and liability under proceeds of crime legislation.

\(^ {72}\) ACCC v Cabcharge Australia Ltd [2010] FCA 1261.
\(^ {74}\) CCA, s76.
\(^ {75}\) Id. s87.
\(^ {76}\) Id. s80.
\(^ {77}\) Id. s82.
\(^ {78}\) Id. s76.
\(^ {79}\) Id. s79.
Mergers with an anticompetitive effect

An action alleging a contravention of section 50 of the CCA may be brought either by the ACCC or a private party. The ACCC may seek the following types of relief, among others: interlocutory and permanent injunctions to prevent an acquisition; orders for divestiture of shares or assets (including IPRs); and pecuniary penalties of the greater of A$10 million, three times the benefit to the contravening party or, where that benefit cannot be determined, 10% of group turnover for each contravention by a corporation, and up to A$500,000 for an individual. Other remedies such as orders for the payment of damages and declarations are available under the CCA to both the ACCC and private parties. Private plaintiffs do not have standing under the CCA to seek an injunction to prevent an acquisition from proceeding.

Factors considered by the court in determining penalty

Section 76(1) of the CCA identifies matters to which the Court must have regard when determining an appropriate level of penalty. These include: the nature and extent of the contravening conduct; any loss or damage suffered as a consequence; the circumstances in which the contravening conduct took place; and whether the contravener has previously been found by the Court to have engaged in similar conduct.

In addition, the Court will have regard to a number of additional non-exhaustive factors: the size of the contravening company; the degree of power of the company, evidenced by market share and ease of entry into the market; the deliberateness of the contravention and the period over which it extended; whether the contravention arose out of the conduct of senior management or at a lower level; whether the company has a corporate culture conducive to compliance with the CCA (educational programs, disciplinary or other corrective measures in response to a contravention); and whether the company has shown disposition to cooperate with the ACCC in relation to the contravention.80

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In fixing a penalty, the Court takes into account the following sentencing principles that largely derive from criminal law jurisprudence: general and specific deterrence; the ‘totality’ and ‘parity’ principles; and capacity to pay.81

Other than criminal cartel conduct, where conduct contravenes two or more provisions of the CCA, a person is not liable for more than one pecuniary penalty in respect of the same conduct.82 Penalty principles are only a framework for the determination of penalties and their application to any particular case is not an exact science.83 However, it seems that in Australia there is a trend towards increased penalties being imposed by courts, and a recognition by the courts that ‘penalties must be such that they will not be simply viewed as an acceptable cost of doing business.’84

**PRIVATE ENFORCEMENT**

The CCA provides that a person who suffers loss or damage by conduct of another which contravenes Part IV of the CCA has a right of action to recover the amount of that loss.85 There is no treble damages award under the CCA. An action must be brought by the person who suffered loss or damage within six years from the date the cause of action arose.86 While the interpretation of section 82 of the CCA is a matter of statutory interpretation, it wraps up common law concepts of ‘causation’, ‘remoteness’ and ‘measure of damages’.87 In addition, a couple of propositions have been established by case law. Firstly, the language of the provision requires there to be a causal connection between the injury sustained and the contravention.88 Secondly, the court must do its best to quantify loss even if a degree of speculation

82 CCA, s76(3).
84 ACCC v Australia and New Zealand Banking Group Limited [2016] FCA 1516.
85 CCA, s82(1).
86 Id. s82(2). See also I & L Securities Pty Limited v HTW Valuers (Brisbane) Pty Limited [2002] HCA 41; (2002) 210 CLR 109 at [42]- [45]
88 Marks v GIO Australia Holdings Limited [1998] HCA 69; (1998) 196 CLR 494 at [95].
is involved.\textsuperscript{89} Thirdly, the loss or damage includes both financial loss as well consequential loss which results directly from the conduct.\textsuperscript{90}

Actions for contraventions of the CCA will often be brought by the ACCC. To facilitate private actions, the CCA allows a ‘finding of any fact by a court’ in a proceeding in which that person or corporation has been found to have contravened a provision of Part IV of the CCA, to be \textit{prima facie} evidence of that fact in another proceeding.\textsuperscript{91}

There are different scenarios in which an action for a contravention of Part IV of the CCA might succeed. One is where facts have been proved and the court upholds the applicant’s claims which were contested by the respondent. The other is where a respondent admits matters of fact which establish a contravention and agrees with the applicant — typically the ACCC — that remedies are appropriate to resolve the matter — with the court ordering remedies.

There has been a degree of uncertainty as to whether section 83 of the CCA applies to admissions of facts as well as to findings of fact. Legislative reform is currently before Parliament which clarifies that both are available in private actions against that person under the CCA.\textsuperscript{92} Some stakeholders have expressed the concern that this will discourage parties from cooperating with the ACCC.\textsuperscript{93}

\section*{CURRENT ISSUES AND DEVELOPMENTS}

\textbf{Reviews: From the Stonier Committee to the Productivity Commission}

The balance between IP and competition laws has been under review in Australia since the mid-1980s. In 1984 the Industrial Property Advisory Committee (‘IPAC’) (‘Stonier Committee’) examined the balance between patents and innovation, noting with reference to patents that: ‘the benefits gained from innovation fostered by the existence of the patent system must be balanced against the cost to society caused by the restrictions which patents place upon the use of the inventions to which they relate . . . that is to say, a patent confers a degree of monopoly power which has inherent anti-competitive effects.’\textsuperscript{94} The Stonier Committee

\begin{itemize}
\item \textsuperscript{89} Enzed Holdings Ltd v Wynthea Pty Ltd [1984] FCA 373; (1984) 57 ALR 167 at 183.
\item \textsuperscript{90} Wardley Australia Limited v Western Australia [1992] HCA 55; (1992) 175 CLR 514.
\item \textsuperscript{91} CCA, s83.
\item \textsuperscript{92} Competition Policy Review Bill, Schedule 10.
\item \textsuperscript{93} Harper Report, at 72.
\item \textsuperscript{94} Industrial Property Advisory Committee, Patents, Innovation and Competition Committee, 29 August 1984, at 2.
\end{itemize}
recommended that Australia continue to operate a patent system and that particular arrangements in relation to patent licences and assignments be vetted under an authorisation process.\textsuperscript{95} A number of changes were implemented, including permitting authorisation of RPM where it offers net public benefits.\textsuperscript{96}

Following IPAC, the Independent Committee of Inquiry (‘Hilmer Review’) recommended the implementation of a national competition policy in 1993. They noted the difficulties of finding a balance between IPRs and the promotion of competition as: ‘licensing intellectual property benefits the competitive process by encouraging rapid commercial application of innovations, helping competitors to capture their rewards, and increases the incentive to innovate. At the same time, licensing agreements can be used to cartelise an industry or to increase the market power of a single licensor.’\textsuperscript{97} On this issue, IPAC recommended the removal of the section 51(3) exemption and the introduction of an authorisation process.\textsuperscript{98} IPAC also concluded that ‘an examination should assess whether the policy reflected in the exemption is appropriate and, if so, whether it is expressed with sufficient precision and consistency regarding the range of IPRs affected or potentially affected.’\textsuperscript{99}

By contrast, the National Competition Council (‘NCC’) in 1999 concluded that IP and competition laws are compatible and consistent and ‘share the same overall objective of enhancing community welfare.’\textsuperscript{100} And only a few years later in 2001, the Intellectual Property and Competition Review Committee (‘IPCRC’), in the \textit{Review of Intellectual Property Legislation under the Competition Principles Agreement} (‘Ergas Report’), recognised that the IP system seeks to promote investment in, and access to the results of, creative effort while balancing the interests of owners of IP with the interests of users. In contrast, competition laws seek to promote efficiency by ensuring that legislative restrictions on competition are only maintained where the benefits clearly outweigh any costs they may impose. The IPCRC recommended that IP licensing be subject to Part IV, and that section 51(3) be amended to ensure that a contravention of Part IV ‘shall not be taken to have been committed by reason of the imposing of conditions in a licence, or the inclusion of conditions in a contract arrangement or understanding, that relate to the subject matter of the intellectual property statute, so long as those

\begin{itemize}
  \item \textsuperscript{95} Id.
  \item \textsuperscript{96} Independent Committee of Inquiry, National Competition Policy, 25 August 1993.
  \item \textsuperscript{97} Id. at 150.
  \item \textsuperscript{98} Id. 151.
  \item \textsuperscript{99} Id.
  \item \textsuperscript{100} NCC, Review of Sections 51(2) and 51(3) of the Trade Practices Act, Final Report (March, 1999).
\end{itemize}
conditions do not result, or are not likely to result in a substantial lessening of competition.”101 Following this, between 2011 and 2015, the Advisory Council on Intellectual Property ("ACIP") reviewed various aspects of Australia’s IP laws.102 Notably, in 2013 the Australian Law Reform Commission ("ALRC") review of copyright law in the digital era concluded that: ‘Copyright law and competition law are largely complementary in that both seek to promote innovation, higher living standards, and expand the choices and benefits to society.’103

The Harper Competition Policy Review in 2015 was the next major review, and the recommendations made in the Harper Report include a 12-month review of Australia’s IP regime, and the repeal of section 51(3) so that IPRs are subject to the CCA in the same manner as other property and rights.104 Consequently, the Australian Government asked the Productivity Commission to undertake a 12-month public inquiry into Australia’s IP system, and an Issues Paper was released in October 2015.105 As noted in the Issues Paper, current Australian IP laws are consistent with bilateral and regional trade agreements, and treaties under the auspices of the World Trade Organisation ("WTO"), the World Intellectual Property Organization ("WIPO") and the World Health Organization ("WHO") to which Australia has acceded, however, the global economy and technology are changing, and there have been amendments to the scope and duration of IP protection that have shifted the balance between the rights of owners and users of IPRs.106 Importantly, the Issues Paper highlights that IPRs are intended to promote innovation and creativity, by granting exclusive rights that limit the extent to which competitors can ‘free ride’.107 Despite this, there is also a concern that:

104 Harper Report, Recommendations 6 and 7; see also p108.
106 Id. at III.
107 Id. at 4.
'Rights allow parties to exercise market power or engage in other anticompetitive behaviour... such as allowing rights holders to extract excessive licensing royalties... When this occurs, consumers bear the burden — through higher process, less choice and lower output... welfare losses from higher prices and restricted availability are not always offset by increases in Australian producer profits.'

Consistent with the IP-related recommendations made in the Harper Report, the 2016 Productivity Commission Draft Report concluded that exclusivity of ideas can have an effect on competition. The Productivity Commission also recommended the repeal of section 51, and ACCC guidance on the application of the CCA to IP. These recommendations are carried through into the final Productivity Commission Inquiry Report. Noting that no less than seven reviews have recommended repealing section 51(3), the Productivity Commission concluded that the 'only remaining obstacle to doing so will be removed when recommendations... to limit the scope of 'per se' prohibitions on anticompetitive conduct, are given effect.'

Overall, the final recommendations include: the development of an IP policy framework; the introduction of an objects clause to the PA; repealing section 51(3) of the CCA; the introduction of ACCC guidance on the interaction between IP and competition laws; reforming the PA to raise the bar of patentability to the level of other jurisdictions such as the United Kingdom; the ACCC to commence monitoring 'pay-for-delay' settlement agreements; extension of term arrangements for pharmaceutical patents be reduced; the fair dealing exceptions to copyright infringement in the CA to be replaced with fair use exceptions; parallel import restrictions on copyright in books to end; parallel import restrictions on trademarked goods to be clarified; and the introduction of a specialist IP list in the

108 Id. at 5-6.
110 Id. at 387.
112 Id. at 23.
113 'Pay-for-delay' settlements refers to patent holders paying generic manufacturers in the context of settlement of patent infringement actions to keep a generic product off-market. The consequence may be delayed price reductions otherwise associated with competitive entry. Such agreements risk contravening section 45 of the CCA as contracts with the purpose of substantially lessening competition or cartel conduct (for example, market sharing) under Part IV, Division 1 of the CCA. In some instances, the exemption under section 51(3) of the CCA might apply. The Productivity Commission stated that it is not aware of any established pay-for-delay cases in Australia. However, given the ACCC's powers of compulsory production require it to have 'reason to believe' that a contravention has occurred, the Productivity Commission identified an 'evidentiary gap that monitoring is intended to fill'; Id, 327 - 328.
Federal Circuit Court. As noted above in Part II of this chapter, the Harper Report recommendations have resulted in the introduction of legislative reform (some of which are still before Parliament and some yet to take effect). On August 25, 2017, the Australian Government responded to the Productivity Commission Final Report, supporting in principle the Harper Report recommendations, and noting that ‘there is evidence of anti-competitive conduct associated with IP licensing arrangements’ such that this conduct should be ‘appropriately regulated’.

**Misuse of IP and Market Power**

As referred to above there are legislative reforms underway to introduce an effects test into the prohibition on misuse of market power. At present IPR holders can have a degree of comfort that, if they engage in a particular type of conduct before acquiring market power and, all other things being equal, continue to engage in that conduct when they have a substantial degree of market power, their conduct will not constitute ‘taking advantage’ of market power in contravention of section 46 of the CCA. For example, in *Melway Publishing Pty Ltd v Robert Hicks Pty Ltd (t/as Auto Fashions Australia)* (2001) 178 ALR 253 a publisher of a Melbourne street directory, Melway, refused to supply Robert Hicks Pty Ltd with that street directory at a wholesale level. Robert Hicks had previously been one of Melway’s wholesale distributors appointed to a particular market segment for distribution. After terminating Robert Hicks’ role as distributor, Robert Hicks sought wholesale supply of the street directory to supply at retail. A majority of the High Court held that ‘[t]he creation and maintenance of the appellant’s distribution system, at a time when it did not have a substantial degree of market power, shows that its maintenance, when the appellant had market power, was not necessarily an exercise of that power.’ This means that, so long as the effects test is not yet law, a misuse of market power is prohibited, only if a person or corporation ‘takes advantage’ of that market power for a proscribed purpose.

**Licensing**

A refusal to license or limit the scope of a licence of IPRs, is not of itself prohibited under the CCA, although it may amount to a misuse of market power. If it is an agreement between competitors not to license IPRs to third parties, it may also constitute an exclusionary provision prohibited under section 45 of the CCA, and exclusive dealing likely to have a substantial effect on competition, although both of these may be protected by section 51(3). As illustrated in Part II of this chapter, in

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115 Australian Government Response to the PC.
116 *Melway Publishing Pty Ltd v Robert Hicks Pty Ltd (t/as Auto Fashion Australia)* (2001) 178 ALR 253 at [68].
Transfield v. Arlo, Justice Mason stated that section 51(3) will not apply where a licence term seeks to obtain an advantage collateral to the subject matter of the invention. Generally Australian courts have opposed attempts to link licensing restrictions with anti-competitive conduct.117 In Broderbund v Computermate the copyright ownership of Broderbund was held not to be a barrier to entry. However, as discussed in NT Power v PWA the High Court of Australia held that a refusal to license to deter competition in another market may contravene the CCA. In this case the Power and Water Authority argued that even if it possessed market power, it was merely exercising its rights as owner of the power grid. This argument is analogous to the reliance of IP owners on the exercise or licensing of exclusive rights. The High Court of Australia noted that IPRs can be a source of market power. However, there have been no refusal to license cases in the High Court of Australia further considering the issue, and the issue is still unsettled in Australia.118

Tying and bundling arrangements
If a patentee ties an offer to supply a patented product to the acquisition of other, non-patented products, or bundles such products, that arrangement will not be exempt from the operation of Part IV of the CCA. That might occur if a patentee requires a licensee to purchase particular products for use with the patented product, or in the patented process, or supplies such products together as a bundle and not separately. Substitutable products produced by third-parties may be available in respect of the non-patented product.

The exemption in section 51(3)(a) of the CCA only applies in respect of patents, to the extent a condition imposed in a licence or an assignment relates to the invention or articles made by use of that invention.119 It is unlikely that in this situation tying can properly be said to ‘relate to’ the invention. Such conduct risks contravening the misuse of market power and exclusive dealing provisions of the CCA. If quality is the patentee’s concern, the licence can stipulate quality conditions.

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118 Rhonda L Smith and Arlen Duke, Agreements and competition law in Australia 22 CCLJ 54 (2014).
119 CCA, s51(3)(a)(iii). Note that section 135 of the Patents Act 1990 (Cth) also controls tying, but is subject to qualifications.
This is true also of a copyright holder (such as an Original Equipment Manufacturer) who ties the licence of copyright works to service provision, in respect of which there are competitive third-party suppliers (independent service organizations).  

**Patent portfolios**
The mere accumulation of IPRs, including patent rights, is not of itself illegal. However, it may create market power and risk having anticompetitive effects. For example, through patent portfolios a patent holder may be able to charge excessive prices, raise barriers to entry in downstream markets, or seek to avoid competition, through restricting access to the patented invention and bringing patent infringement litigation. The potential application of section 46 in these circumstances will be heightened once the ‘effects test’ comes into effect. If a patent holder refuses to exploit a patent, it can lead to a person applying to the Federal Court to exercise its discretion to award a compulsory license to work the patented invention.  

To be able to bring such an application, the patent holder must, among other things, not have authorized the applicant to work the invention on reasonable terms and conditions, or be contravening section 46 of the CCA.  

**Parallel Importing**
Both the Harper Report and the PC Report have recommended that the remaining restrictions on parallel imports should be removed. The Harper Report recommended that:

- restrictions on parallel imports should be removed, unless it can be shown that the restrictions to the community as a whole outweigh the costs and the objectives of the restrictions can only be achieved by restricting competition;

- restrictions on the parallel importation of books and second-hand cars should be removed; and

- the remaining provisions of the CA that restrict parallel imports, and the defence under the TMA, should be reviewed by the Productivity Commission.

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121 Chapter 12, PA.
Presently Australian booksellers must purchase stock from an Australian publisher, irrespective of price. They are prevented from purchasing books from lower-priced overseas suppliers. However, consumers are permitted to purchase books from overseas via online retailers. The result is that Australian book sellers are at a competitive disadvantage.

The Government supported the Harper Report’s recommended removal of the import restrictions on books, and stated that it would progress that recommendation following the Productivity Commission inquiry. The Government did not accept that parallel import restrictions for second-hand cars should be removed. It referred for consideration to the Productivity Commission the Harper Report’s finding that the remaining provisions of the CA and the TMA which restrict or provide a defence to parallel imports.

In its report, the PC identified that ‘parallel import restrictions (‘PIRs’) on books are the physical equivalent of geoblocking’ and ‘timely and cost effective access to copyright content is the best way to reduce infringement. The Australian government should make it easier for users to access legitimate content by:... repealing parallel import restrictions on books. New analysis reveals that Australian readers still pay more than those in the UK for a significant share of books.’ The PC recommended these provisions be repealed by no later than the end of 2017.

The Government has announced that it supports in principle the PC’s recommendation to repeal parallel import restrictions for books to take effect no later than the end of 2017 and will consult with the book industry to develop a reform process in the public interest. This was perhaps in recognition of the fact that publishers were vocal against a repeal of the restrictions.

The PC also reviewed the remaining provisions of the CA that restrict parallel imports, and the defence under the TMA. The PC recommended that the Australian Government should ‘ensure that parallel imports of marked goods do not infringe an Australian registered trade mark when the marked good has been brought to market elsewhere by the owner of the mark or its licensee.’

In its response, the Government stated that it accepts: ‘section 123 of the TMA is not effectively implementing the policy intention of allowing for the parallel

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124 PC Inquiry Report, at 11.
125 Id. at 2.
126 Id. Recommendation 12.1(c)
importation of legitimate goods and has led to some uncertainty and confusion. The Government will seek amendments to the TMA to give effect to this recommendation, which will include further public consultation on an exposure draft of proposed legislation. It referred to various recent instances in which products manufactured under licence from the trade mark owner overseas were ultimately sold in Australian retail outlets, which had led to confusion and / or claims being brought by the licensed trade mark holder in Australia.

**Entertainment Industry, Copyright and Competition**

Part V, Division 5 of the CA contains indictable, summary and strict liability offences for circumventing access control technological protection measures ('TPM'), manufacturing and providing circumvention devices and removing or altering electronic rights management information. Since 2006, TPMs have been defined in section 10 of the CA as devices or technology that are used in connection with copyright in a work or other subject matter ('Access TPM'), or prevent, inhibit or restrict the doing of an act comprised in a copyright of the work or other subject matter. The legal issues related to TPMs (otherwise known as Digital Rights Management ('DRM')) were explored in the case of *Stevens v Kabushiki Kaisha Sony Computer Entertainment* (2005) 224 CLR 193. Stevens, the appellant, was selling and installing modchips that circumvented the Sony Playstation DRM system. Sony argued that Stevens knowingly sold or distributed a circumvention device for the purpose of circumventing a TPM. The High Court upheld the decision of Justice Sackville in the Federal Court that the copy protection feature in the Sony Playstation was not a TPM. Relevantly, this also excludes devices and technology that control a geographic market for the access and distribution of entertainment products under territorial licensing arrangements.

The Productivity Commission has recommended that the Australian Government clarify the law on geoblocking, so that it is not an infringement to circumvent geoblocking technology. In addition, exemptions to copyright infringement also apply to DRMs and ERMI, including the inoperability of computer programs, use in educational institutions, law enforcement, and national security. As yet, there is no Australian case law on whether agreements, understandings or arrangements to impose or enforce TPMs and DRMs that do not fall within the definition of TPMs in the CA, or an exception under the Act, could contravene the CCA.

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127 Australian Government Response to PC, at 14.
129 PC Inquiry Report, at Recommendation 5.2
RPM and the Authorisation Mechanism

It is now generally recognised that there may be benefits to RPM for IP products. RPM is prohibited by section 48 of the CCA in all circumstances, including in licences or assignments of IPRs. In relation to IP, this effectively means that a supplier of IP products cannot specify the minimum price at which a reseller must advertise or resell the products. The per se RPM prohibition in Australia does not prevent a supplier from dictating the maximum resale price, and a supplier may provide recommended retail prices (‘RRP’), but this cannot be combined an inducement to market or sell at the RRP.

In the case of Trade Practices Commission v Sony (Australia) Pty Ltd (1990) ATPR 41 Justice Pincus noted that Sony had sought to ensure that retailers complied with recommended prices by threatening to cut off supply if they did not. Accordingly, the circumstances surrounding the provision of the RRP combined with a RRP strategy may constitute RPM.

In 1995 an RPM authorisation mechanism, to be determined on public benefit grounds, was included in the CCA. Under this mechanism a supplier is able to make an application to the ACCC for a RPM authorisation, for the duration of a set authorisation period determined by the ACCC. In 2014 an authorisation was granted to Tooltechnic for tools sold with a high level of retail service. Tooltechnic’s application focussed on the welfare enhancing potential of RPM, and the potential to prevent free-riders who sell the product at a cheaper price without the same high level of service.

In the case of ACCC v Jurlique International Pty Ltd (2007) ATPR 42-146, Justice Spender considered the welfare enhancing potential of RPM for prestige products (in this case Jurlique beauty products), but concluded that the court was bound by the per se status of RMP under Australian law, and described questions about the appropriateness of the per se ban on RPM as ‘somewhat of an indulgence’ when the Court is ‘bound by the provisions of the Act.’

The Harper Report recommended a more balanced approach to RPM. The legislative reform discussed above at Part II of this chapter, if passed by Parliament, will

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130 CCA, ss 96(1)–96(3).
131 See also TPC v Bata Shoe Co of Australia Pty Ltd (1980) ATPR 40–161; and Mikasa (NSW) Pty Ltd v Festival Stores (1972) 127 CLR 617 per Stephen J; and Re Trade Practices Commission v Mobil Oil Australia Ltd (1984) 55 ALR 527.
133 ACCC v Jurlique International Pty Ltd (2007) ATPR 42-146, [75].
introduce changes to the CCA to ensure it is possible to notify proposed RPM conduct to the ACCC, and while that notification is in force, the notified RPM conduct will not contravene section 48 of the CCA. This notification may be revoked by the ACCC, if it is satisfied that the public benefits of the notified conduct will not outweigh the detriments.

Any views expressed in this chapter are those of the authors and not of MinterEllison. The authors would like to thank Paul Schoff and John Fairbairn, Partners at MinterEllison for their assistance with preparing this chapter.
Brazil

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OVERVIEW

After a lengthy discussion in the Brazilian Congress, on November 30, 2011 Law no. 12,529/2011 (the “Antitrust Act”) was enacted. This Act introduced several changes to competition practices and antitrust violation in Brazil.

Guided by the Constitutional principles of free competition, freedom of initiative, social function of property, consumer protection and prevention of the abuse of economic power, the new Antitrust Act brought as its most relevant modifications the reorganization of the Brazilian System for Economic Defense and the creation of preventive measures, administrative procedures and sanctions for violations against the economic order:

Article 1. This law structures the Brazilian System for Economic Defense (“BSED”) and sets forth preventive measures and sanctions for violations against the economic order, guided by the Constitutional principles of free competition, freedom of initiative, social function of property, consumer protection and prevention to the abuse of economic power.

Before the enactment of the Antitrust Act and the establishment of the Brazilian System of Economic Defense, Brazil used to have three different administrative bodies in charge of economic defense:

- **CADE (“Administrative Council for Economic Defense”),** responsible for decisions relating to competition issues;

- **SDE (“Secretariat of Economic Law, under the Ministry of Justice”),** which provided CADE with its legal opinions on applications for approval of mergers and acquisitions, and investigated anti-competitive conduct; and

- **SEAE (“Secretariat of Economic Monitoring, under the Ministry of Finance”),** that promoted competition within the Government and society, issuing non-binding opinions on mergers and investigations.

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Through the Antitrust Act, CADE embodied almost all of the powers of these three administrative authorities.

The new law created three different entities within CADE: The Administrative Court for Economic Defense ("TADE"), the last instance on antitrust matters, being responsible for complex analysis, decision-making processes and normative enactments; the General Superintendence ("SG"), responsible for carrying out and issuing decisions on antitrust investigations; and the Department of Economic Studies ("DEE"), which provides TADE and SG with relevant economic studies.

CADE's current internal structure enables it to promote a better environment for the defense of competition, create mechanisms to avoid concentration acts that may harm free competition, as well as restrain antitrust activities, thus promoting economic efficiency and the well-being of the Brazilian market and its customers.

**INTELLECTUAL PROPERTY AND ANTITRUST CONDUCT**

In Brazil, intellectual property rights are regulated under Law no. 9,279/1996 (the "Industrial Property Act", or the "IPA"). In Article 2, the Industrial Property Act emphasizes that the protection of industrial property rights shall be made through the repression of unfair competition. Accordingly, the IPA states that the abusive
exercise of industrial property rights can result in criminal actions and compulsory licensing of rights, among other penalties.

Furthermore, the Antitrust Act prohibits the use of industrial or intellectual property rights as a means to engage in anticompetitive conduct: the abusive exercise or exploitation of intellectual, industrial property, technology or trademark rights is considered an infraction against the economic order.

The Antitrust Act and the Industrial Property Act are therefore complementary, since both aim at creating a favorable environment for innovation and to enable the development of new and better technologies, products and services in the country. Nonetheless, disputes that correlate to both are relatively recent, and Brazil still lacks of a consistent and diverse set of case law in the matter.

Notwithstanding the foregoing, below are some of the IP related cases that have been examined by CADE to date.

**CASE LAW**

**ANFAPE v. Volkswagen, Ford and Fiat**

In 2007, the National Association of Auto Parts Manufacturers (Associação Nacional dos Fabricantes de Autopeças, “ANFAPE”) brought to the Brazilian System for Economic Defense an action against Volkswagen do Brasil Indústria de Veículos Automotores Ltda., Fiat Automóveis S.A. and Ford Motor Company Brasil Ltda. claiming that the aforementioned companies abused their market power by enforcing their industrial designs of external auto parts against independent auto part manufacturers. ANFAPE alleged that the industrial design rights could only be exercised in the foremarket, and if the protection were to be extended to the aftermarket, then there would be an anticompetitive abuse of industrial property rights.

The SDE and the Specialized Federal Prosecution’s opinions were favorable to ANFAPE, under the assumption that there was evidence that the enforcement of industrial design rights by car manufacturers could result in damaging consequences to competition, impairing the aftermarket players’ ability to commercialize and manufacture auto parts. It is expected that the Administrative Court for Economic Defense shall issue a final decision in the following months.
Public Prosecution of the State of Minas Gerais v. Alcoa

The Public Prosecution of the State of Minas Gerais accused Alcoa Alumínio S.A. of filing fraudulent utility models and patent applications at the Brazilian Patent and Trademark Office ("INPI") and seeking judicial injunctions against competitors, as well as notifying customers suggesting that it owned industrial property rights that did not belong to the company, thereby engaging in sham litigation practices.

The Administrative Court rejected the accusation of sham litigation, declaring that Alcoa did not engage in any illegal practices. Moreover, the Administrative Court understood that the notifications (cease and desist letters) sent to customers were simply made to warn consumers that the products they acquired were not counterfeit, dismissing all claims.

Generic Drugs Industry v. Pharmaceutical Industries

In the last years, generic drug companies filed several complaints against pharmaceutical industries in Brazil. In those cases, CADE’s main concern is that pharmaceutical companies could take measures to prevent generic manufacturer’s activities, such as file a considerable number of actions, adopt substantial measures against generic manufacturers or over a specific drug in order to safeguard exclusivity rights and prevent a generic medicine from being manufactured, commercialized or launched in the Brazilian market.

The precedent that triggered CADE’s concerns was created in the case between Eli Lily and Sandoz; Eli Lilly obtained Exclusive Marketing Rights ("EMRs") for the cancer drug GEMZAR, and asked for a State Court to order Sandoz to withdraw from the market its generic cancer drug GEMCIT. In Eli Lily’s claim, however, the company failed to explain that GEMZAR EMR’s were applied to breast cancer treatment only; whereas SANDOZ’s GEMCIT is indicated for other therapies. Consequently, the omission resulted in an undue monopoly that lasted eight (8) months.

IP AND MERGER REVIEW

There is also some uncertainty relating to the treatment of IP with respect to Brazil’s merger control regime. Article 90 of Brazil’s Antitrust Act states that “associative agreements” must be submitted to CADE for approval. The use of this term has brought uncertainty, being that the law did not define the concept of associative agreements.
Article 90. For the purposes of Article 88 of this Act, a concentration act shall be carried out when: (...)

IV – Two (2) or more companies enter into an associative agreement, consortium or joint venture.

Since international IP licenses and technology transfer agreements may sometimes contain clauses, terms or conditions that hinder, restrict or directly affect the competitive scenario in a given territory, this article has generated a debate over whether IP licenses and technology transfer agreements should be considered “associative agreements” in certain circumstances.

In order to solve this conflict, last year CADE published Resolution no. 17/2016, defining “associative agreements” as a contract that lasts two (2) or more years and which establish a joint venture (incorporated or not) in Brazil to explore an economic activity. Such agreements must establish how the signing companies will share the risks and results of the economic activity being explored, and the contracting parties must necessarily be competitors in the relevant market of the contractual subject matter.

Such definition changed the old rules of CADE with respect to the matter; Resolution no. 10/2014, now revoked, considered “associative agreements” as any contract lasting more than two (2) years in which there was horizontal or vertical cooperation or sharing of risk that brought an interdependent relationship between the contracting parties.

In practice, upon establishing that the contracting parties must be competitors in the relevant market of the contractual subject matter, the redefinition of an “associative contract” excludes the vertical cooperation previously set forth in Resolution no. 10/2014.

Consequently, distribution, supply, technology transfer and IP licensing agreements entered between non-competing parties now are not under the administrative proceedings established by articles 88 and 90 of the Antitrust Act.

Moreover, by providing that the parties must be competitors in the relevant market of the subject matter of the contract, CADE has eliminated the criteria of Resolution No. 10/2014 of minimum participation of the parties in the relevant market affected by the agreement.
CONCLUSION

The enactment of the Antitrust Act substantially changed Brazil’s legal environment as per antitrust and free competition. By restructuring the Brazilian System for Economic Defense and creating preventive measures, centralizing administrative proceedings and introducing specific sanctions for violations against the economic order, the Antitrust Act empowered the Brazilian government, enabling the creation of a more efficient administrative structure to protect Brazil’s economic environment.

Moreover, the Antitrust Act enforced CADE’s capabilities to apply fines, penalties and to work together with the private sector through its Leniency Program and settlement agreements, establishing mechanisms to promote a better competition scenario in Brazil.

The pre-merger control measures are, without any doubt, a great improvement to the system as a whole, since, under the old regimen, companies had to deal with great uncertainty for a long period of time. In more complex cases (e.g. acquisition of chocolate business of Brazilian company Garoto by Nestlé), a final decision by CADE could take a number of years to be issued.

Over the last few years, CADE has been putting a lot of effort in advocating for transparency and efficiency, detailing its guidelines and the parameters used in its judgements for antitrust conduct, as well as working with foreign governmental bodies to enforce its anti-cartel policies. Antitrust and competition policies are, however, very recent in Brazil’s legal and administrative structure, and the development of CADE and its adjacent bodies are essential to nurture the Brazilian economy.
Canada

Alysha Manji-Knight\textsuperscript{136} and Badar Yasin\textsuperscript{137}

The Canadian environment is in the midst of a period of technological disruption and the interplay between competition law and intellectual property ("IP") law continues to evolve to respond to emerging issues in this area. IP law provides incentives for innovation by granting a monopoly over the resulting product, ensuring that innovators can profit from their research and development. However, IP law is inherently anti-competitive, given that monopolists are able to exclude others from using their intellectual property. This chapter focuses on the interplay between competition law and IP law in Canada with a particular focus on the pharmaceutical industry.

Below is a brief overview of the legislative provisions and Intellectual Property Enforcement Guidelines ("IPEGs") that will be discussed throughout the chapter.

OVERVIEW OF COMPETITION ACT IN THE CONTEXT OF IP

There are five main sections of the Canadian Competition Act\textsuperscript{138} (the "Act") that are used in respect of anti-competitive activities in the IP context:

Section 32, which is included in the "special remedies" section of the Act, allows the Competition Bureau (the "Bureau") to seek remedies for anti-competitive conduct, even where the anti-competitive conduct is a "mere exercise" of an IP right. The mere exercise of an IP right means that the IP right holder is merely exercising their right to exclude others from using the IP but in doing so there is an anti-competitive effect. Section 32, or provisions similar to it, have existed since the early 1990s.

Section 45 one of the key provisions of the Act enables the Bureau to combat conspiracies between competitors. Section 45 prescribes three types of inherently anti-competitive agreements between competitors that are subject to strict per se criminal prohibition.\textsuperscript{139}

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\textsuperscript{138} Competition Act (1985, c. C-34) (Can.).
\textsuperscript{139} A "per se criminal prohibition" means that proof of an illegal agreement is sufficient for there to be a conviction.
Subsection 79(1) is used by the Bureau to address abuse of dominance by a dominant firm or group of firms. Abuse of a dominant position occurs when a dominant firm or dominant group of firms in a market engages in an anti-competitive act, with the result being that competition has been or is likely to be prevented or lessened substantially.\textsuperscript{140} When assessing whether there has been an abuse of a dominant position, the Bureau looks at (i) the market power of the firm or group of firms; (ii) whether the impugned conduct constitutes an anti-competitive act(s); and (iii) proof that the anti-competitive act(s) will have the effect of lessening or preventing competition substantially.\textsuperscript{141}

Subsection 79(5) explains that, for the purposes of the abuse of dominance provision, an act engaged in pursuant only to the exercise of a right or interest found in the Canada’s IP legislation is not an anti-competitive act.

Section 90.1 is a civil provision that addresses agreements between competitors to determine whether they are likely to substantially prevent or lessen competition. Enforcement under section 90.1 occurs where the agreement between competitors does not fall into one of the prescribed section 45-type agreements (criminal liability for anti-competitive agreements). The Commissioner will review agreements and order a remedy where the agreement has agreement has substantially lessened or prevented competition.

**Intellectual Property Enforcement Guidelines**

The Bureau, after extensive public consultation, released updated IPEGs on March 31, 2016. The IPEGs outline the Bureau’s enforcement positions regarding several issues involving the nexus between competition law and IP law.

The updated IPEGs include numerous examples of how conduct involving IP may raise an issue under the Act, and are intended to reflect amendments to the Act that came into force in 2009. The 2009 amendments to the Act relate to key IP related competition law issues, including changes to the criminal conspiracy provisions (i.e., section 45) and the introduction of a new civil competitor collaboration provision (i.e., section 90.1). Various stakeholders commented on the draft IPEGs, including Apple, the Canadian and American Bar Associations, Google, Microsoft, a former FTC Commissioner, as well as Justice Douglas Ginsburg of the Court of Appeals for the D.C. Circuit.


\textsuperscript{141} Id.
In 2017, the Competition Bureau’s IPEGs received the honor of “Most Innovative Soft Law (Intellectual Property Section)” at the Antitrust Writing Awards. This award was judged based on their practical relevance, innovation, and contribution to competition advocacy and involved a three-month award selection process involving more than 50 antitrust experts.

The Approach of the Competition Bureau
There are two broad categories of anticompetitive conduct involving IP rights to which the Bureau will apply the Act:

- conduct involving the “mere exercise” of the IP right (and nothing else); and
- conduct involving something more than the mere exercise of the IP right.

The Bureau will remedy cases involving the mere exercise of an IP right under section 32 of the Act (discussed below). Cases that involve more than the mere exercise of an IP right will use the general provisions of the Act to obtain a remedy, e.g., enforcement under the general provisions of the Act require something more than the mere exercise of an IP right.

Mere Exercise of the IP Right
The Bureau defines the mere exercise of an IP right as the exercise of the owner’s right to unilaterally exclude others from using the IP. Unilaterally exercising an IP right to exclude others does not violate the general provisions of the Act, to hold otherwise would effectively nullify a holder’s IP rights. As such it is not a violation of the Act to simply enforce one’s IP rights and prevent another from using their intellectual property. However, a unilateral exclusion attracts Bureau review where it has anti-competitive effects. This was highlighted by the Canadian Competition Tribunal (the “Tribunal”) in its decision in Canada (Director of Investigation and Research) v. Tele-Direct (Publications) Inc. Ltd., in which the Tribunal indicated that competitive harm must stem from something more than just a mere refusal to license.

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143 Id.
144 Canada (Director of Investigation and Research) v. Tele-Direct (Publications) Inc. Ltd., (1997), 73 C.P.R. (3d) 1 (Can.).
The Bureau views an IP owner’s use or non-use of the IP as being the mere exercise of an IP right. The Bureau becomes involved in “mere exercise of an IP right” where the “mere exercise” involves anticompetitive conduct. Where the mere exercise of an IP right causes concern, the Bureau is required to first apply to the Attorney General (“AG”), asking that the AG bring an application for a special remedy in Federal Court.145 Section 32 grants the Federal Court broad powers to make remedial orders when the “mere exercise” of IP rights is used to restrain trade. Generally, the Bureau will recommend to the AG that an application be made to the Federal Court under Section 32 when, in the Bureau’s view, no appropriate remedy is available under the relevant IP statute (i.e Copyright Act, Industrial Design Act, Integrated Circuit Topography Act, Patent Act, Trade-marks Act).

Section 32 has rarely been used and enforcement under section 32 requires proof that competition has been unduly restrained, prevented or lessened.146 The Bureau uses a two-step process to determine whether to seek enforcement under section 32:

The Bureau establishes that the action of the company has unduly and adversely affected competition such that, in the relevant market, the impact is larger than the subject matter of the IP or the products and services that result from the IP. This step is assessed by looking at two variables in particular, whether:

the holder of the IP is dominant in the relevant market; and

the IP is an essential input or resource for firms participating in the relevant market—meaning that a refusal to license or use the IP would prevent other parties from entering the relevant market.

The Bureau establishes that, should it invoke a special remedy against the IP right holder, it would not materially alter the incentives of the right holder or others to engage in research, development, and innovation.

If both steps are satisfied, the Bureau will conclude that there is a need for a special remedy under section 32 to help re-align incentives to invest in innovation with the public interest in maintaining a competitive market.147 Such circumstances require the Federal Court to balance the interests of the system of protection for IP

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146 Id at 17.
147 Id.
(and the incentives created by it) against the public interest in greater competition in the particular market under consideration. The special remedies provided for under section 32 include declaring void any agreement or license relating to the challenged right, ordering licensing of the IP right in issue, revoking a patent, expunging or amending a trademark, or directing that other such acts be done to prevent the challenged use.\textsuperscript{148}

The Bureau recognizes that issuing an order under section 32 could undermine innovation incentives because innovators cannot be sure that they will be able to exercise their IP rights without Bureau interference. As a result of this recognition, since 2002, only a handful of decisions have considered the application of section 32, and no cases have been successfully brought under section 32.\textsuperscript{149} Since section 32 came into force, only two cases, \textit{R v. Union Carbide of Canada Limited} (1969) and \textit{R v. Union Carbide of Canada Limited} (1971), have been brought under the provision.\textsuperscript{150} In both cases, the disputes were settled before proceeding to full hearings.\textsuperscript{151}

This approach to section 32 is consistent with subsection 79(5) of the Act. Section 79(5) states that except in the narrow set of circumstances outlined in section 32, “an act engaged in pursuant only to the exercise of any right or enjoyment of any interest derived under the Copyright Act, Industrial Design Act, Integrated Circuit Topography Act, Patent Act, Trade-marks Act or any other Act of Parliament pertaining to intellectual or industrial property is not an anti-competitive act.”\textsuperscript{152}

Like Canada, both the United States (“\textbf{US}”) and the European Union (“\textbf{EU}”) assume that the existence or mere exercise of an IP right does violate competition rules. In order to find a violation of competition law, additional factors are needed.\textsuperscript{153} (Note however, that there is no corresponding provision to section 32 in the laws of these countries.\textsuperscript{154})

\textsuperscript{148} Id. at 16.
\textsuperscript{150} IPEGs, supra note 145 at 16.
\textsuperscript{151} Id.
\textsuperscript{152} Competition Act, supra note \textbf{Error! Bookmark not defined.} at §79(5).
Section 32 as a Counterclaim
In Volkswagen Canada Inc. v. Access International Automotive Ltd., the Canadian Federal Court of Appeal held that section 32 cannot be used to form a counterclaim in an infringement action where a company has accused another party of infringing their IP.\textsuperscript{155} In order to use section 32 as a counterclaim, there would have to be a prior finding by the Federal Court of undue lessening of competition. Further, section 32 could be used as a defence to an IP infringement claim under the “Clean Hands” doctrine where the plaintiff seeks equitable relief in the form of an injunction.\textsuperscript{156} The Clean Hands doctrine is an equitable defence where the defendant is able to argue that the plaintiff is not entitled to a remedy because they have engaged in wrong-doing\textsuperscript{157} related to the subject matter of the party’s claim.

More than Mere Exercise of the IP Right
“More than a mere exercise of an IP right” occurs where IP rights form the basis of agreements or arrangements between independent entities, whether in the form of a transfer, licensing arrangement or agreement to use or enforce IP rights, or when the alleged competitive harm stems from such an agreement or arrangement and not simply from the mere exercise of the IP right.\textsuperscript{158} An illegitimate extension of an IP right may involve a patent holder asserting its patent over products that are not within the scope of its patent. In such cases, the general provisions of the Act are used to obtain a remedy. The Act’s general provisions include sections 45 (conspiracy), 47 (bid-rigging), 76 (resale price maintenance), 77 (exclusive dealing), 79 (abuse of dominance), and 90.1 (competitor collaborations).

Any arrangement that “creates, enhances, or maintains market power” may necessitate stricter scrutiny to determine if the activity involves something more than a mere exercise of an IP right.\textsuperscript{159} For example, a “more than mere exercise” of an IP right occurs where a company has acquired IP rights and then refuses to license them. Moreover, the IPEGs specifically mention that the assignment of a patent is something that is more than a mere exercise of an IP right, and would therefore potentially be subject to review under the general provisions of the Act.

\textsuperscript{156} Id at 306.
\textsuperscript{157} Usually means that the party has engaged in inequitable behavior, including fraud, deceit, unconscionability, or bad faith related to the subject matter of the party’s claim.
\textsuperscript{158} McCormack, supra note 155 at 306.
\textsuperscript{159} IPEGs, supra note 145 at 15.
Criminal Provisions
As described previously, under Canadian competition law, criminal offences include conspiracy (section 45), bid-rigging (section 47), and some forms of misleading advertising and related deceptive marketing practices. The criminal conspiracy provision is reserved for agreements between competitors to fix prices, allocate markets or restrict output and has a mens rea component. The above-mentioned provisions do not require proof of market power or anti-competitive effects. Furthermore, section 36 of the Act provides a private right of action that allows individuals that have been harmed by section 45 conduct to bring a civil action against the accused to recover their losses.

Civil Provisions
In addition to criminal offences, the Act also contains a number of provisions that deal with anti-competitive conduct civilly. These include price maintenance (section 76), civil misleading advertising (section 74.01), refusal to deal (section 75), and abuse of dominance (section 79). The provisions that primarily arise in the context of the intersection between IP and competition law are section 90.1, which addresses “Agreements or Arrangements that Prevent or Lessen Competition Substantially”, and section 79 which addresses abuse of dominance.

Abuse of dominance is regulated pursuant to section 79 of the Act. This provision enables the Bureau to examine agreements where competitors are jointly dominant. Abuse of dominance will be found where an agreement facilitates conduct that has a negative effect on a competitor that is exclusionary, predatory or disciplinary, and the conduct is likely to have the effect of substantially preventing or lessening competition in a market.

Under section 90.1, the Bureau may make an order prohibiting any person from doing anything under the settlement, or requiring any person (with the consent of that person and the Bureau) to take any other action. It is important to note that there are no mandatory penalties that the Bureau must issue if they come to a particular finding. The Bureau may, however, issue orders of prohibition which work to stop the conduct from continuing.

In the context of pharmaceuticals, brand and generic companies often reach settlements that the Bureau will then review using the Patented Medicines Notice of Compliance ("PM(NOC)"") Regulations. These settlements will be discussed in

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160 Id. at 9.
161 Id. at 16.
detail below. Settlements are reviewed by the Bureau primarily under section 90.1 or 79 of the Act.

THE PHARMACEUTICAL INDUSTRY AND GENERICS IN CANADA

Given both Canada’s universal health care system (which is primarily administered by the provinces) and aging population, provincial and federal governments are struggling to find ways to control healthcare costs. Generic drugs play a large role in Canada to foster competition and ensure health care is affordable. The significance of pharmaceuticals to Canada’s health care sector has led the Bureau to take an active interest in this sector. The following section will discuss key anti-competitive and IP law concerns in the pharmaceutical industry in Canada.

Product Switching

“Product switching” (also referred to as “product hopping”) occurs when a company’s patent is about to expire and refers to a strategy where the innovator obtains one or more additional patents for variations on the same general medicinal compound while the drug is still covered by one or more pre-existing patents. Between 2002 and 2005, 39% of all new products launched by the top 50 pharmaceutical manufacturers were reformulations of existing drugs. Proponents argue that the change is due to an increase in therapeutic benefits while others hold that the switch is based on minor reformulations that allow the branded firm to extend its exclusivity over the medicinal compound.

There are two different categories of product switching, “hard” and “soft.” “Hard switching” describes a situation where a brand name manufacturer seeks to switch demand from a drug (Product A), which has a patent that is close to expiring to another drug (Product B), which will have a longer term of patent protection and alleviates the same condition. This switch occurs when the brand company stops the supply of Product A to distributors. Since Product B treats the same condition and the innovator still retains rights over the medicinal compound, the prescriptions that were previously written by doctors for Product A are now written for Product B.

165 IPEGs, supra note 145 at 37.
A “soft switch”, on the other hand, means that Product A remains on the market along with Product B even after the Product A patent expires. However, the company would cease promoting Product A to physicians and aggressively attempt to persuade patients and physicians to switch to Product B. Strategies used by companies to steer physicians and pharmacies towards new drug variations include indicating that the older drug is back-ordered or giving discounts on purchases of the new drug.

The Bureau’s Approach to Product Switching

A hard switch could raise competition concerns under the Act’s abuse of dominance provisions. If the Bureau determined that the purpose of Brand Company’s conduct (e.g., of replacing the sales of the older product (Product A) with those of the newer product (Product B)) is to impede the entry by the generic company, the Bureau would not view the withdrawal of Product A as a mere exercise of its patent right and would then conduct an investigation under subsection 79(5).

The analysis undertaken by the Bureau will then follow three steps:

The Bureau will first seek to define the relevant market that encompasses Product A. Further, the Bureau would assess whether the branded company is in fact dominant in a relevant market (or whether there are sufficient alternatives/substitutes);

The Bureau will then examine the purpose behind the brand company’s conduct. It would look to see whether the product withdrawal is accompanied by any valid business justification or whether its conduct was simply to delay the entry of the generic brand into the relevant market; and

If the Bureau determined that the brand company was dominant in the relevant market and it had engaged in a practice that was intended to be anti-competitive, the Bureau will then assess whether the branded company’s conduct has caused a substantial lessening or prevention of competition.

When considering the substantial lessening or prevention of competition, the Bureau states that it will examine the difference between the price of Product B and the price at which the generic of Product A would have been expected to have been

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166 Id. at 39
167 Addy, supra note Error! Bookmark not defined. at 69.
168 IPEGs, supra note 145 at 38.
sold if it had not been delayed or foreclosed, and whether Product A’s withdrawal would limit physician/patent choice for prescription drugs.\textsuperscript{169}

The Bureau’s treatment of hard switching is similar to the treatment of hard switching in the US. A recent decision of the United States Court of Appeals for the Second Circuit, \textit{State of New York v. Actavis}, addressed the American court systems stance on hard switches. Actavis Inc. announced that it would discontinue Product A, urged health care providers to discuss switching to Product B, and requested that the federal government remove Product A from the Medicare formulary list. The Court affirmed a preliminary injunction and held that this type of hard switch may violate the \textit{Sherman Act} because it forces patients to switch to the new product and impedes generic competition without a legitimate business justification.

A soft switch in Canada is unlikely to raise an issue under the Act and require Bureau assessment generally\textsuperscript{170} Where a soft switch may require Bureau intervention is where a brand company tries to anti-competitively undermine the prescription base of Product A, for example, by making false or misleading statements about Product A.\textsuperscript{171}

Canada and the United States take a similar stance on soft switching. The Second Circuit Court in \textit{Actavis} implied that soft switches are more likely to withstand scrutiny under anti-trust laws than hard switches.\textsuperscript{172} The Court stated that, “as long as Defendants sought to persuade patients and their doctors to switch from [Product A] to [Product B] while both were on the market and with generic IR drugs on the horizon, patients and doctors could evaluate the products and their generics on the merits in furtherance of competitive objectives.”\textsuperscript{173}

In 2012, the Bureau initiated an inquiry into whether Alcon Canada Inc., a Canadian pharmaceutical company, had engaged in anti-competitive conduct contrary to the abuse of dominance provision of the Act by “intentionally disrupted the supply of its prescription ocular anti-allergy drug, Patanol, as part of a strategy to switch patients to a second generation formulation of the drug and hinder meaningful

\textsuperscript{169} Id. at 39.
\textsuperscript{170} Id.
\textsuperscript{171} Id.
\textsuperscript{173} Id.
competition from generic drug companies. In the Bureau’s view, “product life-cycle management strategies in the pharmaceutical sector are not inherently anti-competitive.” In 2014, the inquiry was discontinued after Patanol was restored to market and the competitive dynamic in the relevant industry returned.

**Conduct Involving Patent Assertion Entities (“PAE”)**

The IPEGs also address the Bureau’s concern with PAEs, which are also known as “patent trolls”. A PAE is a business that acquires legal rights to patents for the purpose of asserting them against potential infringers who are using the patented technologies. Competitive concerns arise because PAEs use aggressive tactics in order to extract payment or licensing royalties from companies they allege are infringing their patents.

Until recently, the pharmaceutical space was largely isolated from the problems posed by PAEs. Pharmaceutical products tend to have fewer IP components and patents tend to be more specific, thereby making these patents unattractive to PAEs. However, pharmaceutical companies are increasingly looking to monetize their non-core patents by selling them to PAEs, resulting in the proliferation of PAEs in the pharmaceutical sphere.

The biggest concern that the Bureau has with PAEs is that they may use false and misleading claims in order to extract licence fees from smaller companies, who would be more willing to pay to avoid litigation. In order to determine whether the representations made by a PAE are false or misleading, the Bureau considers both the general impression created by the notice given to the enterprise as well as its literal meaning. If the examination reveals that the claims are not true and if the Bureau concludes that the representations would affect the likelihood of the recipients taking action in response to the claim, then the representations would be considered to be material. In such a case, the Bureau would have grounds to file an application with the Competition Tribunal alleging conduct contrary to section 70.01(1)(a) of the Act.

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175 Id.
176 Id. at 39.
178 Alcon, supra note 174 at 40.
If the misrepresentation is made knowingly or recklessly, then it may contravene the criminal provisions in section 52 of the Act. However, in most instances the civil track will be pursued, unless certain criteria are satisfied. These criteria include: 179

There must be clear and compelling evidence to show that the accused knowingly or recklessly made a false or misleading representation to the public; and

If there is such clear and compelling evidence, the Bureau must also be satisfied that criminal prosecution would be in the public interest.

**Refusal to License Intellectual Property**

Refusal to license an essential patent is a key strategy used by pharmaceutical companies to prevent the entry of a generic competitor. 180 The Tribunal has held that a refusal by a company to license IP does not amount to something more than the mere existence of a right, and therefore does not attract the section 75 “refusal to deal” provision of the Act. 181 However, refusing to license IP can be “something more” where a company acquires a large amount of IP in a single relevant market and then refuses to license the intellectual property, causing a substantial lessening or prevention of competition in a particular market. This type of conduct could then be captured by sections 45 or 90.1 of the Act. 182

**Collaborative Standard Setting and Standard Essential Patents**

The Bureau recognizes two different types of industry standards: (i) interoperability standards, which ensure that products made by different manufacturers can interoperate; and (ii) performance standards, which set minimal requirements for the performance and safety of products in the industry. 183 The development of standards occurs through Standards Development Organizations ("SDOs").

“Patent hold-ups” are the Bureau’s key competitive concern for SDOs. A patent hold-up occurs where a standard is chosen in a relevant market, irreversible investments may lock in firms to a particular standard, and then the IP holder reveals its patent to the SDO and later asserts it patent. This process is also referred to as a “patent ambush”. A patent hold-up also occurs when a IP holder in

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179 Id. at 40.
181 Canada (Director of Investigation & Research) v Warner Music Canada Ltd. (CT-97/3) (Can.).
182 JPEGs, supra 145 at 36.
183 Id. at 52.
an SDO refuses to license the IP or requires the payment of discriminatory and unreasonable royalties or licensing fees.\footnote{184}{Id. at 54.}

Patent hold-ups in the pharmaceutical context are particularly costly. It is nearly impossible to invent around the use of a particular compound and patent covering the active pharmaceutical ingredient of a drug. Inventing around and changing the active ingredient covered by the patent changes the drug itself and requires regulatory approval, including new clinical trials.\footnote{185}{Feldman, supra note 177 at 21.}

In a case of patent hold-up, the Bureau will conduct a review of the SDO participants. If the Bureau determines that the arrangement is for the purpose of setting an industry standard and there is no evidence that the agreement is to facilitate an agreement prohibited by section 45(1), the Bureau will review the arrangement under section 90.1.\footnote{186}{IPEGs, supra note 145 at 55.}

**Settlements in Pharmaceutical Context: Civil or Criminal Liability**

The Bureau recognizes that in many cases parties wish to settle PM(NOC) issues privately rather than litigate the matter and risk an adverse judgement from a court. Generally, patent litigation settlement agreements that involve a payment from the brand company to the generic company will be reviewed under section 79 or 90.1 of the Act, unless the intent of the parties in entering the agreement is to fix prices, allocate markets or restrict output. In such cases, agreements may be reviewed under section 45 of the Act.

When reviewing a settlement under section 90.1 of the Act, the Bureau will consider possible efficiencies that could be realized through the settlement, looking to factors such as the credibility of the claims, the link to the settlement, the likelihood of the benefits being achieved, and whether the benefits would or could not be obtained in the absence of the settlement. The Bureau takes the following approach to settlements in the context of pharmaceuticals:\footnote{187}{Id. at 42.}

An entry-split settlement, in which the brand firm does not provide any consideration to the generic firm other than allowing the generic to enter the market on or before patent expiry (does not raise issues under the Act);
A settlement in which the brand firm provides compensation to the generic firm for delaying the generic firm’s entry into the market up to patent expiry (reviewed under section 90.1 ("Agreements or Arrangements that Prevent or Lessen Competition Substantially") or possibly under section 79 (the abuse of dominance provision); and

The Bureau will generally review a settlement under section 45 (criminal) of the Act only where the intent of the payment was to fix prices, allocate markets or restrict output, and specifically where:

the settlement extends beyond the exclusionary potential of the patent by delaying generic entry past the date of patent expiry;

the settlement extends beyond the exclusionary potential of the patent by restricting competition for products unrelated to the patent; or

the settlement is a “sham” (i.e., the patent was not valid and/or not infringed).

The innovator may also challenge early sale applications by commencing Federal Court proceedings. However, there is a risk that the innovator undertakes in doing so because once the proceedings to challenge the generic are initiated, the generic is prevented from selling its drug until the end of the proceedings or for 24 months, whichever is sooner. As a result, if the generic company can claim that there was no valid reason for preventing the sale of the drug on the market and seek compensation from the innovator under section 8 of the PM(NOC) Regulations.188

Pay-for-Delay Settlements

Pay for delay settlements (also referred to as reverse payment settlements) occur when a brand company strikes a deal with a generic company usually by way of a large monetary payment, to delay the generic drug’s entry into the market.189 These agreements can be lucrative for both brand and generic manufacturers because brand prices remain high while the generic company shares in the brand company’s profits. However, consumers are the ones that lose out because they are denied access to less expensive drugs.

The Bureau has stated that section 45, the criminal provision of the Act, could be applied to pay-for-delay settlements because it would be viewed as reaching

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188 Id.
189 IPEGs, supra note 145 at 50.
beyond the exclusionary potential of the patent. However, the Bureau also holds that the right to apply this provision to patent settlement agreements is reserved for limited circumstances, specifically where the intent of the payment was “to fix prices, allocate markets or restrict output”.

While still likely to be viewed under section 90.1 (the reviewable agreement provision), not every settlement that involves a payment will be actionable under the Act. Instead, the Bureau would likely conclude that the settlement does not raise issues under the Act if the payment represents a reasonable estimate of:

- the fair market value of any goods or services provided by the generic firm;
- the magnitude of the brand company’s section 8 damages exposure under the PM(NOC) Regulations; and
- the brand company’s expected litigation costs absent settlement.

However, when the brand is providing a payment to a generic as compensation to stay out of the market after the patent expires, the settlement would then be viewed as a market allocation agreement, which entails more serious repercussions.

In the limited circumstances where the Bureau may review a settlement under section 45 of the Act and where the constituent elements of an offence under that section are satisfied, the Bureau will consider whether the “ancillary restraints” defence under subsection 45(4) may apply. Where the Bureau determines that there is sufficient evidence to establish that an agreement satisfies the “ancillary restraints” defence, the matter will not be referred to the Director of Public Prosecutions with a recommendation to commence a prosecution. However, a remedy may be sought under section 90.1 if the settlement is likely to prevent or lessen competition substantially. Both sections 90.1 and 79 of the Act require the Bureau to establish that a settlement has the likely effect of causing a substantial prevention or lessening of competition.

A significant difference between Canada and the US regarding the treatment of pay-for-delay settlements is that the Bureau views these agreements under either the criminal or civil provisions in the Act. More specifically, these agreements will

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190 Id.
192 Pecman, supra note 162.
be reviewed under the *per se* criminal conspiracy provision or the civil agreements or abuse of dominance provisions, as opposed to the FTC purely surveying these agreements under civil provisions. The Department of Justice (the "DOJ") has never pursued criminal enforcement in respect of pharmaceutical litigation settlements

**Entry-Split Agreements**

An entry split agreement refers to instances where the terms of a settlement specify a market entry date for a generic drug that is on or before the expiry date of the brand’s patent and when the generic company does not receive any other consideration from the brand company. In these cases, the Bureau will not take action against the settlement under the Act. These settlements will not attract Bureau review because they are not considered to lessen competition. The Bureau will view the agreed entry date as reflecting a compromise between the parties based on each party's underlying expectation of succeeding in the PM(NOC) Regulations.

**CONCLUSION**

The Bureau enforcement powers are discretionary and the Bureau can choose how, or if, to respond to any alleged contravention of the Act. Therefore, individuals contemplating a business arrangement involving IP should either consult qualified legal counsel or contact the Bureau when evaluating the risk of the arrangement contravening the Act. Businesses should keep the following points in mind:

Mere exercises of IP rights are reviewed under the special remedies section of the Act, specifically under section 32 of the Act;

More than a mere exercise of IP rights are reviewed under the general provisions of the Act;

Abuse of dominance is regulated pursuant to section 79 of the Act. Abuse of dominance will be found where an agreement facilitates conduct that has a negative effect on a competitor that is exclusionary, predatory or disciplinary, and the conduct is likely to have the effect of substantially preventing or lessening competition in a market;

193 IPEGs, supra note 145 at 48.
The Bureau will not review a refusal to license unless the refusals substantially lessens competition;

Hard product switching can attract liability under the Act;

Soft product switching is unlikely to attract liability under the Act;

Patent litigation settlement agreements may be subject to the civil or criminal provisions under the Act;

The Bureau has indicated that it will review the IPEGs annually and will revise them as needed in light of experience, changing circumstances and decisions of the Tribunal and the courts.
China

He Jing and Hui Cao

OVERVIEW

Developments in IP-related antitrust enforcement in China have been watched closely by the international legal community and industry observers for a number of years. The Qualcomm investigation by the National Development and Reform Commission (NDRC), which concluded in February 2015 and set a new record for the highest individual fine in China (RMB 6.088 billion or c. $920 million), is indicative of what a major licensor may encounter in China.

This chapter will discuss the legal framework relevant to IP-related antitrust enforcement in China and highlight in chronological order some of the recent cases in this area. Some of our readers may be surprised to learn about the breadth and depth of the legal and business issues that have been addressed by the Chinese regulators and courts. Topics including the IP policies of standards development organisations (SDOs), fair, reasonable and non-discriminatory (FRAND) royalty rates, refusal to license, patent pools, the availability of injunctive relief for standard essential patents (SEPs) and now, even the grant of exclusive licences in the music sector have all been hotly debated among policy makers, judges, practitioners and industry members. Indeed, the courts in China have been among the first to consider some of these contentious issues.

Future enforcement activities and the outcome of private antitrust lawsuits in China are likely to continue shaping the debate in this area.

EARLY HISTORY OF IP AND COMPETITION LAW

China’s Anti-Monopoly Law (AML) came into force in 2008. Before that, courts and government authorities relied on the Anti-Unfair Competition Law (which provides rules dealing with patent bundling) to address anti-competitive IP licensing activities.

In 2004, Chinese generic battery company Tsum sued Sony Corporation for illegal bundling of its InfoLITHIUM batteries. This case was widely held to be the first

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194 Senior Consultant at AnJie Law Firm.
195 Associate at AnJie Law Firm
court case in China alleging anti-competitive IP licensing practices. It was brought under the Anti-Unfair Competition Law. Tsum alleged that Sony had tied Sony digital cameras with Sony batteries by using encryption technology to prevent rival battery manufacturers from producing Sony-compatible batteries. The court dismissed Tsum’s claim and ruled that Sony’s use of encryption technology was to facilitate “necessary communication” between the battery and the camera.

SEP and FRAND-related antitrust issues underwent much deeper examination when China started experimenting with patent-pooling efforts for home-grown standards in 2004. Video codecs group AVS took the unusual step (in China) of setting out an IP rights policy for its members’ standard-development activities. This policy generated significant attention on FRAND and SEP issues. Notably, multinational companies’ standards experts and IP counsel contributed significantly to this effort. While the commercialisation of the first generation of AVS’ standards has taken longer than expected, it is expected that second generation AVS technology may enable Chinese 4K television standards to be adopted in the near future.

Between 2004 and 2013, many IP-related antitrust discussions focused on the IP policies of SDOs. These discussions culminated in the Standardisation Administration Commission issuing a national regulation on patents and standards – the Regulatory Measures on National Standards Involving Patents (Interim) (the “Measures”) – which came into effect in January 2014. Under the Measures, owners of patents declared essential to recommended national Chinese standards are required to provide a FRAND commitment to the relevant SDO before their technology is incorporated on such a given standard. By contrast, compulsory standards may not include patented technologies as a general principle. However, the Measures do not address any issues related to licensing of SEPs.

THE CONVERGENCE OF IP AND COMPETITION LAW

Overview of legislative developments
The AML came into effect on 1 August 2008 and transformed the legal landscape. While Article 55 of the AML recognises that patent holders are entitled to exercise

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196 Tsum (Shanghai) Technology Co Ltd v Sony Corporation (2004) Shanghai No. 1 Intermediate People’s Court.
their IP rights, the AML also has jurisdiction over certain conduct, including conduct alleged to be an “abuse of intellectual property to exclude or restrict competition”. Article 55 also establishes the statutory basis for subsequent legislative efforts regarding IP misuse. Further, the AML provides the legal basis for private antitrust lawsuits for civil remedies.

After the passage of the AML, legislative efforts in the IP field primarily centred around the State Administration for Industry and Commerce’s (SAIC) guidelines on its approach to IP rights in antitrust enforcement. The guidelines were eventually converted into the Regulation on the Prohibition of Abuse of Intellectual Property Rights to Eliminate or Restrict Competition (the “IP Regulation”), discussed further below.

Arguably now, the most keenly anticipated legislative development is the publication of the final version of the Guidelines on the Abuse of Intellectual Property Rights (the “IP Guidelines”) by the Anti-monopoly Commission (AMC) of the State Council. A public consultation on the IP Guidelines concluded in April 2017 and the final version is expected to be published shortly.

In 2008, the Supreme People’s Court (SPC) issued advisory opinions on the determination of royalty rates for SEPs and the availability of injunctive relief. While the opinions were non-binding, it is clear that the SPC has an interest in setting clear precedents in this area. Various interim versions of the judicial interpretation drafted by the SPC also indicated a strong interest in determining royalty rates. It is expected that a more active SPC will have increased influence on this field in years to come, at least through its own decisions on SEP-related cases. The SPC’s pending judgement in *Huawei Technologies v InterDigital Corporation* (see below), in which the Shenzhen Intermediate People’s Court became the first court in China to determine a FRAND royalty rate, will be especially closely watched.

**Notable mergers at the intersection of IP and competition law**

While our focus has been on how Chinese authorities have dealt with SEP-licensing issues, the significant impact of the Ministry of Commerce’s (MOFCOM) merger review decisions on the role of IP rights in the Chinese antitrust legal regime should not be overlooked.

**MOFCOM merger review decisions prior to 2012**

Before 2012, in at least six published decisions by MOFCOM, IP considerations were factored into at least four areas of merger review, including: (1) market definition;
(2) barriers to entry; (3) remedies; and (4) ancillary restraints. For example, in reviewing a proposed joint-venture between General Electric (China) and China Shenhua Coal to Liquid and Chemical to develop a coal-water slurry gasification technology, MOFCOM defined the relevant market as “the licensing market for the coal-water slurry gasification technology”.\textsuperscript{199} This is the first published decision in which MOFCOM explicitly held that a technology-licensing market constituted a separate relevant market. In reaching this conclusion, MOFCOM relied heavily on its finding that the slurry coal gasification technology could be distinguished from other coal gasification technologies in terms of technological process, the requirements for raw coal and means of input supplies.\textsuperscript{200}

**Google / Motorola (2012)**
The first case in which the Chinese anti-monopoly authorities established a clear position regarding the analysis of SEPs was MOFCOM’s review of Google’s acquisition of Motorola Mobility Holdings.\textsuperscript{201} In May 2012, MOFCOM announced its conditional approval of Google’s proposed $12.5 billion acquisition of Motorola Mobility. In particular, Google was required to:

- treat all original equipment manufacturers in a non-discriminatory manner with regard to the Android platform; and
- honour Motorola Mobility’s pre-existing commitment to license its SEPs on FRAND terms.

A similar approach can also be seen in MOFCOM’s later decision in relation to Nokia’s acquisition of Alcatel in 2015, although the restrictions imposed on Nokia appear to be more prescriptive.\textsuperscript{202}

**Microsoft / Nokia (2014)**
This Microsoft/Nokia decision deserves much more attention than it has received, as it deals with some of the most challenging issues related to de facto essential patents.

In April 2014, just two years after its conditional approval of the Google/Motorola merger, MOFCOM approved Microsoft’s acquisition of Nokia’s mobile handset

\textsuperscript{199} MOFCOM Announcement No. 74 of 2011(GE/Shenhua) 6.
\textsuperscript{200} See Jing He, Su Sun, & Angela Zhang, The Role of IPRs in China’s Antitrust Merger Review, International Antitrust Bulletin. 15 (2012).
\textsuperscript{201} MOFCOM Announcement No. 25 of 2012 (Google/Motorola Mobility).
\textsuperscript{202} MOFCOM Announcement No. 44 of 2015 (Nokia/Alcatel).
business on the condition that both Microsoft and Nokia continue to honour their commitments to license their SEPs on FRAND terms. MOFCOM expressed concerns that Microsoft – having obtained control of a sizeable mobile devices manufacturer – might take advantage of Nokia’s “important patents” (e.g., those covering the Android operating system) to gain a competitive advantage in the mobile handset market – particularly with respect to Android phones. This raised the interesting issue of whether MOFCOM believed that FRAND rates should apply to de facto essential patents, although MOFCOM seems to have intentionally avoided using this term in its decision.

**Huawei Technologies v InterDigital Corporation**

The Huawei cases are among the Chinese courts’ most controversial antitrust decisions. These decisions relate to the determination of the relevant market and FRAND royalty rates and have generated much debate amongst stakeholders. Further, the decisions may even force Huawei to oppose arguments in defence of its own licensing activities in the future.

In April 2014, the Guangdong Higher People’s Court (affirming the Shenzhen Intermediate People’s Court) published its October 2013 judgments in two **Huawei Technologies v InterDigital Corporation** cases. Huawei, the world’s largest telecommunications manufacturer, prevailed in its claims that US-based InterDigital Corporation (IDC) had:

- abused its dominant market position; and
- failed to license its SEPs on FRAND terms.

Regarding the first claim, the court supported Huawei’s argument that IDC had abused its dominant market position by:

- mandating a tying arrangement in its licence agreements;
- requiring grant backs; and
- requesting a discriminatory and unreasonably high royalty rate for its Chinese SEPs and non-SEPs.

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203 MOFCOM Announcement No. 24 of 2014 (Microsoft/Nokia).
204 A private antitrust lawsuit involving similar issues is now pending in Ningbo Intermediate Court. Four Chinese rare earth companies filed a lawsuit against Hitachi Metal alleging refusal to license essential patents in rare earth technologies.
In particular, the court found that a SEP reading on a given standard constitutes its own separate market, meaning that a SEP holder is automatically dominant by virtue of owning the patent. The same market definition was later adopted in the NDRC’s Qualcomm decision, but seems to have been rejected by MOFCOM in its subsequent review of Nokia’s acquisition of Alcatel.

Regarding the second claim, the Guangdong Higher Court affirmed the Shenzhen Intermediate Court’s ruling that IDC had imposed excessively high royalty rates for its SEPs relating to 2G, 3G and 4G wireless communications standards. Specifically, the court found that IDC’s royalty rates were noticeably higher when compared to its licensing agreements with Apple and Samsung. However, many believe that the royalty rate argument lacked sufficient grounds, since the alleged royalty rate that IDC charged Apple was not comparable.

Although Huawei and IDC settled the licensing disputes in most jurisdictions in 2016, this case is still considered as pending before the SPC. The final decision, if any, will be most interesting for revealing how the Chinese court determines FRAND rates.

**NDRC’s investigation of Qualcomm**

In February 2015, the NDRC concluded its investigation into Qualcomm and imposed an RMB6.088 billion (c. $920 million) fine on the company, the largest penalty imposed to date under the AML. The NDRC identified three types of anti-competitive conduct in which Qualcomm engaged through its licensing arrangements with Chinese licensees:

- charging excessive licensing rates;
- bundling the licensing of SEPs with non-SEPs without justification; and
- imposing unreasonable terms and conditions in licensing agreements without justification.

In this decision, the NDRC seems to have followed some of the reasoning in the Huawei cases regarding the abuse of dominance in relation to licensing activities. From an antitrust perspective, the most significant outcome of this case was that the NDRC did not endorse the smallest saleable unit rule or impose it on Qualcomm. This outcome was welcomed by most licensors. In other words, the

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205 InterDigital and Huawei Sign Multi-Year Patent License Agreement for 3G and 4G Terminal Units, InterDigital (Sep. 6, 2016, 8:30am), http://ir.interdigital.com/file/Index?KeyFile=35752476.
NDRC did not object to Qualcomm continuing to charge royalties based on the handset price, as opposed to charging royalties based on a percentage of the value of the chipset inside the handset.

**IP LEGISLATION**

**IP Rights Abuse Rules**
On 7 April 2015, the SAIC released its long-awaited Rules on the Prohibition of Abuse of Intellectual Property Rights for the Purpose of Eliminating or Restricting Competition (the “IP Rights Abuse Rules”). The IP Rights Abuse Rules became effective on 1 August 2015. They deal with issues including the determination of patent holders’ market dominance, essential facilities, compulsory licensing, SEPs and safe harbours in horizontal and vertical agreements.

The IP Rights Abuse Rules were initially drafted as guidelines to deal with IP-related anti-competitive practices – a project which commenced in 2009. There were multiple public consultations on the early drafts of these guidelines with comments received from members of the local and international legal community, regulatory agencies, courts, industry and other stakeholders. At the end of 2014, the SAIC made a dramatic move and formalized the draft guidelines as the IP Rights Abuse Rules which now provide the legal basis for the SAIC to impose penalties on violators.

The essential facility provision in Article 7 is a controversial section of the IP Rights Abuse Rules. This was included despite several rounds of objections from the international legal and business community. The Article provides that a dominant undertaking cannot refuse, without justification, to license its intellectual property rights on reasonable terms where such rights constitute essential facilities for manufacturing and operating activities. The SAIC has not yet applied the essential facility rule in any public decisions, and future decisions will be closely watched to see whether they invoke Article 7.

The practical effect of the IP Rights Abuse Rules is somewhat uncertain, as the AMC is working on the IP Guidelines, which may eventually supersede the IP Rights Abuse Rules.

**IP Guidelines**
Work began on the IP Guidelines in summer 2015, led by the AMC under the State Council. Four central government departments – namely MOFCOM, the SAIC, the NDRC and the State IP Office – have prepared separate drafts of the guidelines.
The NDRC and SAIC each consulted on various iterations of their guidelines between October 2015 and February 2016. Their consultations attracted rounds of discussions and submissions by professional groups and government agencies.\(^{206}\)

In 2017, the AMC published the final consolidated draft of the IP Guidelines for a period of public consultation ending on 21 April 2017. (At the time of writing, this article, the final version of the IP Guidelines had not been adopted.) However, based on the drafts published to date, we expect the guidelines to follow the analytical structure of the AML and cover a wide range of IP-related antitrust matters.

We highlight below some particularly noteworthy aspects of the guidelines prepared by the NDRC and the SAIC and identify how these are reflected by the draft IP Guidelines prepared by the AMC.

Core principles
The NDRC and SAIC guidelines define fundamental issues such as analytical approaches and procedures, as well as factors for assessing the influence of existing IP rights on competition. Notably, both guidelines confirm that there should be no presumption that owning IP rights gives rise to a dominant position; rather, a case-by-case analysis should be adopted.\(^{207}\)

The draft IP Guidelines reflect this position. However, it is notable that they are closer to the position in the NDRC guidelines, whereas the SAIC guidelines take a more cautious approach. Section I(i) of the NDRC guidelines states that in analysing IP rights, antitrust regulatory standards should be adopted which are similar to those applied to other property rights. However, Article 4(1) of the SAIC guidelines features an economic analysis of IP rights which indicates that “compared with other property rights, the production cost is high, while the marginal cost of utilisation is low”. It further states: “The boundary of IP rights is not as clear as other property rights.” Provided that the positive impact of exercising IP rights outweigh the negative impact, the SAIC guidelines state that regulatory authorities may not interfere with the exercise of such rights.

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\(^{207}\) Section I(i) of the NDRC guidelines and Article 4(2) of the SAIC guidelines.
**Relevant market**

The NDRC and SAIC guidelines both provide that the market definition should include the relevant technology market in cases where it is insufficient to consider just the narrow market for the product in which the relevant technology is incorporated. Article 8 of the SAIC guidelines defines an ‘innovation market’ as the upstream section of a technology market, focusing on the competition involved in developing future generations of new technologies and products. The inclusion of the term was considered to empower the SAIC to assess and regulate technology licensing practices through arguments about the impact on the ‘innovation market’.

The draft IP Guidelines largely follow the NDRC guidelines and provide detailed guidance on the definition of the relevant technology market. Article 3 defines ‘relevant technology market’ as the market formed either by a group or a type of technology with close substitution from the demand side. Article 4 further provides that the relevant technology market may consist of the licensed technology for producing downstream goods, other technologies for producing such downstream goods and the technologies for producing other commodities that compete with the downstream goods.

**IP agreements which may eliminate or restrict competition**

Section II of the NDRC guidelines and Articles 14 to 21 of the SAIC guidelines divide IP agreements into two types: competing licensing agreements and non-competing licensing agreements. Article 12 of the SAIC guidelines further classifies these two types of licence agreement as either horizontal or vertical agreements, consistent with Articles 13 and 14 of the AML. Section II of the NDRC guidelines further state that IP agreements reached by business operators with competitive relationships are more likely to eliminate or restrict competition.

Unlike the NDRC or the SAIC guidelines, the draft IP Guidelines do not distinguish between competing licensing agreements and non-competing licensing agreements, nor do they retain the classification of horizontal agreements and vertical agreements. This shows AMC acknowledges that the distinction between horizontal agreements and vertical agreements should not overtake the assessment of the pro-competitive and anti-competitive effects of any given IP-related conduct.

**Exemption of IP agreements**

The NDRC and SAIC have both incorporated a safe harbour in their respective draft guidelines. This exempts IP-related monopoly agreements from enforcement if they do not meet certain market share thresholds. However, there are obvious
differences between the two guidelines regarding the conditions for applying the safe harbour. For example, the NDRC guidelines adopt lower market share thresholds and do not include substitutable technology thresholds.

The draft IP Guidelines harmonise the inconsistency, but further explanation is required, including for example, how to determine the ‘reasonable cost’ of obtaining alternative technologies.

Abuse of dominant position
The NDRC and SAIC guidelines define specific behaviours which allegedly constitute an abuse of dominance. The IP Guidelines do this as well.

The NDRC guidelines treat applications for an injunction by SEP owners as a type of potentially abusive behaviour. The NDRC specifies that, where SEPs are concerned, the factors that determine whether an application for an injunction amounts to an abuse of dominance include:

- “the performance and actual willingness” to enter into a licence by both parties to the licensing negotiation;
- the commitments undertaken by the SEP owner;
- the impact of an injunction on negotiations;
- the relevant market;
- the effects on downstream competition; and
- consumer interest.

In our experience, the approach that the NDRC takes towards the grant of injunctive relief is consistent with industry practice. The NDRC guidelines are sensitive to what SEP owners do in reality – for example, whether they are using litigation or other enforcement methods to force potential licensees to enter into licences or to extract higher royalties than their patented inventions are worth.

By contrast, Article 28 of the SAIC guidelines addresses the same issue at an abstract level without reference to the factors which should inform whether the SEP owner’s conduct gives rise to an abuse of dominance. The SAIC simply refers to an abusive act wherein a SEP owner applies for injunctive relief to force licensees to accept unreasonable licensing terms and conditions.
The draft IP Guidelines largely follow the NDRC’s approach to the question of the availability of injunctive relief. However, the IP Guidelines add one additional relevant factor - the proposed licensing terms by the parties during negotiations.

Court Decisions re Injunctive Relief and Essential Patents

While practitioners have awaited the IP Guidelines, the courts in China have handed down judgments which clarify the law around SEP licensing and the availability of injunctive relief. They have also issued rules in this area which bind the national courts.

In March 2016, the SPC issued the Judicial Interpretation (II) on Certain Issues Concerning the Application of Law in the Trial of Patent Infringement Cases, which came into effect in April 2016. Article 24(2) of Judicial Interpretation (II) provides that an injunction is not generally available where during the negotiations:

- a SEP owner intentionally violates its FRAND obligations; and
- the prospective licensee is clearly not at fault.

This is one of very few instances where the SPC will not award an injunction in a case involving a patent dispute. The Chinese courts’ default position is to grant permanent injunctions. Interestingly, the Judicial Interpretation (II) avoids providing more general guidance on the availability of injunctions in SEP cases.

In April 2017, the Beijing High Court took the bold step of implementing some local rules – the Guidelines for Patent Infringement Determination (the “Patent Guidelines”). Articles 152 and 153 of the Patent Guidelines deal with injunctive relief in cases involving essential patents and provide that courts should examine the licensor’s and prospective licensee’s conduct during FRAND licensing negotiations before awarding an injunction. Relevant considerations include whether:

- the SEP owner has notified the infringer of the patent right in writing, specifying its patent rights and the alleged infringement;
- the infringer has responded in a timely manner to the infringement notification;
- the SEP owner has provided its patent information or licensing terms in writing, after the infringer expresses its willingness to enter into a licence agreement;
the infringer has responded in a timely manner to the licensing offer or proposed its own licensing terms after rejecting the SEP owner’s licensing terms;

- the SEP owner has set out a time limit according to customary practice in business for the infringer to respond to its licensing offer;

- either party has impeded, broken off, delayed or refused to continue licensing negotiations without justifiable reasons; and

- either party has imposed clearly unreasonable terms which lead to failure of reaching a license agreement.

Further, according to Article 152, where both parties have discharged their obligations and the prospective licensee has deposited with the court the royalty payments it considers are due or an equivalent bank guarantee, an injunction should generally not be granted.

In drafting the Patent Guidelines, the Beijing High Court has clearly sought to balance the interests of SEP holders and licensees by requiring them both to engage in good-faith negotiations to resolve their licensing dispute. The form of conduct expected of the parties to a SEP-licensing negotiation is also similar to that which the Court of Justice of the European Union advanced in its Huawei v ZTE decision, and therefore provides much-needed certainty to businesses negotiating global patent licences. However, judicial decisions are still needed to clarify certain phrases in the Patent Guidelines and the Judicial Interpretation (II).

**IWNCOMM v Sony**

While the SPC and Beijing High Court were working on the Judicial Interpretation (II) and the Patent Guidelines respectively, a newly established IP court in Beijing proceeded to make its own decisions. In March 2017, the Beijing IP Court handed down a decision ordering Sony to halt the manufacture and sale of 35 mobile devices which were found to have infringed an Iwncomm patent reading on the WLAN Authentication and Privacy Infrastructure (WAPI) standard. WAPI is a Chinese version of Wi-Fi. The Iwncomm case involves the first SEP-based injunction issued by a Chinese court.

The following factors were relevant to the court’s decision to grant an injunction:

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the defendant is at fault in the prior licensing negotiation;

in a case involving a SEP, if a potential licensee is able to determine whether its product is covered by the claims of the SEP, the SEP owner does not need to provide a claim comparison chart;

before providing a claim comparison chart, the SEP owner can request the potential licensee to sign a non-disclosure agreement.

This ruling has been appealed and is pending before the Beijing High Court, but it appears to be encouraging for SEP owners in that Chinese courts are willing to grant injunctions in appropriate circumstances. As a consequence, we expect that more SEP cases will be adjudicated in China. How the Chinese courts apply the various rules and guidelines or even determine FRAND rates will be watched closely by many stakeholders.

LATEST DEVELOPMENTS

Exclusive licences for music streaming services
Our discussion of the interface between competition law and IP would not be complete without addressing the exclusive licence in China’s music streaming market. While China may still struggle with music piracy, some of its online music streaming services have rapidly taken off with subscription models. For example, it is reported that Tencent has 15 million paying subscribers and provides over 17 million songs to 600 million active users every month.209

While there has been no official announcement of any sort of antitrust investigation, on 13 September 2017, the National Copyright Administration (NCAC) met with around 20 major music companies and associations from China and abroad to discuss online music copyright protection. The NCAC is not an antitrust regulator itself, but it encouraged the music companies to avoid exclusive license agreements, and asked them to offer non-exclusive licences instead. This official gesture has been viewed as an attempt by China’s top copyright authority to stimulate competition in the online music market.

The fierce competition for online content, such as music and film, will probably raise antitrust scrutiny if exclusive licences are widely used. Interestingly, very few of the rules that regulators have been discussing with respect to exclusive licences in the

content industry are provided for in the draft IP Guidelines. It is feasible that the NCAC’s call might eventually result in guidance from antitrust authorities and courts to clarify the antitrust risks of exclusive licences.

CONCLUSION

China’s rules on IP-related antitrust issues are rapidly developing, and the unsaid competition in rule-making processes between antitrust authorities such as the NDRC and SAIC might cause significant challenges for companies trying to decide which to follow.

At present, stakeholders are looking to the AMC to issue the finalised IP Guidelines, which will hopefully provide further predictable guidance for both licensors and licensees.

But the dominant force in the rule-making process may be the attitude of the courts. As more private antitrust lawsuits are being filed, the SPC may be willing to use its powers to issue specific rules or set precedents that shape the antitrust legal framework. And China now has ten newly established IP courts where young but well-trained judges will be eager to rule on IP-related antitrust cases. The dynamics in the courtroom will be most interesting to watch. Will the Chinese courts follow something closer to competition neutrality? Will expert witnesses be allowed to play a significant role in the court’s determination? How will judges use protective orders to comfort both sides?

These questions and the scale of the retail and manufacturing markets in China for products incorporating standardised technologies are sure to make China a ‘must-watch’ jurisdiction for IP-enforcement in the future.
European Union

Géraldine Babin

The relationship between intellectual property rights and European competition law has been a challenging one, since competition law tends to impact firms’ exercise of their intellectual property rights, particularly so if they are dominant on a specific market. Intellectual property rights (i.e., copyrights, patents, trademarks, and trade secrets) enable individuals and companies to protect their plans, ideas, or other intangible assets for a specific period of time, without having to worry about them being taken away by free-riding competitors. European competition law mostly revolves around two Articles of the Treaty on the Functioning of the European Union (TFEU): Article 101 TFEU prohibiting collusive behavior and Article 102 TFEU prohibiting the abuse of a dominant position. In the European Union, most of the challenges arising between intellectual property rights and competition law are addressed under Article 102 TFEU.

Confronted with the apparent tension between intellectual property rights and competition law, the European Commission, the General Court of the European Union, and the Court of Justice of the European Union (together, the European Courts) attempt to strike the right balance between over-protection of innovators, in an effort to ensure free competition and that intellectual property rights remain pro-competitive tools.

This article does not aim to be exhaustive, but instead provides an overview of the main areas of interplay between intellectual property rights and European competition law through an analysis of the Commission’s decisional practice and the European Courts’ case law. This exercise reveals a focus on a case-by-case analysis in the European Union, notably because the Commission and European Courts are still in the process of defining a uniform approach to the interaction of intellectual property rights and European competition law. The cases reviewed notably cover

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210 Associate at Cleary Gottlieb Steen & Hamilton LLP
211 Article 101 TFEU prohibits: “all agreements between undertakings, decisions by associations of undertakings, and concerted practices, which may affect trade between European Union Member States and which have as their objective or effect the prevention, restriction, or distortion of competition within the European internal market”.
212 Article 102 TFEU prohibits: “any abuse by one or more undertakings of a dominant position within the internal market of the Treaty on the Functioning of the European Union or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States”.
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the “essential facility” doctrine formulated by the European Court of Justice as applied to intellectual property rights; issues related to refusal to supply by dominant firms and interoperability with Microsoft; “standard essential patents” in the telecommunication sector; patent dispute settlements (also called “pay-for-delay” arrangements) in the pharmaceutical sector with the high-profile Lundbeck and Servier cases; the Commission’s assessment of intellectual property rights in mergers in the pharmaceutical sector, through an analysis of its Novartis/GlaxoSmithKline and Pfizer/Hospira decisions; and the creation of the Unified Patent Court in response to the “patent troll” phenomenon.

COMPETITION CHALLENGES FOR DOMINANT INTELLECTUAL PROPERTY RIGHT HOLDERS IN A DOMINANT POSITION (ARTICLE 102 TFEU)

Refusal to Supply: the “Essential Facility” Doctrine Applied to Intellectual Property Rights

Article 102 TFEU prohibits “any abuse by one or more undertakings of a dominant position within the internal market of the Treaty on the Functioning of the European Union or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.”

In the European Union, case law from the European Courts has imposed a “special responsibility” on companies in a dominant position.214 To put it simply, they have a “special responsibility not to allow their conduct to impair undistorted competition in the common market.”215 As a result, dominant companies cannot reinforce their position on a market if such conduct were to exclude existing competitors from the market or hinder new competitors from accessing the market, as such action would constitute an abuse of their dominant position. The actual scope of the dominant firm special responsibility “must be considered in relation to the degree of dominance held by that firm and to the special characteristics of the market which

214 C-322/81, Nederlandsche Banden-Industrie Michelin v. Commission of the European Communities, [1983] E.C.R. 3461, para 57; T-201/04, Microsoft Corp. v. Commission of the European Communities, [2007] E.C.R. II-3601, para 229; C-333/94 P, Tetra Pak International SA v. Commission of the European Communities, [1996] E.C.R. I-5951 para 21. See, e.g., in AstraZeneca: “It is important to point out, in this context, that an undertaking which holds a dominant position has a special responsibility in that latter regard (see Case C 202/07 P France Télécom v Commission [2009] ECR I 2369, paragraph 105) and that, as the General Court held at paragraphs 672 and 817 of the judgment under appeal, it cannot therefore use regulatory procedures in such a way as to prevent or make more difficult the entry of competitors on the market, in the absence of grounds relating to the defence of the legitimate interests of an undertaking engaged in competition on the merits or in the absence of objective justification” (475-10 P, AstraZeneca AB and AstraZeneca plv v. Commission of the European Communities, [2012] para 134).

may affect the competitive situation.”

Therefore, the following questions arise in relation to intellectual property rights: whether and under what circumstances do intellectual property rights confer a dominant position upon a company, and when are certain behaviors considered abusive in European competition law?

The “refusal to supply” case law relating to intellectual property rights by the European Courts is an area of European competition law where its tension with intellectual property law sometimes becomes apparent. Although the European Courts have held that the mere ownership of intellectual property rights does not in itself confer a dominant position to its holder, nor does it constitute an abuse of such a dominant position, some of these rights can nonetheless constitute a barrier to entry, because intellectual property rights will necessarily prevent some firms from competing on certain markets. This article reviews the European Court of Justice’s case law, and notably its Volvo, Renault, Magill, AstraZeneca, and Bronner rulings.

The matter of refusal to supply related to intellectual property rights first came before the European Court of Justice in 1988 with the Volvo and Renault cases. Both cases dealt with the refusal of two car manufacturers, Volvo and Renault, to license the design rights on their car parts to third parties that wished to manufacture and sell them. The European Court of Justice gave a balance response to this issue; it found that refusals to license are generally legitimate, but that a refusal to license a valid intellectual property right may violate Article 102 TFEU if it involves certain abusive conduct. It provided the following examples of conduct it would find to be abusive: “the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation.”

In the 1995 Magill case, the European Court of Justice held that a refusal to grant a license to reproduce television programs cannot in itself constitute an abuse of a

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216 Id. para 58.
220 Id. para 7–8.
221 Id. para 9.
dominant position. However, the European Court of Justice formulated the following three conditions to be met when determining whether or not refusing to license a copyright is considered an abuse of a dominant position:

the holder of the right “reserved for himself a secondary market, thus excluding all possible competition”;

the holder of the right “rendered impossible the emergence of new products or services not offered by the intellectual property owner and for which there is a potential consumer demand”, and finally

“the refusal [to license] is not justified by objective considerations.”

In *AstraZeneca*, the Commission alleged that AstraZeneca had abused its dominant position by (i) making misleading representations to national patent offices to obtain supplementary protection of its patent for its medicine Losec, and (ii) withdrawing marketing authorizations for Losec on a number of Nordic markets to delay rival generic competitors from launching their products and to prevent parallel imports from other European Union Member States. On appeal, the General Court upheld the Commission’s finding that AstraZeneca had abused its dominant position. The General Court found that, although the mere fact that AstraZeneca held a patent did not in itself infringe Article 102 TFEU, the General Court concluded that the fact that AstraZeneca provided information – which the General Court found to be misleading – to national patent offices with the aim of preventing or delaying market entry of competing generic products constituted an abuse. AstraZeneca further appealed, submitting that the General Court had misapplied *Magill*, which confirmed that the mere possession of intellectual property rights is not sufficient to establish a dominant position. AstraZeneca also argued that once the Commission establishes that a company has a dominant position within a specific market, it must then prove that the company abused its position. In *AstraZeneca*, the European Court of Justice further confirmed its previous case law relating to the concept of abuse of dominant position, stating that it is not necessary for the behavior to have a direct effect on competition for it to be found

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223 Id. para 49.
224 Id. para 53.
225 Id. para 54.
226 Id. para 55.
229 Supra Note 17.
230 Id., para 270–75.
abusive. Furthermore, the concept of abuse of a dominant position is objective and
does not warrant an intention to cause harm. The European Court of Justice
confirmed its Magill case law, stating that AstraZeneca’s deregistration of the Losec
capsule marketing authorizations in the relevant Member States restricted access to
the market of generic products in those countries, as well as parallel imports of
Losec capsules in Sweden.\(^{231}\) Therefore, even though the mere possession of
intellectual property rights is not sufficient to establish that a company holds a
dominant position, in certain circumstances, possessing such a right may confer a
dominant position, in particular when it enables a market player to prevent
effective competition on the market.\(^{232}\)

In *Oscar Bronner*,\(^{233}\) the European Court of Justice held that a dominant company
may only be obliged to grant access to a facility – here, a nationwide system of
home delivery for newspapers – if, in addition to the three exceptional
circumstances formulated in Magill, two conditions are satisfied:

1. “the refusal to deal is likely to eliminate all competition from the
   relevant market, on the part of the person requesting access”,\(^ {234}\) and
   “the facility is indispensable in itself to carry on that person’s business
   inasmuch as it exist no actual or potential substitute.”\(^ {235}\)

This last condition is the main contribution of the European Court of Justice’s
judgment in Bronner and is only fulfilled if:

“there are no plausible alternatives to the facility, even of an inferior
quality”;\(^ {236}\) and

“the impossibility of duplicating the facility is objective, due to technical, legal
or economic obstacles and not to the limited capacities of the specific
competitor requiring access.”\(^ {237}\)

The position of the European Court of Justice in *Bronner* is therefore more
restrictive than in *Magill*. We can note here the European Court of Justice’s more
cautious approach due to the far-reaching consequences of the formerly-formulated

\(^{232}\) Id. para186.
\(^{233}\) C-7/97, Oscar Bronner GmbH & Co. KG v. Mediaprint Zeitungs-und Zeitschriftenverlag GmbH & Co. KG, [1988]
E.C.R. I-779, para41.
\(^{234}\) Id. para41.
\(^{235}\) Id. para41.
\(^{236}\) Id. para44.
\(^{237}\) Id. para44.
The essential facility doctrine for the intellectual property right holder, who is obliged to grant access to the relevant facility. Most notably, in this case, Advocate General Jacobs reminded the Court that “the preliminary purpose of Article 102 is to prevent distortion of competition – and in particular to safeguard the interest of consumers rather than to protect the position of particular competitors.”

The rulings left some elements of the Essential Facility Doctrine unclear. For instance, whether the “exceptional circumstances” in Magill were cumulative or not. In Tiercé Ladbroke, Ladbroke complained that the French sociétés de courses and their associated companies refused to supply broadcasts of French horse races to Ladbroke’s betting shops in Belgium. The General Court found that the refusal to supply could constitute an abuse only if either the product or service was essential to the activity in question, or the introduction of a new product demanded by consumers was being prevented. The General Court suggested that a refusal to supply that precluded the introduction of a new product might constitute an abuse for this reason alone, even if the facility demanded was not “essential.” Thus, in Tiercé Ladbroke, the General Court read the “exceptional circumstances” in Magill as being severable, and not cumulative.

However, in IMS, the European Court of Justice considered the three essential facility conditions to be cumulative, i.e. the refusal to supply must “prevent the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on the secondary market.” This position is still applicable today – this high standard is sometimes denounced as overly protective of intellectual property right holders, at it sets a presumption against the willing licensee. As a result, situations in which companies are obliged under European competition law to grant a license for their intellectual property rights are very rare. Moreover, it is for the national courts to decide whether the said conditions are satisfied. In fact, the European Court of Justice emphasized that a case-by-case analysis and understanding of the context at stake are necessary to properly apply the Essential Facility Doctrine. However,

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238 Id. para58.
240 Id. para38.
242 Id. para48.
243 Id. para48.
244 Supra Note 23, para 29.
245 Id. para34.
in *Microsoft*, the General Court did not follow the European Court of Justice’s aforementioned restrictive approach, as analyzed in the following section.

**Refusal to Supply and the Issue of Interoperability**

A particular kind of refusal to supply arises in the information technology sector in the context of interface information. “Interoperability” is the need for software providers to allow their products to operate together with other systems and programs designed by other firms. Where a company is dominant on a software market, it might be necessary to guarantee that other provider’s products are compatible with the dominant company’s. Therefore, to ensure market competitiveness, software providers should be able to access information about other software producers’ systems and programs with which their products need to be compatible.

The issue of interoperability was first addressed by the Commission in 1984, when it alleged that IBM had abused its dominant position by failing to supply other manufacturers with the interface information needed to make competitive products work with IBM’s System/370. The Commission and IBM reached a settlement that IBM would disclose sufficient interface information to enable competitors in the European single market to attach hardware and software products of their own design to its System/370.

In 1988, the Commission launched an investigation into Microsoft’s conduct after Sun Microsystems complained of Microsoft’s refusal to disclose sufficient interface information to enable providers of service operating systems to create “workgroup server operating systems” that would operate satisfactorily with Microsoft’s Windows desktop and server operating systems. Microsoft had previously supplied full interoperability information to server producers, but decided to reduce the amount of information it supplied after entering that market itself. After five years of investigation and three statements of objection by the Commission, the Commission concluded that Microsoft held a dominant position on both the personal computer operating system and the workgroup server operating systems markets and that it had abused its dominant position when it refused to supply the interface information. The Commission imposed a fine of approximately € 500 million on Microsoft, and ordered it to make the relevant information available to companies.

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on the workgroup server operating system market, as well as to ensure that this information was kept up-to-date on an ongoing basis and in a timely manner.\textsuperscript{248}

The General Court upheld the Commission’s decision but offered a more lenient interpretation of the “essential facility” conditions.\textsuperscript{249} The General Court did not interpret the need for the facility to be “indispensable to access the market” as requiring an exclusion from the market. Instead, the General Court adopted a lower threshold: access to an intellectual property right is indispensable when such access makes it more convenient for competitors to enter the relevant market. In Microsoft, the General Court found access to Microsoft’s product, Windows, to be indispensable, even if some competitors were operating on the market without benefiting from it. Furthermore, regarding the condition of “elimination of competition,” the General Court interpreted the requirement that the refusal to supply must lead to the elimination of effective competition as meaning the elimination of effective competition on the downstream market.\textsuperscript{250} The General Court did not take into account the existence of fringe competitors in niche markets. In addition, the General Court emphasized that a mere risk of elimination of effective competition is sufficient, i.e. the Commission does not have to wait for the effective elimination of competition before it can take action.\textsuperscript{251} Finally, regarding the condition that the refusal to supply must “render impossible the emergence of new products or services not offered by the intellectual property right owner and for which there is a potential consumer demand,” the General Court ruled that the appearance of a new product is not the only relevant parameter.\textsuperscript{252} It highlighted that Article 102(b) TFEU applies to the limitation of technical development as well as production and markets.\textsuperscript{253} Hence, the General Court decided that a refusal to supply may be abusive not because it excludes competitors, but because it is likely to hinder future innovation, thus substantially broadening the analytical scope.\textsuperscript{254}

**Standard Essential Patent: Where Is the Line?**

Standards are considered to be efficient tools for the harmonization and fostering of European competitive markets over time, because they enable consumers to switch more easily between products from different manufacturers. Hence, standardization

\textsuperscript{249} T-201/04, Microsoft Corp v. Commission of the European Communities, 2007 E.C.R. II-3601.
\textsuperscript{250} Id. para563.
\textsuperscript{251} Id. para561.
\textsuperscript{252} Id. para646–647.
\textsuperscript{253} Id. para643.
\textsuperscript{254} Id. para659.
may be used in the European Union to strengthen the integration of national markets, leading to a more integrated European internal market. Nevertheless, “standard essential patents,” which protect technology that is essential to maintaining standards, may raise competition concerns.

Standard Essential Patents confer significant market power to their holders, because once a standard has been agreed and industry players have invested heavily into standard-compliant products, the market is de facto locked. Patent-protected product standards created by international or national regulations represent a constraint for non-patent holders that wish to access the market. Therefore, the holder of such a patent could potentially behave in an anticompetitive manner.

For example, the holder can hold up users after the adoption of the standard by excluding competitors from the market, extracting excessive royalty fees, setting cross-license terms, to which the licensee would not otherwise agree, or forcing the licensee to give up their invalidity or non-infringement claims against standard essential patents.

To alleviate these competition concerns and ensure that the benefits of standardization remain intact, standard essential patent holders are required by many standard-setting organizations to commit themselves to licensing their rights on “Fair, Reasonable, and Non-Discriminatory terms” (FRAND, which are equivalent to RAND terms in the United States). FRAND terms serve two main purposes: (i) to ensure that the technology incorporated in a standard is accessible to manufacturers or standards compliant products and (ii) to financially reward standard essential patent holders.255

An important issue regarding competition law is whether the holder of a Standard Essential Patent, who had committed to license on FRAND terms, can seek an injunction against a manufacturer without abusing their dominant position. Two cases in the smartphone industry illustrate this issue, which will likely also come up in other industries as well.

In Motorola,256 the Commission considered that Motorola abused its dominant position by unreasonably seeking and enforcing a court injunction related to a mobile phone standard essential patent against Apple, despite Apple’s declaration

that it would be willing to be bound by a FRAND license and to pay royalties for the patent to Motorola. Moreover, Motorola had sought to prevent Apple from challenging the validity of its patents. The Commission found Apple to be a willing licensee and that Motorola was thus not entitled to seek or enforce an injunction against Apple. The Commission also noted that “potential licensee” challenge as to the validity or essentiality of the standard essential patent or infringement thereof does not make it an unwilling licensee, if it otherwise agrees to be bound by FRAND terms. In Motorola, the Commission thus set a low threshold for a company to qualify as a willing licensee. Moreover, the same situation would not be abusive if a Standard Essential Patent holder was only taking reasonable steps to protect their own interest, i.e., if the potential licensee were financially distressed, its assets were in a jurisdiction that does not adequately provide for the enforcement of damages, or it were unwilling to accept a license on FRAND terms.257

In Samsung,258 the decision of the Commission followed the same reasoning: it decided in favor of the potential licensee by concluding that seeking an injunction where a willing licensee offered FRAND commitments constitutes an abuse, unless the special Motorola conditions described above are met. A willing licensee must consent to undertake a FRAND license within twelve months and must demonstrate its willingness to agree to a third-party determination of FRAND terms by negotiation or, in case of failure, by court or arbitration proceedings.259

In Huawei, the issue finally came before the European Court of Justice.260 Huawei had also committed to license its standard essential patent on FRAND terms, but nevertheless sought an injunction against ZTE for infringement of its patent. In Huawei, the European Court of Justice identified the exceptional circumstances in which an injunction from a standard essential patent holder is considered abusive:

- if “the patent at issue is essential to a standard established by a standardization body”;261 and
- if “the patent at issue obtains its standard essential patent status only if the holder is prepared to grant licenses on FRAND terms.”262

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257 Id. para23.
259 Id. para16.
261 Id. para49.
262 Id. para51.
The European Court of Justice acknowledged that a standard essential patent holder cannot, in principle, be deprived of the right to bring an action to enforce their exclusive rights. Nevertheless, to do so without infringing Article 102 TFEU, the following specific requirements must be met:

“prior to bringing proceedings, the holder must alert the alleged infringer to the alleged infringement”;  

“after the alleged infringer has expressed willingness to take a license on FRAND terms, the holder must present it with a specific written offer for a license on FRAND terms”; and

“the alleged infringer must not have accepted the offer or promptly and in writing submitted a counteroffer.”

These conditions apply only to proceedings that may prevent products manufactured by competitors and complying with the standard in question from being introduced or remaining on the market. This ruling illustrates the European Court of Justice’s cautious approach in its attempt to strike a fair balance between competing interests: on the one hand, the right of the standard essential patent holder to protect and enforce its intellectual property right, and, on the other hand, the right of a manufacturer of standard-compliant products to conduct their business freely.

**Patent settlements: classic anticompetitive agreements?**

Article 101 TFEU prohibits “all agreements between undertakings, decisions by associations of undertakings, and concerted practices, which may affect trade between European Union Member States and which have as their objective or effect the prevention, restriction, or distortion of competition within the European internal market.” Article 101(1) (a)–(e) TFEU provides a non-exhaustive list of examples of agreements covered by Article 101(1) TFEU. The Article is primarily aimed at classic cartels (i.e. horizontal agreements), but is also designed to catch restrictive agreements between manufacturers and retailers (i.e. vertical agreements). This section will deal with a key topic that highlights the tension between European competition law and intellectual property rights, i.e. patent settlements (or “pay-for-delay” arrangements).

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263 Id. para 46.  
264 Id. para 61.  
265 Id. para 63.  
266 Id. para 65.
“Pay-for-delay” is a kind of patent-dispute settlement agreement in which a generic manufacturer acknowledges the original pharmaceutical company’s patent and agrees to refrain from marketing its generic product for a specific period of time. In return, the generic company receives a consideration in the form of a payment or other value from the originator. Patent settlements can therefore be beneficial both to the parties at issue and to society in general, as they allow the parties to avoid the cost of litigation and to direct their resources toward other activities, such as research and development, for instance. However, these agreements raise competition concerns about market-sharing, production limitation, and an increase in the price of pharmaceutical products for consumers. Therefore, national competition authorities in the European Union and the Commission itself recently started investigating this issue.

Lundbeck was the first competition law case dealing with patent settlement agreements. The Danish pharmaceutical company concluded agreements related to its product Citalopram with generic companies, including their commitment not to enter the Citalopram market. In return, Lundbeck paid manufacturers substantial amounts, purchased their stocks of generic products competing with Citalopram to later destroy these products, and offered manufacturers an opportunity to distribute Lundbeck products. After an investigation, the Commission concluded that the agreements constituted restrictions of competition “by object.” On appeal, the General Court fully upheld the decision: in the specific circumstances of the case, Lundbeck’s payments to generic producers amounted to a restriction of competition “by object,” i.e., the agreement was by nature capable of restricting competition – a hard stance taken by the General Court. The Commission was not required to examine the agreement’s actual or potential effects on competition to find it anti-competitive and to prohibit it. The European Commission considered three main points in order to establish whether the agreements had the potential to restrict competition, specifically whether:

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270 Id. para735.
271 T-472/13, Lundbeck v. Commission of the European Communities, [2016].
“the generic undertaking and the originator undertaking were at least potential competitors”;  

“the generic undertaking committed itself in the agreement to limit for the duration of the agreement its independent efforts to enter one or more European Economic Area markets with generic product”; and  

“the agreement was related to a transfer of value from the originator undertaking which substantially reduced the incentives of the generic undertaking to independently pursue its efforts to enter one or more European Economic Area markets with generic products.”  

Regarding the first condition, the Commission took the position that potential competition can exist even before a patent expires.  

It found that, without a patent settlement agreement, “there would have been concrete possibilities for the generic undertakings to enter the market: the possibility of entering represented a plausible assumption and not a merely theoretical hypothesis.” Furthermore, it noted that the agreement contained clauses restricting competition, such as a prohibition of further challenges by competitors against Lundbeck’s patents and of further infringement of its patent. Lastly, the Commission found that the amount paid by Lundbeck eliminated potential competition, as here, the amount matched the profit that the generic producers would have made, had they entered the market.  

The approach toward patent dispute settlements is thus more restrictive in the European Union than in the United States. In the Actavis case, for example, the United States Supreme Court concluded that patent dispute settlements should be subject to a rule of reason analysis, which requires an examination of the relevant agreement’s effects on competition. Interestingly, this approach was also that of the European Court of Justice in the previous Cartes Bancaires case, where it held that a restriction of competition “by object” should be interpreted in a restrictive manner, i.e. should be preceded by an economic analysis or based on experience stemming from previous cases.

272 Supra Note 59, para 661.  
273 Id. para 661.  
274 Id. para 661.  
275 Id. para 619.  
276 Id. para 636.  
277 Id. para 604.  
Moreover, in *Lundbeck*, the Commission argued that, even though settling litigation is an acceptable objective, the fact that an agreement may have an entirely legitimate objective does not eliminate the possibility of it constituting a restriction “by object.” The General Court upheld the Commission’s decision and the case is currently pending before the European Court of Justice. The European Court of Justice judgment will thus send a strong signal to the European Union competition law community, depending on whether or not it confirms the Commission’s strict approach or stands closer to the United States’ Activis approach. However, the Commission’s approach in *Lundbeck* did attract some criticism as well. Dissenters notably brought up the following points: (i) the appropriate legal standard to assess patent settlements should be whether the settlement covers patent-protected items (“scope-of-the-patent test”); (ii) there is no legal justification for a blanket condemnation of reverse payments, as some reverse payments actually aim to avoid the irreversible harm resulting from an infringing entry of a competitor in the absence of a timely injunction; and (iii) failure to initiate court litigation by Lundbeck should be irrelevant in determining the legality of the relevant settlement agreements, as settlements aim to avoid litigation. The “scope-of-the-patent test” essentially examines whether a restriction within a patent settlement falls within the temporal, territorial, and substantive scope of the patent. If the restriction does fall within all these three categories, it falls outside the scope of Article 101(1) TFEU. According to these critics, agreements falling within the scope of the patent do not restrict competition by object because: (i) they have the legitimate purpose of enforcing a (valid) patent; (ii) they are objectively unable to restrict otherwise existing competition; and (iii) the same result could be achieved through court proceedings. Notwithstanding the abovementioned criticism, the *Lundbeck* ruling will be crucial because the issue of “pay-for-delay” is becoming increasingly important in the European Union. Notably, since the *Lundbeck* decision, the Commission has followed the same approach in *Servier*.

*Servier* also concerned settlement agreements in which the originator, Servier, paid companies to delay market entrance of their generic drugs, in this case generic versions of Perindopril. In Servier, the Commission applied the same test as in Lundbeck to establish whether the agreements had the potential to restrict competition. The Commission found that Servier’s behavior, including the launch of a second-generation product in defense against generics, as well as payments

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280 Supra Note 59.
282 Id. para1154.
made to generic companies in return for their promises to refrain from entering the market, showed that Servier perceived the generic companies as potential competitors. The Commission concluded that the patent settlement agreements limited the introduction of generic products. All agreements contained contractual limitations imposed on the generic companies as a patent challenger (typically in the form of non-challenge and non-compete obligations) and a “reverse payment” in the form of an actual financial payment or another value transfer from the originator to the generic company. In light of these circumstances, the Commission found that all three main points defined in Lundbeck establishing whether patent settlements restrict competition were present, and that Servier had abused its dominant position. The Servier case is currently pending before the General Court, and the General Court seems unlikely to take a different approach than that of Lundbeck.

THE EUROPEAN COMMISSION’S ASSESSMENT OF MERGERS IN THE PHARMACEUTICAL SECTOR: CHALLENGES AHEAD FOR INNOVATORS

The Novartis/GlaxoSmithKline and Hospira/Pfizer Commission decisions provide insight into the Commission’s assessment of intellectual property rights and market power. In both these decisions, the Commission’s clearance was conditioned on the companies divesting products in their early stages of development. These two decisions demonstrate the Commission’s preference for relatively narrowly defined markets when intellectual property rights are at stake. In fact, according to the Commission, a single patented drug or molecule could constitute the entire relevant market. The Commission finds that this is an appropriate approach to safeguard incentives for innovation and to protect the proper functioning of competition within the European Union.

Novartis/GlaxoSmithKline

In 2015, the Commission cleared the proposed acquisition of the vaccines business of Novartis by GlaxoSmithKline, as well as the proposed creation of a new entity combining the consumer health activities of GlaxoSmithKline and Novartis. Both

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283 Id. para 1183.
284 Id. para 1184.
288 Supra Note 75.
companies were globally active in the development, distribution, and marketing of pharmaceutical products. The decision was conditional upon Novartis’s divestment of two cancer treatments in their early stages of development. The Novartis/GlaxoSmithKline transaction was actually a three-part deal involving: (i) the creation of a consumer healthcare joint venture; (ii) the acquisition of Novartis’s non-influenza vaccine business by GlaxoSmithKline; and (iii) the acquisition of GlaxoSmithKline’s oncology business by Novartis.

First, the Commission assessed that the proposed sale of the oncology business could result in a reduction in competition and innovation for cancer treatments and imposed commitments on the parties. According to the Commission, the number of companies developing and marketing products for skin cancer treatment would have decreased as a result of the duopoly between the merged entity and Roche, which illustrates the Commission’s tendency to narrowly define markets when evaluating the competitive impact of a proposed merger in the pharmaceutical sector. The Commission concluded that monotherapies and combination treatments for the same cancers fall into two distinct markets.289

Second, the Commission’s assessment took the long-term into account and evaluated the transaction’s impact on innovation and the development of future markets, as the parties were both developing active ingredients for the treatment of other cancers. The Commission was concerned that the sole ownership of both GlaxoSmithKline’s and Novartis’s research programs would lead to one of them being abandoned, which could result in decreasing competition in future markets and in an increase in prices for patients and healthcare systems. In addition, the Commission assessed that the variety of treatments available would be reduced, as it found that the transaction would likely decrease incentives for parallel research programs.290 It is thus clear that the Commission had concerns relating to a significant reduction in research and development efforts after the transaction. The Commission approved the transaction, because it estimated that the commitments offered by Novartis (i.e., the divestiture of two cancer treatments in their early stages of development) adequately addressed its competition concerns, as it guaranteed the preservation of the remaining research programs.
Hospira/Pfizer

Due to the high combined market shares of Pfizer and Hospira for certain molecules in some European Union Member States, the Commission had concerns that the merged entity would face insufficient competitive pressure from the remaining market players, risking price increase and a potential discontinuation of the infliximab biosimilar drug developed by Pfizer. Biosimilar drugs have the same therapeutic mechanism as original patented biological pharmaceuticals, but – unlike generics – are not exact copies of the originator drugs. Therefore, the Commission imposed remedies: Pfizer committed to divest certain sterile injectable drugs, as well as its infliximab biosimilar drug, which was then under development. Given that biological drugs are expensive, the introduction of biosimilar pharmaceutical products on the market decreases prices and increases access for patients.

In its Hospira/Pfizer decision, the Commission also adopted a narrow market definition. It separated the market for biosimilar drugs from the one for small molecule generics, claiming that, even if they are similar, the two types of drugs are not identical. The Commission found that, as it is seen as risky for patients to switch from one product to another, originators are able to build a stock of “locked-in” patients who are already undergoing treatment and to strictly limit competition to newly-diagnosed patients, as opposed to the entire treatable patient base.

As a result, the Commission found that the proposed transaction would lead to Pfizer abandoning the development of its biosimilar drug, thus removing an important future competitive constraint, which would be detrimental to patients. To address the Commission concerns, Pfizer's agreed to divest its infliximab biosimilar drug.

The Unified Patent Court, an adequate response to “PATENT TROLLS”?

A “patent troll” pejoratively describes individuals or companies that misuse patents as part of their business strategy. A “patent troll” typically buys patents from bankrupt companies attempting to liquidate their assets or do just enough research to be able to pretend they came up with a patented item first. Once it obtains the patent, the company launches lawsuits against other companies if finds to be
infringing its patent, or simply holds the patent without the intention of actually using it, in an attempt to stall its competitors’ productivity.\textsuperscript{294}

“Patent trolls” are perceived as a serious threat in the United States.\textsuperscript{295} However, in the European Union, the issue only arose relatively recently. Nevertheless, even if this phenomenon is less common than in the United States, instances involving “patent trolls” in the European Union are increasingly frequent. In response to this threat to innovation, Member States established a centralized litigation system, the Unified Patent Court, in 2013.\textsuperscript{296}

The Unified Patent Court harmonized and rationalized patent portfolios management, while also reducing management costs. This unified system also reduces procedural costs, as procedures are centralized. Nevertheless, the system has been criticized and two provisions of the Unified Patent Court’s rules of procedure are particularly controversial.

The first provision, Article 62(2) of the Unified Patent Court Agreement, relates to provisional and protective measures. This provision sets out that, when requested to grant preliminary injunctions, seizures, or delivery-up orders, the Unified Patent Court “\textit{may [...] require the applicant to provide any reasonable evidence in order to satisfy itself with a sufficient degree of certainty that the applicant is the right holder and that the applicant’s right is being infringed, or that such infringement is imminent}” (emphasis added).\textsuperscript{297} This article confers an important degree of discretion regarding the standard proof the patentee must comply with. However, Article 62(2) of the Unified Patent Court Agreement raises a lot of concerns, as some of the Unified Patent Court divisions may be likely to require a very low standard of proof, making it easier for any patentee, including a “patent troll,” to obtain preliminary measures that are not truly justified.


\textsuperscript{296} The Unified Patent Court (UPC) is a proposed common patent court open for participation of all member states of the European Union. It will be a court common to the contracting Member States. It will have exclusive competence in respect of European patents and European patents with unitary effect. The UPC will not have any competence with regard to national patents.

\textsuperscript{297} Unified Patent Court Agreement, Article 62(2).
The second concern relates to the competence of the court of first instance of the Unified Patent Court under Article 33 of the Unified Patent Court Agreement. This provision establishes that infringement proceedings should generally be brought before the Unified Patent Court division in the respective region where the infringer is located or where the infringement occurred (i.e., “local” division). If an alleged infringer files a counterclaim asking for patent revocation, the local division of the Unified Patent Court dealing with the infringement action has discretion to decide whether or not to refer the counterclaim to another Unified Patent Court division (i.e., the central division, which predominantly deals with revocation actions). If a local division of the Unified Patent Court decides to proceed with the infringement action, it does not have to wait for the outcome of the counterclaim to issue a revocation. Consequently, the action nullifies the defensive effect of the counterclaim and enhances the likelihood that the local division will find a potentially invalid patent infringement. Thus, if the discretion given to local divisions is exercised too freely or frequently, it may enable “patent trolls” to obtain favorable infringement decisions on invalid patents.

A letter published on September 26, 2013 by the New York Times highlighted this controversy. This letter alerted the European Union institutions of the risks of the above provisions and is signed by the world’s largest corporations, which have immense patent portfolios and are involved in numerous patent-related litigations worldwide, such as Samsung Electronics Co. Ltd, Blackberry, Google Inc., and Microsoft. These companies are confronted to “patent trolls” and face each other in several patent-related litigations and emphasized the need for efficient tools to protect patents from the threat of “patent trolls.” They denounced the Unified Patent Court whose newly-established system they find unlikely to efficiently protect patent holders against “patent trolls”. They strongly advocate for the adoption of rules of procedure that will “allow operating companies to focus on innovation instead of litigation, thereby fostering economic growth and prosperity in Europe.” Nevertheless, the controversy has not led to any reform of the Unified Patent Court system or rules of procedures.

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300 Id.
301 Supra Note 82.
CONCLUDING REMARKS: AN ONGOING CHALLENGE
An analysis of the European Commission’s decisional practice and of the European Courts’ case law reveals that these institutions are still in the process of finding exactly the right balance between intellectual property rights and competition law. One of the challenges they face is ensuring that the intellectual property rights are not misused so as to distort competition within the European internal market and harm consumers. Additionally, European competition law is facing new challenges, such as the “patent troll” issue, and European Union Member States have been proactive in attempting to establish new tools to tackle arising issues in an efficient and harmonized manner. Nevertheless, some of these efforts have led to heated debates over European competition law’s ability to alleviate competition concerns related to intellectual property rights. Pending cases before the European Courts and future cases will send a most-welcomed sign as to where this is all heading to, so be on the lookout.
Enforcement Policy and Guidance

Statutory framework
The following section provides an overview of the statutory framework applicable to intellectual property (“IP”) and competition law in Germany. It deals with the different types of IP rights and restrictions on how those rights may be enforced, licensed, or otherwise transferred under intellectual property and competition law.

Intellectual property rights
In Germany, intellectual property rights are granted by statute. The available IP rights can be classified as follows.

Technical rights: Technical inventions that are new and innovative may be protected under the Patent Act of 1981 (as amended April 4, 2016) or as utility models under the Utility Model Act (as amended April 4, 2016). In the respective industry sectors, the Plant Variety Protection Law (as amended August 2013) and the Act on the Protection of the Topographies of Microelectronic Semiconductor Products (Semiconductor Protection Act, as amended October 19, 2013) are also relevant. Additionally, the Regulation on Unitary Patent Protection (Regulation (EU) No. 1257/2012) established the European patent with unitary effect, known as the “unitary patent,” in 25 European member states, including Germany.

Trademarks: The Act on the Protection of Trademarks and Other Signs (as amended April 4, 2016) protects trademarks and other protected designations. The Council Regulation (EC) No. 40/94 of December 20, 1993 on the Community Trade Mark (Community Trademark Regulation), provides for trademark protection at the EU level. The Regulation is the basis for community trademarks that directly affect all member states, including Germany.

Designs: New and individual designs are protected under the Law on Protection of Designs (as amended by Act of April 4, 2016). In addition, Council Regulation (EC)
No. 6/2002 of December 12, 2001 on Community Designs (Community Design Regulation) provides protection for EU designs with direct effect in Germany.

**Copyright:** German copyright law protects literary, scientific and artistic works if they constitute personal intellectual creations. Copyright protection is governed by the Law on the Administration of Copyright and Related Rights (as amended April 4, 2016).

The Act Against Unfair Competition (as amended October 1, 2013) provides complementary protection of IP, as it outlaws unfair business practices and practices that mislead consumers. The Act Against Unfair Competition has particular relevance where IP protection has expired or where IP protection does not exist, since it sanctions passing-off of competitor products under the doctrine of so-called “slavish imitation.”

**Restrictions on enforcement, licensing and transferring IP**

All German IP rights may be licensed partly or completely to third parties. The licensing follows the general rules on the assignment of claims pursuant to the German Civil Code. The ownership of all IP rights can be transferred by private assignment to third parties, except for copyright. Owing to the personal nature of the copyright, its holder cannot transfer the original copyright but only grant exploitation rights (i.e., licenses) to third parties.

The IP right-owner is mostly free to decide whether to grant third parties the right to use the IP. Its ability to prevent the use of its IP is exhausted once the products have been sold in an EU market with the consent of the IP right-holder. The obligation to grant compulsory licenses on fair, reasonable and non-discriminatory (FRAND) terms mainly applies to standard-essential patents (SEPs); it is, however, applicable to any IP right representing an essential facility for the manufacture or distribution of products on the relevant product market.

Germany has implemented the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). The scope of IP rights under German law generally exceeds the minimum TRIPs requirements. For example, the term of the copyright exceeds the TRIPs provisions by 20 years (70 years of protection in Germany instead of 50 years). Moreover, the TRIPs agreement serves as a tool of interpretation in German case law where the wording of national laws is ambiguous and permits seeking guidance from the TRIPs agreement.
**Competition law**

The main competition statute is the Act Against Restraints of Competition (ARC). The ARC contains the substantive rules on cartels, dominance and merger control. It also sets out specific procedural rules. In addition, the German Federal Cartel Office (FCO) has published guidelines on leniency applications, and the calculation of fines, which are available in German and English at www.bundeskartellamt.de.

In regards to anticompetitive agreements, as an EU member state Germany is bound to apply the substantive competition laws of the European Union. Hence, German antitrust law is aligned with the EU rules on cartels, distribution, joint research and development, and technology transfer. In the area of unilateral conduct, the EU member states have more discretion to define their own policies, and Germany is known for its rather strict dominance rules.

As a member state of the European Union, German agencies and courts apply the IP-specific rules of the EU, such as the Technology Transfer Block Exemption (EU) No. 316/2014 and the Block Exemption on Joint Research and Development (EU) No. 1217/2010.

**Enforcement authorities**

The European Commission and the national enforcement agencies of the member states enforce competition law in the EU. The national antitrust agency for Germany is the FCO. The individual German regions also have antitrust agencies, which are less relevant in the area of IP and antitrust. The competition authorities have discretion to begin investigations on their own initiative or based on complaints. FCO decisions can be appealed to the Higher Regional Court in Düsseldorf.

**Cartels**

Where an IP-related agreement has the object or effect of restricting competition, the parties may infringe antitrust law. The Technology Transfer Block Exemption (EU) No. 316/2014 helps parties assess the compatibility of their agreement with competition law. For example, where competitors license technology, but restrict output, allocate markets, or limit the ability to set prices or the ability of the licensee to exploit its own IP, the licensing agreement is unlikely to qualify for an exemption. While each market player is responsible for ensuring compliance with the antitrust laws, the FCO is available to discuss novel issues.

Patent settlements are accepted as a legitimate means of ending a dispute. If the parties to the dispute agree in the context of a patent settlement to license or cross-license the disputed IP rights in return for withdrawal or an annulment of an infringement claim, such conduct is generally compatible with competition law.
Scrutiny is more likely in the case of settlements involving a value transfer (reverse payment) from the licensor in return for limitations (product-specific, geographical or timely) on the licensee’s entry or expansion into the market. In particular, pay-for-delay settlements may be viewed as having the object or effect of restricting competition unlawfully (see Case T-472/13, *Lundbeck v. Commission*, EU:T:2016:449).

**Dominance**
The holder of an IP right generally may exclude others from using it, except in exceptional circumstances where the competition rules require the licensing of IP on FRAND terms.

The refusal to license essential IP can be considered an abuse of dominance. Whether the IP holder is dominant will mainly depend on the availability of substitutable technologies, or whether the patent is essential to a standard. Where the patent is essential, the refusal to grant a license on FRAND terms can amount to an abuse of dominance. This topic is further addressed under the judicial precedents section and current developments section.

**Mergers**
The antitrust authorities may also challenge a merger involving the transfer or concentration of IP rights. Where the stipulated thresholds are exceeded, mergers may only be completed once the competent antitrust agency has cleared the transaction.

In 2017 Germany expanded the reach of its merger control regime. The value of a transaction can now trigger a filing requirement where the parties to the transaction have significant activities in Germany. According to the revised statute, a transaction will be subject to review by the FCO if in the business year immediately preceding the transaction:

1. the combined aggregate worldwide turnover of all participating undertakings was greater than EUR 500 million; and

2. the domestic turnover of at least one relevant undertaking was greater than EUR 25 million; and

3a. the domestic turnover of another relevant undertaking concerned was greater than EUR 5 million; or
3b. the value of the consideration paid for the transaction exceeds EUR 400 million and the target is active in Germany to a significant extent.

The transaction value includes the purchase price and any other monetary benefits paid by the buyer as well as the value of any liabilities the buyer assumes. The target will be considered to have a local nexus if it carries out activities in Germany that it might monetize in the foreseeable future, e.g. a significant user base in Germany or substantial R&D activities.

Where the turnover or size-of-transaction thresholds are exceeded, the FCO will block a transaction that would significantly impede effective competition (i.e., where the combination of IP portfolios would result in the merged entity being able to monopolize the market).

Formal guidance on license restriction, acquisition of IP, refusals to license, patent pools, and standards development

There is no specific national guidance, but the German courts will often defer to guidelines published by the EU institutions, notably those on horizontal cooperation, vertical restraints or technology transfer. Furthermore, there is an extensive body of national case law.

**Judicial precedents**
The Court of Justice of the European Union (CJEU) has confirmed that IP rights can be enforced without significant limitations (see, e.g., Case 238/87, Volvo v. Veng, EU:C:1988:477). However, extensive case law is available regarding almost all IP rights addressing the nexus between IP and competition law in scenarios where the exploitation of the IP rights leads to negative market effects, such as preventing competitors from creating and offering new products for which customer demand exists.

**The FRAND doctrine**
According to the FRAND doctrine, the IP right-owner must grant a license to third parties if the license is necessary to establish competition in the relevant markets for the standard or downstream products. In its decision in Case C-170/13, Huawei v. ZTE, ECLI:EU:C:2015:477, the CJEU specified the conditions under which the owner of an SEP is obliged to grant license rights to third parties. The court also ruled that the owner of an SEP must inform alleged infringers of the infringement prior to bringing an action against them. If the infringer expresses its willingness to conclude a licensing agreement on FRAND terms, the SEP owner is obliged to
present a specific, written offer for a license on such terms, specifying, in particular, the royalty and the way in which it is to be calculated. Where the alleged infringer does not diligently respond to the offer and continues to use the patent in question, the SEP owner may then bring an action for infringement seeking an injunction, which will not constitute an abuse of dominant position.

**Resale price maintenance**
Germany takes a strict view on resale price maintenance. Unlawful resale price maintenance may include, inter alia, fixed margins, fixed maximum levels of discounts, linking the sales price to the sales prices of competitors, threats, intimidations, warnings, penalties or contract termination in relation to observance of a given price level.

While EU regulations allow for individual justifications of resale price maintenance in exceptional cases, Germany has never accepted a case as satisfying all criteria. Recent resale price maintenance cases concerned computer software, hearing aids and optical products.

Against this backdrop, any attempt by the licensor to establish a fixed or minimum price level to be observed by the licensee when selling licensed products to third parties is considered a hard-core restriction of competition, which typically creates liability.

**License fees for invalid patents**
In a widely recognized patent dispute between Genentech and Sanofi on royalty payments with connection to Germany, France and the US, the CJEU ruled that Genentech had to pay royalties to Sanofi-Aventis Deutschland under its license agreement (see Case C-567/14, *Genentech v. Hoechst GmbH*, ECLI:EU:C:2016:526). The CJEU determined that European competition law does not prohibit the payment of a license fee for the use of a technology, notwithstanding the non-infringement of the patents at issue. The same principle also applies if the technology was never even protected because of a retroactive invalidation of the patent.

This is in line with the CJEU’s previous ruling with respect to license fees for expired patents (see Case C-320/87, *Ottung v. Klee & Weilbach A/S*, ECLI:EU:C:1989:34). According to the reasoning of the CJEU, license fees provide the security for the licensee to use the patented technology commercially without being exposed to a risk of an infringement action by the licensor. If the licensee can freely terminate
the contract, he or she is also not restricted in his or her freedom to act. Moreover, the court ruled out that the payment of the fee would impair competition. The licensee has the option at all times to either pay the license fee without having to examine actual patent infringement or terminate the contract and expose him or herself to the risk of an infringement action.

**Screen scraping**
The circumvention of technical hurdles when assessing websites and online databases was subject to the Federal Supreme Court (FSC) decision of April 30, 2014 (FSC, docket I ZR 224/12, Flugvermittlung im Internet [Booking Flights on the Internet]) as well as the CJEU decision of January 5, 2015 (Case C-30/14, Ryanair Ltd v. PR Aviation BV, ECLI:EU:C:2015:10). The decisions provide guidance on the legal restrictions for the automatic crawling of internet content (screen scraping). According to the FSC, in general, screen scraping does not constitute an infringement of competition rules. However, the CJEU ruled that it is possible to prohibit scraping in general terms and conditions, as long as the respective data is not a protected database in the legal sense.

**Defenses and exemptions**
German statutes do not define specific carve-outs, but the EU block exemption regulations apply, notably the Technology Transfer Block Exemption (EU) No. 316/2014 and the Block Exemption on Joint Research and Development (EU) No. 1217/2010.

The Technology Transfer Block Exemption clarifies when a licensing agreement on technology rights should be deemed not to be anticompetitive; in other words, when such an agreement is deemed to be “exempt.” Under the Regulation, a right-holder may grant sole or exclusive licenses, depending on the market shares of the parties. Where the parties are competitors, exclusivity is within the safe harbor of the Regulation. In the case of an agreement between non-competitors, the threshold is 30 percent market share. The licensor can even restrict active and passive sales of the licensee into a territory or to a customer group reserved to it exclusively.

Settlement agreements, including court settlements, are treated like regular licensing agreements. Thus, a settlement including a termination clause may be outside the safe harbor of the block exemption. This does not automatically render the agreement void, but its impact on competition needs to be assessed with care. Furthermore, paragraph 4.3 of the Guidelines on Technology Transfer Agreements
(2014/C 89/03 of March 28, 2014) clarifies that such a settlement would generally not be deemed to be an anticompetitive measure because its purpose is to end mutual legal attacks.

**Penalties**

**Statutory basis and typical penalties for violations**

There are no special remedies under German antitrust law that are specific to IP matters. In general, the competition authorities have the power to order the discontinuation of specific conduct, and can impose significant financial penalties. The FCO can order a company to cease asserting infringement, which in practice will often mean an order to divest IP or to offer a license on FRAND terms. It can also sanction infringements by imposing significant fines. The September 1, 2006 Commission Guidelines and the June 25, 2013 FCO Guidelines describe the method of setting fines.

To monitor consumer protection infringements, the FCO may also carry out sector inquiries when it has the suspicion of significant, long-lasting or repeated infringements against consumer protection provisions, such as using invalid terms and conditions. However, sector inquiries only serve as instruments for collecting information.

Parties to a corporate transaction are well advised to consider potential remedies early on, as the FCO may need a substantial part of the review period to consider their economic effects. In its case-by-case analysis, the FCO will analyze the long-term effects on the market. It may then grant a conditional clearance. The FCO prefers structural remedies (i.e., divestments). Granting licenses or other behavioral remedies may be available in exceptional circumstances.

Furthermore, IP disputes alleging an infringement of competition law can be brought in the civil courts.

**Liability**

Fines may not only be imposed on the company found guilty of the infringement, but also on companies that had decisive influence over that company (Section 81 (3a) ARC). This is likely to capture parent companies in most cases.

The EU concept of a “single economic entity” already allows the Commission to impose a fine on the parent company. In addition, the legal successor (*Rechtsnachfolger*) of an addressee of a fine and the economic successor
(wirtschaftlicher Nachfolger) of the infringing entity can also be held liable for the infringer’s conduct. These provisions mainly address restructuring cases where assets of a fined company are purchased by another company and the purchaser continues the business following the transaction.

**Adjustment of fines and sentences**
Under their respective leniency guidelines, the competition authorities can grant cartel members, who by their cooperation contribute to uncovering a cartel, immunity from or a reduction of fines. The FCO Leniency Program of March 7, 2006 and the EU Commission Leniency Notice of December 8, 2006 set forth the conditions under which immunity from fines can be granted. Furthermore, the Guidelines permit the competition authority to reduce fines imposed on a cartel participant by up to 50 percent in cases in which the addressee does not meet all the conditions for immunity. In principle, the Guidelines only apply to horizontal cartels, but under certain conditions may also be applicable to other antitrust infringements.

Whereas leniency applicants thus far have only benefitted in relation to the imposition of fines, under the recently amended ARC applicants will also benefit from restricted civil damages liability. In this regard, they only have to compensate for damages incurred by their own direct or indirect purchasers (i.e., avoiding joint and several liability for damages of purchasers from other cartel members). In relation to other damaged parties, leniency applicants are liable only if these parties cannot obtain full compensation from the other cartel members (Section 33e ARC).

**Private Enforcement**

**Damages claims**
The main basis for damages claims resulting from an infringement of competition law is section 33a of the ARC. Germany implemented the EU Damages Actions Directive in 2017, with the view to further facilitating claims arising from competition law infringements. Under German law it is presumed that a cartel results in harm. However, the cartelist defendant has the right to rebut this presumption (Section 33a (2) sentence 1 ARC). Moreover, the regular limitations period for cartel damages claims was extended to five years after the end of the year in which the claim arose and the claimant gained (or could reasonably have gained) knowledge of the infringement.
In addition, the statute provides tools for (potential) claimants as well as for defendants to require the other party to disclose some of its internal information or documents (Section 33g (1-10) ARC). Third parties can also be required to disclose certain evidence. The claim is, however, limited by the principle of proportionality. A disclosure claim can be invoked by a claimant that potentially suffered damages even before an action for compensation is filed, for example to prepare for settlement negotiations.

As all members of a cartel are jointly and severally liable for the total amount of damages (Section 33d (1) ARC), claimants usually file actions against all co-conspirators. As between each other, individual defendants are solely liable for their own share of harm (whether directly or indirectly caused).

**Calculation of damages**

To facilitate the quantification of damages in antitrust damages actions, the Commission adopted a Communication (C 167/19 of June 11, 2013) and a more detailed Practical Guide (SWD (2013) 205 of June 11, 2013). In the Communication, the Commission outlined the main principles to guide courts and parties in calculating damages, such as the requirement that national rules on quantification should not make it excessively difficult or practically impossible to obtain compensation for the harm suffered. According to the German Code of Civil Procedure, difficulties regarding the calculation of damages may be overcome by judicial estimation.

In accordance with the EU Damages Actions Directive, the defendant may invoke the passing-on defense. This enables the defendant in an action for damages to invoke as a defense against a claim for damages the fact that the claimant passed on the whole or part of the overcharge resulting from the infringement of competition law. The burden of proof that the overcharge was passed on is on the defendant. In this regard, the Directive provides for the defendant to be able to reasonably require disclosure from the claimant or from third parties.

**Interplay between government investigations and private litigation**

Where the antitrust agency has already found an infringement, the court seized with the damages action is bound by the decision of the agency. Under German law this holds true for EU Commission and FCO decisions and even for decisions taken by competition authorities of other EU member states. The same applies for final judgments as a result of an appeal against the agency’s decisions.
Current Developments

Pay-for-delay
The Commission considers “pay-for-delay” clauses – meaning agreements in which the licensor offers an incentive to the licensee in order to prevent the latter from attacking the patent, or to delay the introduction of a new product – to be impermissible. This is particularly relevant for drug approval procedures by manufacturers of generic drugs. Pay-for-delay agreements between competitors normally violate article 101(1) of the Treaty on the Functioning of the European Union (see also Case T-472/13, Lundbeck v. Commission).

Compulsory licensing (FRAND)
The decision of the CJEU in Case C-170/13, Huawei v. ZTE, which provides guidance on compulsory licensing, continues to influence German patent litigation.

The national courts have refined the CJEU standards. German Courts of First Instance in Düsseldorf, Mannheim and Munich have applied the CJEU decision in a rather patentee-friendly manner. In most cases, the FRAND defense did not succeed because the court found that the defendant had not sufficiently demonstrated that he or she is indeed a willing licensee and complied with the standards set out by the CJEU. As a consequence, the courts often rejected the FRAND defense, irrespective of whether the SEP owner had complied with its obligations and provided an adequate offer of a FRAND license first.

By contrast, the German Courts of Appeal have taken a closer look at the obligation of the SEP holders. The Higher Regional Court Karlsruhe ruled that the courts have a duty to assess whether the license offer of the SEP owner complies with FRAND terms. The Higher Regional Court Düsseldorf clarified, inter alia, that the SEP owner must explain why the proposed royalty rate is non-discriminatory and non-abusive under the conditions prevailing on the relevant market (e.g., by submitting comparable licenses it has entered into). The patent senate (Senate of the German Federal Patent Court) drew this requirement from the obligation of the SEP owner to specify the amount of the FRAND royalty offered, as “it is for the proprietor of the SEP to present to that alleged infringer a specific, written offer for a license on FRAND terms, in accordance with the undertaking given to the standardization body, specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated” (citing Case C-170/13, Huawei, paragraph 63). The latter requires more than just providing information on the reference value and a reasonable royalty rate.
The trend in German case law confirms that the risk of making a compliant first FRAND offer lies with the SEP owner.
INTRODUCTION

The interface of intellectual property ("IP") and competition law has long presented interesting issues and challenges for academicians and practitioners alike. The perception of there being an ‘apparent conflict’ between the two is now trite and has been debunked over the years with the recognition that the two laws complement each other to achieve identical goals – that of welfare enhancement.  

While the ‘apparent conflict’ may have been resolved, this does not necessarily imply a smooth interaction between the two laws and the interface of the two laws continues to raise several interesting questions. Most jurisdictions across the globe have battled with tensions between the two regimes and India is no exception. The implementation of the Competition Act, 2002 ("Act") has also raised the potential for conflicts with the existing Indian IP regime.

The implementation of these two regimes in India has revealed that while the end goal under both systems appear to be largely the same, there is a unique issue of immediate ‘conflicting outcomes’ that has arisen when these two systems of law are forced to interact. India has very keenly experienced the issue of the ‘conflicting outcomes’ in the form of challenges to the jurisdiction of the Competition Commission of India ("CCI") to deal with anti-trust issues relating to conduct arising out of exercise of intellectual property rights ("IPR").

The Act is the sole repository of competition law and the CCI is the specialized body charged with implementation of the Act in the country. However, the regime for IPR in India is contained in various statutes - each dealing with a different IPR, and is

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303 Partner at Economics Laws Practice.
305 Illustratively, see Patents Act 1970 (dealing with Patents), the Designs Act, 2000, the Trade Marks Act, 1999, the Copyright Act 1957
supplemented by the National Intellectual Property Rights Policy\textsuperscript{306} ("IPR Policy"). Further, there are various statutory authorities as well as courts that are charged with implementation and enforcement of these statutes. While the Act does draw reference, in at least one place to the statutes related to IP\textsuperscript{307}, and incorporates provisions that require coordination between statutory authorities and the CCI\textsuperscript{308}, reference to either the Act or the competition regime itself is conspicuous by its absence from the IP statutes and the IPR policy. Since most IP statutes were enacted prior to the Act, the absence of any reference to the Act in those IP statutes is justifiable. However, the recently released IPR Policy’s failure to accord due recognition to competition policy is a classic case of a missed opportunity to address the existing conflicts.

This article aims to provide an overview of the intersection between the two legal regimes in India while delivering a practical insight into the main areas where the two laws interact i.e., abuse of dominant position, anti-competitive agreements and regulation of combinations (merger control). The article describes the issues that emerge in such areas with a special focus on jurisdictional issues which are unique to India as well as enforcement of rights by holders of Standard Essential Patents ("SEPs") and their obligations to license their patented technology on Fair, Reasonable and Non-Discriminatory Terms ("FRAND"). The article thereafter briefly discusses the potential enforcement trends that are likely to emerge in India along with concluding remarks.

**LEGISLATION**

**Treatment of IPR under the Competition Act, 2002**

The Act is based on three broad pillars – prohibition of anti-competitive agreements (Section 3), prohibition of abuse of dominant position (Section 4) and regulation of combinations (Sections 5 and 6). The CCI has the responsibility to enforce these three aspects of the law. Making the enforcement under Section 3 and 4 of the Act more palatable are powers given to the CCI to not just issue orders to ‘cease and

\textsuperscript{306} Department of Industrial Policy and Promotion, Ministry of Commerce, National Intellectual Property Rights Policy, 12 May 2016,

\textsuperscript{307} Section 3(5) of the Act creates an exception and protects the implementation of the rights granted under the statutes mentioned therein.

\textsuperscript{308} Section 21 makes provision for reference by a statutory authority to the CCI where a decision taken by the authority may be contrary to the provisions of the Act. Similarly, under Section 21A of the Act, the CCI may make a reference to a statutory authority where its decision would be contrary to the implementation of the statute entrusted to the statutory authority.
desist\textsuperscript{309} from indulging in prohibited conduct, but also to impose penalties which can be up to 10\% of the relevant turnover of the entity.\textsuperscript{310} In cases relating to abuse of dominant position, the CCI is also empowered to direct the division of an enterprise found to be abusing its dominant position.\textsuperscript{311} In addition to this, any person or enterprise or the Government can make an application before the appellate authority i.e., the National Companies Law Appellate Tribunal seeking compensation for loss or damage caused due to the contravention of the provisions of the Act.\textsuperscript{312} Together, these imply serious monetary and reputational damage for any enterprise found to be contravening the provisions of the Act.

**IP and anti-competitive agreements**

Under Section 3 of the Act, agreements that cause or are likely to cause an appreciable adverse effect on competition (’\textit{AAEC}’) in India are anti – competitive in nature and are declared void. Section 3 of the Act brings within its purview both vertical agreements (i.e. agreements between competitors concerning limiting or controlling production and supply of goods, price fixing, bid rigging, etc.) and horizontal agreements (i.e. agreements between enterprises or persons at different levels of production, supply, storage, sale or price of, or trade in provision of services such as tie in arrangements, exclusive supply and distribution agreements, refusal to deal and resale price maintenance).

Notably, Section 3(5)(i) of the Act expressly exempts agreements that deal with IPR from the rigours of the general prohibition on anti-competitive agreements. The provision states that nothing contained in Section 3 of the Act can restrict the right of any person to \textit{restrain any infringement of or impose reasonable conditions for protecting his/her rights} conferred upon him as under the following:

- a) The Copyright Act, 1957 (14 of 1957)
- c) The Trade and Merchandise Marks Act, 1958 (43 of 1958) or the Trade Marks Act, 1999 (47 of 1999)

\textsuperscript{309} Section 27(a) of the Act
\textsuperscript{310} Section 27(b) of the Act read with the decision of the Supreme Court in Excel Crop Care Ltd v. CCI & Anr., C.A. No. 2480 of 2014 where the Supreme Court held that penalty under Section 27(b) of the Act can only be imposed on the relevant turnover i.e., the turnover of the goods/services to which the infringement pertains.
\textsuperscript{311} Section 28 of the Act This is in contrast to the predecessor of the CCI, the Monopolies and Restrictive Trade Commission
\textsuperscript{312} Section 53N of the Act makes provision for private enforcement of damages, though such enforcement can only follow the final findings of contravention by the CCI.


The presence of Section 3(5) of the Act implies that the holder of an IPR can enter into an agreement to - (a) restrain infringement of; or (b) impose conditions necessary for the protection of rights granted under the statutes mentioned in the said section, and such an agreement would not be treated as void under Section 3 of the Act.313 Section 3(5) of the Act is a recognition of the rights of the IP holders and it seeks to balance the rights granted under two complementary statutes.

In practice however, a very strict interpretation of the exemption available under Section 3(5) of the Act has been adopted. The erstwhile Competition Appellate Tribunal (“COMPAT”)314 in while agreeing with the CCI noted that mere existence of an IPR would not itself be sufficient for the purposes of claiming the exemption. Decisional practice requires the party claiming the exemption to show that the restriction was reasonable and necessary viz., that the protection of the validly granted and subsisting IPR in India would be impossible but for the restriction(s) sought to be imposed. Moreover, the exemption under Section 3(5)(i) of the Act can only be claimed where the existence of a validly subsisting IPR, granted under one of the statutes specified in Section 3(5)(i) of the Act, is established. The COMPAT and the CCI also clarified that validly subsisting patents or trademarks or other IPR, registered under relevant statutes outside India would not fall within the scope of Section 3(5)(i) of the Act, as IPR. The COMPAT however did carve out an exception stating that a lawful licensee/assignee of a validly subsisting IPR, outside India, may be able to claim protection of Section 3(5)(i) of the Act, however, it would have to be proved that a valid license or assignment has been made in terms of the applicable statute specified in Section 3(5)(i) of the Act.315

As evident, even though Section 3(5) of the Act gives protection with respect to exercise of IPR, the exemption has been significantly watered down. Further, the provision has inherent uncertainties, as it requires that the owner of the IPR

313 The CCI in FICCI – Multiplex Association of India v. United Producers/Distributors Forum, Case No. 01/2009, CCI order dated 25 May 2011, held that Section 3(5) cannot be invoked unless these two conditions are fulfilled. (at para 23.28)

314 The COMPAT has now replaced by the Finance Act, 2016 by the National Company Law Appellate Tribunal.

315 Toyoya Kirosklar Motor Pvt Ltd. v. CCI & Anr, Appeal No. 60/2014, COMPAT’s judgement dated 09 December 2016
imposes “reasonable conditions”. However, there is no guidance on what can or is likely to constitute a “reasonable condition” leaving much to the discretion of the CCI and scope of ambiguity for the parties concerned.
IPR and abuse of dominant position

One of the areas where the tensions in the intersection between IP and competition regime is most pronounced is the enforcement of the prohibition on abuse of dominant position. Section 4 of the Act states that no enterprise or group shall abuse its dominant position. The determination of abuse of dominant position is a three-step process viz., delineation of the relevant market; determination of dominant position in the identified relevant market; and finally, the determination of whether the conduct in question falls within one or more of the statutorily recognised abusive conduct. IPR and its ownership raises some interesting issues with respect to each of these three steps.

Delineation of the relevant market and its impact on assessment of dominant position

The Act states that relevant market shall mean the relevant market as determined by the CCI with reference to relevant product market or relevant geographic market or both. The cornerstone of the delineation however, is ‘substitutability’ and under the Act ‘demand side substitutability’ has been recognised as the appropriate test.

It is recognised that the delineation of the relevant market is a very important and basic means to the assessment of dominant position. As per the Act, a dominant position is defined to mean a “position of strength which enables an enterprise to operate independently of competitive forces prevailing in the relevant market or affect its competitors or consumers or relevant market in its favour”.

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316 See, Section 2(r) of the Act
317 See, Section 2(s) and 2(t) of the Act read with Section 19(6) and 19(7), respectively.
318 See, Section 2(t) of the Act which states that relevant product market comprises all those products and services which are considered interchangeable or substitutable by the consumer; In Re. M/s HT Media Limited & M/s Super Cassettes Industries Limited, Case No. 40/2011 order dated 1 October 2014 at para 153; Meru Travel Solutions Private Limited (MTSPL) v. Uber India Systems Pvt. Ltd., Case No. 81/2015, Order dated 22 November 2015 at para 29
319 See, illustratively, Financial Software & Systems Pvt Ltd v. ACI Worldwide Solutions Pvt. Ltd., Case No. 52/2013, CCI’s order dated 13 January 2015 where the CCI’s delineation of the relevant market differed from that of the Director General, CCI (DG) leading to the conclusion that the Opposite Party was not in dominant position in the newly delineated market. The CCI has in fact recognised that the “The edifice of competition law rests upon dynamics of competition in one particular market.” See, In Re. M/s HT Media Limited & M/s Super Cassettes Industries Limited, Case No. 40/2011 order dated 1 October 2014 at para 133.
320 Explanation (a) to Section 4 of the Act
Delineation of the relevant market is a complex process and is often rendered more complicated where the infringing product/service itself is protected by an IPR or is based on or derived from a product which is protected by an IPR. Since the existence of an IPR implies exclusivity, it is easy for any competition regulator to treat the infringing protected product as the only constituent of the relevant market foregoing the demand side substitutability test to accurately determine the components of the relevant market. This problem is often aggravated by the fact that any IPR protection is based on fulfilling criterion of ‘novelty’ and hence an infringing product protected by IPR will definitely have some characteristics that distinguish it from the pre-existing products in the market. However, this novelty may or may not have an impact on substitutability assessment. Nevertheless, the impulse to drive the assessment solely from a ‘characteristics’ standpoint without assessing ‘economic substitutability’ can lead to a much narrower relevant market, consequently impacting the assessment of dominance as well. While the existence of an IPR can be viewed as one factor in a relevant market analysis, the existing statutory framework would necessarily require the CCI to appropriately factor in other substitutability aspects as well.

The enforcement trend emerging from the CCI reveals that on at least three occasions, the CCI has prima facie given in to the impulse of treating the infringing product as the relevant market and thereby concluding that the entity has a dominant position in the market. However, investigations are still underway in these cases and final orders are awaited and as such, it remains to be seen whether the CCI will ultimately delineate the relevant market without appropriate substitutability assessment, basing it solely on the existence of IPR in the infringing products and the novelty associated therewith. Further, in a case pertaining to copyrights, the CCI held that since copyright is a bundle of rights each such right would constitute a separate market. While in this case the CCI entered into a detailed substitutability assessment for the relevant market, the observation of different market for each right is superfluous considering the very nature of copyright.

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321 As per Section 19(7) of the Act physical characteristics and end use of the product is a factor for delineation of the relevant market.
323 See, In Re. M/s HT Media Limited & M/s Super Cassettes Industries Limited, supra n. 15 at para 136
At this stage, it may be helpful that the Act per se does not seem to create any presumption of dominant position because of existence of IPR. In fact, Section 19(4) of the Act which lists the factors that the CCI should consider while determining dominant position does not make any mention of IPR, except Section 19(4)(g) of the Act which states that *monopoly or dominant position whether acquired as a result of any statute*, is a relevant factor for determination of dominant position. While it is debatable whether ‘monopoly’ can be equated with ‘exclusivity’ granted by IP statutes, the CCI, so far, has not relied on this subsection to conclude that an enterprise holding an IPR is dominant for that reason alone.

**Abusive conduct and exercise of IPR – need for ‘objective justifications’**

A cursory review of Section 4 of the Act *prima facie* reveals one obvious area of tension between IP statutes and the Act. While Section 3(5) of the Act creates an exception with respect to exercise of rights granted under statutes mentioned therein, a similar provision under Section 4 of the Act is absent. This implies that exercise of rights granted under an IP statute which leads to a conduct described in Section 4(2) of the Act can be an abuse of dominant position. This issue becomes more apparent when one considers Section 4(2)(c) of the Act under which *denial of market access in any manner*, by a dominant enterprise could be treated as an abuse of dominant position since IPR entails the right to exclude.

The issue that the CCI will have to grapple with and resolve relates to the extent to which the exercise of a validly subsisting and statutorily recognised IPR would be rendered impermissible due to the prohibition on abuse of dominant position under Section 4 of the Act. Rules of statutory interpretation would suggest that Section 4(2) of the Act cannot be interpreted and implemented against the holder of a valid IPR exercising the said right within the applicable statutory bounds and any interpretation to the contrary would render the rights granted under IP statutes meaningless and would potentially defeat the very objective of the IPR regime.\(^{324}\)

The Act however unique in that it does not make any reference to exercise of IPR in the provisions relating to abuse of dominant position, implying thereby that even a valid exercise of rights granted the IP statutes could potentially be considered as

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\(^{324}\) The Delhi High Court in Telefonaktiebolaget LM Ericsson (Publ) v. Competition Commission of India and Another, W.P.(C) 464/2014 order dated 30 March 2016 while dealing with the interface between Patents Act and the Act held that there is no irreconcilable conflict between the two Acts which would imply that a harmonious interpretation is possible. The judgement however does not in any manner create an exception with respect to IPR under section 4.
abusive. The provision of the Act and the limited jurisprudence available in India do not appear to distinguish between a pure “exercise of IP rights” and an “exercise of market power” where such power may flow from IP rights. In fact, in at least three sets of cases which are currently pending investigation, the CCI is looking into conduct arising out of exercise of IPR, which are ostensibly permissible under the relevant IP statutes. This has led to jurisdictional battles which have been discussed in greater detail later and represents a classic example of the situation of ‘conflicting outcomes’ between the two regimes.

Besides the jurisdictional battle, the absence of any reference to exercise of IPR in Section 4 of the Act leads to an imbalance and disconnect between Section 3 and Section 4 of the Act. The presence of Section 3(5) of Act implies that an agreement which either restrains infringement of, or imposes reasonable conditions for the protection of IPR, can potentially benefit from the exemption under Section 3(5)(i) but would be rendered illegal if viewed under Section 4 of the Act.

The CCI is yet to face the argument of asymmetric protection of IP, and though an allegation under Section 3 of the Act has been made in one case, it remains to be seen how the CCI deals with the issue. We would expect the CCI to extend the protection under Section 3(5) of the Act to conduct complained of under Section 4 of the Act as well.

**Enforcement of IPR and the Act – specific case studies and trends**

In the short span of 8 years since the commencement of its enforcement mandate under the Act, the CCI has initiated a fair number of investigations which deal with enforcement of IPR. However, it is difficult to determine the CCI’s enforcement priorities from available enforcement trends. In this section, we discuss some prominent cases wherein the CCI initiated investigations over conduct which appear to involve valid exercise of IPR. In almost all these cases, the exercise of jurisdiction by the CCI has been challenged before various High Courts, once against putting the spotlight on the issue of ‘conflicting outcomes’, which presently represents the main and most unique area of conflict between the two regimes in India.

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325 Supra n. 20; M/s Bull Machines Pvt. Ltd. v. M/s JCB India Ltd. & Ors., Case No. 105/2013, CCI order dated 11 March 2016.

326 Intex Technologies (India) Limited v. Telefonaktiebolaget LM Ericsson, Supra n. 20
Infringement suits - predatory litigation as an abuse of dominant position

Prominent in the investigations initiated by the CCI dealing with IPR is the one against JCB India Pvt. Ltd. ("JCB").\(^{327}\) The investigation focussed on the issue of abuse of process of the courts or predatory litigation by the holder of IPR to deny or restrict market access in contravention of Section 4 of the Act. The informant, a potential competitor argued that faced with the release of their backhoe loader which would compete with JCB’s backhoe loader, JCB approached the Delhi High Court alleging infringement of their copyright and design right. The informant contended that JCB obtained an ex parte ad interim injunction based on copyrights and design rights obtained fraudulently, and which prevented the release of the informant’s backhoe loader.\(^{328}\) The CCI in its order instituting investigation noted that “the predation through abuse of judicial processes presents an increasingly threat to competition, particularly due to its relatively low anti-trust visibility”.\(^{329}\) The CCI recorded in its prima facie opinion that JCB has abused its dominant position by approaching the High Court alleging infringement of its copyrights and design rights and obtaining an interim injunction, allegedly based on misrepresentation, which restrained the informant from releasing their product.

The order of investigation passed by CCI was challenged before the Delhi High Court on the grounds of, inter alia, untimely exercise of jurisdiction by the CCI. The Delhi High Court granted a limited relief directing that while the investigation could continue, the investigation report would not be filed.\(^{330}\) The matter is presently pending adjudication before the Supreme Court of India.\(^{331}\)

JCB however is not the only case where the issue of allegedly predatory litigation has been raised. Allegations have also been made that holders of SEPs abuse their dominant position by seeking injunctive relief against the implementers.\(^{332}\) These have been discussed in greater detail in our subsequent sections.

The problem with treating predatory litigation as an abuse is quite evident. IPR necessarily include the right to restrain infringement of the said right and any restriction on the same by characterising it as an abuse of dominant position.

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\(^{327}\) Supra n. 23

\(^{328}\) Interestingly, the backhoe loader was released albeit with a delay of 18 days since JCB withdrew its application for interim injunction 18 days after obtaining the injunction. See, Id at para 2.4 and 2.8

\(^{329}\) Supra n.23 at para 15


\(^{332}\) Supra n. 20
requires exercise of caution, and the bar for abuse should be set high. The CCI appears to have however exercised such caution in subsequent cases, where it did not direct investigation for allegedly frivolous litigation.

**Imposition of unfair conditions by holders of IPR**

A recurring issue before the CCI has been of imposition of unfair conditions by the IPR holders on their licensees. In *Re. M/s HT Media Limited & M/s Super Cassettes Industries Limited*, the CCI, for the first time, dealt with the issue of imposition of unfair conditions on licensees by a copyright holder. The CCI found that a minimum guarantee being charged by the copyright holder was unfair, “as it forces the customers to pay for music that it may not play.” Terming the condition as exploitative in nature, the CCI directed that the copyright holder cease and desist from imposing the condition.

The imposition of unfair conditions by right holders is also the subject matter of investigation in yet another high-profile case of licensing of technology by the holder of the IPR. Monsanto, against which there are currently over 10 investigations pending before the CCI, is alleged to have abused its dominant position in the market of licensing of BT cotton technology by forcing the licensees to enter into sub license agreements which were one sided, arbitrary and onerous. The licensees who approached the CCI highlighted clauses which asserted the disposition of inventory and restricted the ability of the complainants to deal with a new technology provider if available at a lower cost. The CCI found Monsanto to be *prima facie* abusing its dominant position and directed investigation. Monsanto has approached the High Court of Delhi, challenging the jurisdiction of the CCI by way of a writ petition which is pending adjudication.

Interestingly, in both these cases what is being challenged are contractual terms, which can be challenged as being anti-competitive under Section 3 of the Act.

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333 The Courts in US and EU have in fact highlighted the need for caution when dealing with predatory litigation and abuse of process. See, Professional Real Estate Developers v. Columbia Pictures, 508 U.S. 49 (1993) at page 49, See also, AstraZeneca, COMP/A.37.507/F3 at para 325 to 328


335 Supra n. 15

336 Id at para 206

337 See, Department of Agriculture, Cooperation & Farmers v. M/s Mahyco Monsanto Biotech (India) Limited. Reference Case No. 2 of 2015, CCI order dated 10 February 2016 which is the lead matter.

338 Monsanto Holding Pvt Ltd v. CCI & Anr, W.P.(C) 1776/2016. Vide order dated 29 February 2017 CCI has been permitted to continue investigation, however no final order can be passed by the CCI until final disposal.
However, since Section 3(5) of the Act is a plausible defence and in most cases the dominant position of an IP holder is easy to establish, naturally, informants prefer to characterise imposition of unfair conditions in licensing agreements as an abuse of dominant position under Section 4 of the Act. This also highlights the inherent imbalance between Section 3 and 4 of the Act which leads to be the problem of the extent to which reasonable exercise of IPR is protected under the Indian competition law.

**Demand of unfair/excessive royalties by holders of IPR**

Yet another area where holders of IP have been accused of abusing their dominant position has been demand for unfair and excessive royalties. In *Super Cassette* with respect to copyright in sound recording the CCI found that “*since the value of a particular sound recording would depend upon its popularity and not its cost*” and in the absence of reliable cost data, the royalty cannot be deemed as excessive only by reason of being higher than the royalty charged by competitors.

While in *Super Cassette*, the CCI recognised that “*determining whether a price is excessive is an uncertain and difficult task*”, it still instituted investigation on allegations of unfair and excessive royalty against Monsanto as well as against Telefonaktiebolaget LM Ericsson ("**Ericsson**"). Although, the CCI noted that the trait value being charged by Monsanto has no economic justification, the allegation against Ericsson has been linked to the royalty base. The case against Ericsson raises various interesting issues and has been discussed in greater detail in the section dealing with SEPs.

**IPR defence for anti-competitive agreements**

Another interesting issue that has come up before the CCI was the availability of the exemption under Section 3(5) of the Act for anti-competitive agreements. In the *Spare Parts Matter* a common argument raised by the Original Equipment Manufacturers ("**OEMs**") for imposing restrictions on the Original Equipment Suppliers ("**OESs**") for sale of spare parts of their respective automobile companies, to third parties without seeking prior permission, was existence of IPR

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339 Supra n. 15
340 Supra n. 15 at para 198 and 199
341 Id. 15 at para 198
342 Supra n. 34
343 Supra n. 20
344 Supra n 12; See also Shri Shamsher Kataria v. Honda Siel Cars India Ltd. & Ors., Case No.03/2011, CCI order dated 25 August 2014
over such spare parts. The OEMs argued that the contractual restrictions fell within the ambit of ‘reasonable conditions’ to protect IPR under Section 3(5) of the Act.

The argument however failed to find favour with the CCI or the COMPAT who observed that none of the OEMs could establish that they have been granted protection under the statutes specified in Section 3(5) of the Act. Further interpreting the scope, both the CCI and the COMPAT clarify that the emphasis in Section 3(5) of the Act is on the word on the word ‘necessary’ and hence the relevant question is whether the holder can protect its IPR in the absence of such restrictions. As stated above, the decision of the CCI and the COMPAT has greatly restricted the scope of the exemption.

**SEPs and competition law**

One highly contentious but equally interesting area of interface between competition and IP regimes in India has emanated from cases relating to licensing of SEPs. The growth and development of mobile telephony worldwide has been made possible by SEPs which enable interoperability and has helped the industry grow to where it stands today. While the benefits of standardization are well accepted, SEPs pose some interesting questions which the CCI took cognizance of when it initiated investigations against Ericsson. The primary allegation raised by the implementers was that Ericsson – the holder of SEPs with respect to GSM compliant technology was abusing the dominant position it had by (a) charging excessive royalty (b) charging discriminatory royalty; (c) failing to disclose the royalty being charged from similarly placed licensors; and (d) seeking injunctive relief against the implementers. Since investigations in these matters are underway, comments made in this section are limited to the critical academic questions and are based on existing jurisprudence. In view of the prevailing decisional practice of the CCI, as well as other authorities across the globe, attempts are made to identify the main issues that the CCI is likely to deal with and its expected treatment of the same.

**SEPs, the relevant market and dominance**

One of the primary issues that cases alleging abuse of dominant position by SEP holders raise is the delineation of relevant market. As stated above, delineation of the relevant market is rendered complicated in cases where the infringing product

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345 European Commission, Guidelines on the applicability of Article 81 (now Article 101) of the EC Treaty of Horizontal Cooperation Agreement, OJ 2991, No. C3/02 at para 159, 169, 170
346 Supra n. 20
is based on an IPR. The assessment is rendered even more complex where the product is an SEP with respect to which it has been stated that “a given patent is "essential" to a standard if use of the standard requires infringement of the patent, even if acceptable alternatives of that patent could have been written into the standard.”\textsuperscript{347} This implies that use of the patent is essential to comply with the standard. For such a product, the definition of the relevant market is rendered more complicated as there is no viable substitute to conduct a substitutability assessment. With the market being defined in terms of the SEP, it would be arguably easy to contend that the SEP holder is dominant, holding 100% of the market share. This line of contention is not particularly unheard of and has been adopted by the European Commission\textsuperscript{348} as well and although it leads to a near presumption of dominance, this approach has been discredited by competition authorities on both sides of the Atlantic.\textsuperscript{349}

However, a relevant fact which requires due consideration in determining the relevant market in case involving SEPs is that the process of competition has already taken prior to the inclusion of a patented technology into a standard. Moreover, the position of dominance which any SEP holders acquires is considerably watered down by virtue of the FRAND obligations that the SEP holder commits to on adoption of its patent protected technology as a standard. The implication of the FRAND obligation on the dominant position of the FRAND holder was taken into account by the High Court of Chancery, United Kingdom recently, when Hon’ble Justice Briss very aptly observed that, “the market is covered by the FRAND undertaking which does weaken the SEP owner’s position. It is a market in which licensees can engage in holding out....if a proper economic analysis had been done into this market then this issue might be more finely balanced.”\textsuperscript{350}

It would be interesting to see how the CCI responds to the question of the dominant position of a SEP holder. In its \textit{prima facie} order, the CCI found Ericsson to be dominant since “Ericsson has 33,000 patents to its credit, with 400 of these patents granted in India, and the largest holder of SEPs for mobile communications

\textsuperscript{347} Microsoft Corp v. Motorola Inc, Motorola Mobility Inc and Gen Instrument Corp, 104 U.S.P.Q.2D 2000
\textsuperscript{348} See generally, Motorola - Enforcement of GPRS Standard Essential Patents, Case AT.39985 dated 29 April 2014 at para 241, 269; Samsung – Enforcement of GPRS Standard Essential Patents, Case AT.39939 dated 29 April 2014 at para 45.
\textsuperscript{350} Unwired Planet International Ltd v. Huawei Technologies Co Ltd & Ors., [2017] EWHC 711 (Pat) at para 670
like 2G, 3G and 4G patents used for smart phones, tablets etc.” The CCI further observed that Ericsson holds “SEPs and there is no other alternate technology in the market.” While the conclusion of the CCI reminds us of the findings of the European Commission, it may be relevant to recall in this regard, the definition of dominant position under the explanation to Section 4 of the Act. The said definition requires dominant position to be adjudged on the basis of the position of strength enjoyed by the enterprise to inter alia, “operate independently of competitive forces” and such that it “affects its consumers in its favour.” Having consistently held that market share is not the sole factor to determine dominant position but a host of other factors, we can expect the CCI to take into account, the position of the enterprise in the market and not solely be guided by the nature of the product which renders a high market share unavoidable, without necessarily rendering the SEP holder as dominant in the relevant market.

**Determination of royalty base**

The common allegation of all implementers centres around alleged excessive royalty rates and the royalty base which they claim is unfair and contrary to FRAND obligations of the SEP holder. Ericsson and other SEP holders charge their royalties as a base of the end product or commonly the entire market value rule (“EMVR”). The CCI was of the view that “imposing royalties linked with cost of product of user for its patents,” “seemed to be acting contrary to the FRAND terms” – and with these observations, the CCI prima facie suggested that the use of EMVR is anti-competitive and the correct royalty base would be the smallest saleable unit, supporting the smallest saleable unit rule (“SSUR”).

Subject to the outcome of the jurisdictional battle, in its investigations against Ericsson, CCI would be getting into the issue of what the appropriate royalty base for SEPs should be. The arguments and literature on both side on this issue are

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351 Supra n. 20 at para 16  
352 Ib.  
353 Explanation to Section 4(2) of the Act; also see: Bihare Owner Association v. DLF Limited, Case No. 19/2011 at para 12.43 (“The evaluation of this “strength” is to be done not merely on the basis of the market share of the enterprise in the relevant market but on the basis of a host of stipulated factors such as size and importance of competitors, economic power of the enterprise, entry barriers etc. as mentioned in Section 19 (4) of the Act. This wide spectrum of factors provided in the section indicates that the Commission is required to take a very holistic and pragmatic approach while inquiring whether an enterprise enjoys a dominant position before arriving at a conclusion based upon such inquiry.”); Prasar Bharati (Broadcasting Corporation of India) v. TAM Media Research Private Limited, Case No. 70/2012.  
354 Supra n. 20 at para 17
copious. However, what is relevant to determine is whether and to what extent the CCI can delve into the issue of royalty rates and the appropriate royalty base. The CCI has in a previous matters accepted that it will not act as a price setter and while dealing with IPR accepted that “determining whether a price is excessive is an uncertain and difficult task” and in certain cases the value of a product cannot be solely determined by its costs or on the free maker economy principle – recognizing thereby its limitation. Further, even where the CCI found excessive prices to have been charged, it did not set the price but observed, “structurally modifying the competitive nature of the....market will itself induce market self-correcting features, by enhancing consumer-choice and access of independent repairers to effectively compete in the Indian aftermarket.”

As evident, establishing that a price charged is excessive is a complicated exercise and would be more so in case of SEP where huge costs are incurred for innovation. In most such cases, royalty is the only means to ensure return on investment and the CCI has itself recognised that an “innovator ... might have invested huge sums on research and development .... Thus, initial high prices can be attributable to being the reward for innovation.” Moreover, the CCI do not appear to have any power to direct reduction of prices to a particular level and the CCI in a case of self-exercised restraint has only attempted to modify the competitive scenario in form of structural changes, when faced with excessive pricing. In this case, de hors the issue of whether CCI has the power to determine royalty rate, a bigger issue is whether any determination on facts would be possible in this issue, or would the

357 Supra n. 31 at para 80
358 Supra n. 15 at para 198
359 All Odisha Steel Federation v. Odisha Mining Corporation Limited, Case No. 12/2012, CCI order dated 19 September 2013at para 13.9, where while dealing with chrome ore, the CCI noted that since it was a non-renewable resource the price could not be set by free market principles.
360 Supra n. 41 at para 20.5.99
361 Supra n. 31 at para 80
362 Supra n. 41
CCI, like it has done before, have to conclude that, “in the absence of the cost data it will be difficult, neigh impossible, to term the price charged by the opposite party .... as unfair being excessive solely on the basis that it is higher than the price charged by the competitors of the opposite party.” Faced with uncertainty regarding the scope of powers of the CCI with respect to price setting and the difficulties of determining price, it would be interesting to see how CCI resolves the issue of unfair pricing.

Seeking of injunctive relief
One abuse which is greatly contentious deals with the practice of the SEP holder seeking injunctions against unlicensed implementers on grounds of infringement of their patents. The ground for the allegation being that such conduct is contrary to the FRAND commitments given by an SEP holder. This comes in absolute and stark contrast with the right of an SEP holder under the Patents Act, 1970 (“Patent Act”), wherein Section 48 of the Patents Act gives the patent holder the right to sue the implementer who does not obtain a license.

On this issue, the apparent conflict has, to some extent been settled by the decision of the European Court of Justice which clarifies that an SEP holder can sue an unwilling licensee for injunction and such conduct would not be considered to be in violation of Article 102 of the TFEU. One could reasonably argue that the concept of ‘unwilling licensee’ is alien to the Patents Act and the right granted therein cannot be restrained. However, the CCI is likely to tread the path set out in Huawei and justify an action for infringement where the implementer has on facts reveals itself to be an ‘unwilling licensee.’

‘Imposition’ of discriminatory conditions
The FRAND obligations include within their ambit not just the requirement to impose fair and reasonable but also terms which are non-discriminatory. The allegation of discriminatory conduct is being examined by the CCI at two levels – (a) discrimination on account of the royalty base which implies different costs for the same technology; (b) discrimination between similarly placed licensees fortified by the refusal of Ericsson to share license agreement and signing a non-disclosure agreement with each licensee.

363 Supra n. 15 at para 199
364 Huawei Technologies v ZTE & Anr, Case C-170/13 judgement dated 16 July 2015 at para 71 and 76
365 Id.
366 Supra n. 20 at para 17
The aspect which raises an interesting issue of what would be considered as discriminatory – an aspect on which there is much disagreement.\textsuperscript{367} To analyse this issue, the CCI will have to examine concept of FRAND, since the aspect of discrimination cannot be examined divorced from fairness and reasonableness. Further, the CCI will need to determine whether the FRAND rate signifies a fixed rate or does it indicate a range which will determine the manner in which the argument of discrimination will proceed. In view of the limited literature and judicial determination\textsuperscript{368} on the discriminatory aspect of FRAND, the findings of the CCI on this issue will be interesting.

However, more intrinsic to the Act would be the issue of ‘imposition.’ Since the allegations pertain to contravention of Section 4(2)(a) of the Act i.e. imposition of unfair and discriminatory conditions, the CCI would have to primarily battle with whether imposition has happened since the license agreement in this case has not been entered into and the unlicensed implementers have access to published standards which they are already applying to their products. According to the COMPAT, an imposition “has an element of compulsion”\textsuperscript{369} and would require that the licensee has been compelled to enter into an agreement. Where the licensee is yet to enter into an agreement, the element of imposition of may be an obstacle.

**The curious case of CCI’s jurisdiction – antitrust or no antitrust**

The unique issue in India pertaining to the interface of competition law and IPR, is that of overlapping and concurring jurisdiction. While under the Act, the CCI has the authority to implement the provisions of the Act,\textsuperscript{370} various authorities are empowered with implementation of the different IP statutes and, almost all the statutes give the High Courts the power to adjudicate suits of infringements. As set out in the previous section, in almost all cases dealing with IPR, there were proceedings pending before authorities empowered under the relevant IP statutes for identical issues.\textsuperscript{371} In fact, in two instances, the CCI has ordered investigation to determine whether initiation of proceedings before the High Court in exercise of rights granted under the relevant IP statutes would constitute abuse under the

\begin{itemize}
\item \textsuperscript{367} See generally, Carlton and Shampine, An Economic Interpretation to FRAND, Journal of Competition Law and Economics, (2013) 9(3): 531 – 552
\item \textsuperscript{368} Some determination on FRAND has been made in Unwired Planet International Ltd v. Huawei Technologies Co Ltd & Ors., [2017] EWHC 711 (Pat) at para 503 which links to be a standard benchmark rate and thereafter subjects the obligation of non-discrimination only to proof of distortion of competition i.e., effects which is not required under the Act.
\item \textsuperscript{369} DLF Ltd v. CCI & Anr. Appeal No. 20/2011, COMPAT’s judgment dated 19 May 2014 at para 77
\item \textsuperscript{370} Section 18 of the Act
\item \textsuperscript{371} Illustratively in case of JCB, a suit of infringement filed by JCB was pending before the High Court and an application of cancellation of their designs was pending before Controller of Designs and Patents
\end{itemize}
This leads to the issue of parallel and concurrent exercise of jurisdiction by two authorities over identical set of facts and near identical issues, albeit for different remedies. This has been the basis of the jurisdictional battles between the investigated parties and the CCI since the inception of the CCI. Parties have argued that since the issues are already being adjudicated by an authority, the CCI cannot look into them. In fact, irrespective of the pendency of the issues before an authority under the IP statutes, the parties in different cases have argued that since the conduct being investigated by the CCI falls within the ambit of the IP statutes, the CCI has no jurisdiction.

This issue was first dealt with in some detail by the Delhi High Court, in a writ petition filed by Ericsson challenging the jurisdiction of the CCI over its exercise of its rights as a holder of patents. The High Court was posed with the question of whether the CCI has the jurisdiction to direct investigation in a case premised on exercise of right granted under the Patent Act by a patent holder. The High Court in its judgement upheld the jurisdiction of the CCI to entertain investigation involving exercise of rights granted under an IP statute. The reasoning of the Delhi High Court vaguely resounds the theory of absence of any conflict between the Patents Act and the Act with the High Court noting that there is no irreconcilable conflict between the two statutes.

Curiously enough, the Delhi High Court notes that in so far as the interaction between the Patents Act and the Act is concerned, the Patents Act would be treated as a special legislation which would imply that in case of any inconsistency between the two, the Patents Act would prevail. However, having thus observed the High Court went on to determine in a case where the patent holder had approached the High Court alleging infringement of his patents and the alleged infringer moved the CCI alleging abuse of dominant position. It was concluded by the Delhi High Court that this issue presented no irreconcilable conflict between the two statutes, and as such the two proceedings could move in parallel. The Delhi High Court thereafter also concluded that merely because facts pleaded before the

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372 Supra n 23 i.e., case against JCB in which case a suit was initiated for infringement of copyright and design right and Supra n. 20 i.e., case against Ericsson in which case a suit has been filed for infringement of patents.
373 The issue first emerged in the investigation instituted against Super Cassettes with respect inter alia the royalty demanded by it. The writ filed by Super Cassette challenging the jurisdiction was however disposed with a consent order directing CCI to pass an appropriate order on the issue of jurisdiction. (See, Super Cassettes Industries Limited v. Union of Indian & Ors., W.P. (C) No. 1119/2012, order dated 04 October 2012.)
374 Telefonaktiebolaget LM Ericsson (Publ) v. CCI and Another, W.P.(C) 464/2014 order dated 30 March 2016
375 Id at para 144
376 Id at para 151
High Court are present before the CCI as well and certain reliefs claimed before the Court may be claimed before the CCI, does not exclude the jurisdiction of the CCI.\textsuperscript{377} In making this observation however, the Delhi High Court ignored the possibility and reality of ‘conflicting outcomes’ by two concurrent jurisdictions which could become the bane of all the parties concerned and also causes judicial uncertainty.

The observations of the Delhi High Court have been challenged before the Division Bench of the Delhi High Court and the proceedings are pending adjudication.\textsuperscript{378} The debate of jurisdiction aside, this issue is unique to India and a determination to this effect by the Supreme Court or the High Court is likely to clarify and establish the role and importance of the CCI and the Act with respect to conduct of IPR holders.

As evident, various distinct issues in relation to IP have been taken up by the CCI and mostly the allegations pertain to abuse of dominant position by the IPR holder. Predictably, in most such cases there is an agreement between the complaining party and the IP holder, however the information is filed for contravention of Section 4 of the Act and not Section 3 of the Act. Absence of any requirement to prove effects under Section 4 of the Act\textsuperscript{379} as well as any possibility of justification of reasonable exercise of rights granted under the IP statutes are obvious reasons for any complainant to adopt this approach. However, as evident, each of the investigations initiated by the CCI face some unique challenges, and common thread in almost all investigations being the jurisdictional challenges. It would be interesting to see how the Supreme Court and the High Courts’ view the power of the CCI to investigate into such matters.

\textsuperscript{377} Id at para 201 and 202
\textsuperscript{378} Telefonaktiebolaget LM Ericsson (Publ) v. CCI and Another, L.P.A.(C) 246/2016
\textsuperscript{379} MCX Stock Exchange Ltd. & Ors. v. National Stock Exchange of India Ltd. & Ors, Case 13/2009, CCI order dated 23 June 2011 at para 25.2, though it can be argued that the CCI does look into some form of effects to conclude abuse of dominant position. See, XYZ v. REC Power Distribution Company Ltd., Case No. 30/2014, CCI order dated 05 May 2016 at para 6.8
Notification in the event of transfer of IPR

Under Section 5 and 6 of the Act, a merger, amalgamation or acquisition, which crosses certain jurisdictional thresholds (defined as a combination)\(^{380}\) has to be notified to the CCI. Since India is a suspensory jurisdiction, no combination can be given effect to without the approval of the CCI.\(^{381}\) As per the Act, any acquisition of shares, voting rights, control or assets can be a combination, subject to the monetary jurisdictional threshold. The explanation to Section 5 of the Act states that value of assets shall *include the value copyright, patent, permitted user mark* and other IP rights. This begs the question of whether a pure transfer of IP rights without any transfer of other assets or shares or control, would be covered under Section 5 of the Act and require notification to the CCI.

The Act does not specifically dictate the criteria under which transfer of IPR need to be notified. However, if IPR are treated as assets then acquisition of such assets would ideally require a notification. Accordingly, the CCI has treated cases of pure transfer of IP as notifiable subject to the thresholds of Section 5 being met.\(^{382}\) However, in the absence of any guidelines or order of the CCI uncertainty still continues to prevail with respect to licensing of IPR.

FUTURE ENFORCEMENT TRENDS

Lack of coherent policy in India

Enforcement of IP and competition regime faces some tensions in India, as evident from the jurisdictional battles. Clarity on the role and jurisdiction of various authorities under the statutes is much needed to avoid unnecessary turf wars. Perhaps the best way, aside from a judicial ruling, to achieve this is through a coherent competition and IPR Policy. While India does not have a national competition policy, the national IPR Policy fails to make any mention of the Act or the CCI or the manner in which the two regimes should interact to minimise regulatory overlaps and friction. In the absence of any executive overtures, the tension between the two regimes does not appear to have ended as CCI continues to assert jurisdiction over cases involving IPR and parties continue to challenge the same.

\(^{380}\) Section 5 of the Act read with Notification No. S.O.988 (E) dated 27 March 2017 prescribes the jurisdictional thresholds which are expressed in form of assets and turnover of the parties. Where the parties cross this threshold, they are obligated to notify the transaction to the CCI prior to implementing the same.

\(^{381}\) Section 6(2) of the Act

\(^{382}\) See, ITC/Johnson & Johnson, C-2017/02/485; Piramal Enterprises Ltd./Pfizer, C-2016/06/405

While within a short span of the enforcement of the provisions of the Act, the CCI has entered into the foray of SEP and predatory litigation by holders of IPR, some very interesting issues are yet to come up before the CCI and these could well represent the future battle grounds in the interface between IP and competition regime. One such issue could relate to patent strategies, adopted so often by pharmaceutical players and recognised by the EC as well as the CCI as being a competition law concern. Another area could be patent settlement agreements, which would however pose a unique issue before the CCI – would such agreements fall within Section 3(3) of the Act and hence be per se objectionable or since they are not entered into between actual competitors would they fall within the scope of Section 3(1) of the Act requiring an AAEC assessment. Moreover, there could also arise the issue of applicability of Section 3(5) to such agreements as well as issue of out of court settlements being permitted by the Civil Procedure Code which would necessarily create an issue for the CCI to treat such agreements as per se illegal.

CONCLUSION

Competition and IP regime both strive for consumer welfare and while the end goal of both regimes are largely identical, the path adopted does not appear to be so. India, with a nascent competition regime, which is still learning to flex its muscles, probably best represents the tensions which arise out of the interface of the two regimes. While courts have upheld the theory of absence of any irreconcilable conflict or repugnancy between the Act and the related IP statutes, realities indicate that while there might be no irreconcilable conflict, some tensions are present. These tensions as evident and relate to the possibly ‘conflicting outcomes’ on account of simultaneous exercise of jurisdiction.

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383 The patent strategies include patent evergreening, product hopping, litigation strategies, disparagement etc and have been recognised in a tool box in the Pharmaceutical Sector Inquiry, Final Report issued by the European Commission (see infra n. 91)
385 Supra n. 31 at para 60
386 The issue before the CCI would resemble the viewpoint on patent settlement agreement on both sides of the Atlantic as well, where the US Courts in Federal Trade Commission v. Actavis Inc. have adopted the view that such agreements need to be assessed on their effects and the European Courts have treated them illegal by object (Lundbeck v Commission Case T-472/13 Judgment dated 08 September 2016)
387 Reference in this regard may be made to Section 89 of the Code of Civil Procedure.
It would be interesting to see how the issue of jurisdiction gets settled, but this also implies that it will be a while before the CCI will be able to make any final determination on major issues pertaining to the implications under the Act for exercise of IPR. Considering however, the broad remedies which the CCI can enforce some of which can potentially render IPR infructuous and also considering the fact that ensuring innovation and consumer welfare is a key objective for both regimes, the approach of the CCI towards exercise of IPR which protects the cycle of innovation will have critical implications and is awaited with much anticipation.
INTRODUCTION

The interface between competition law and intellectual property (IP) has not been sufficiently developed by the Israeli case law or legal literature. As discussed further, certain statutory provisions relating to competition law seem to acknowledge the problems competition law poses for the development and utilization of IP rights. However, these two fields of law largely exist in parallel, with the courts analyzing them independently and applying them side by side.

This chapter outlines the relevant sections of the law and regulation regarding the intersection of IP and competition in Israel. As there is little case law and regulatory decisions dealing with the subject matter however, much remains to be developed as IP and competition matters are brought to the forefront in the future.

STATUTORY FRAMEWORK

The Restrictive Trade Practices Law RTPL

The Restrictive Trade Practices Law, 1988 (RTPL) is the central piece of antitrust legislation in Israel. The RTPL regulates four main trade practices: abuse of monopolistic power; restrictive arrangements; mergers; and oligopolies in concentrated markets (so-called “concentration groups”). To achieve its aims of protecting and promoting the competitiveness of the Israeli market, the RTPL provides for three methods of enforcement: criminal, civil, and administrative. The RTPL criminalizes all violations of the law; establishes that such violations are also a tort actionable by anyone injured by anti-competitive behaviour; and establishes administrative sanctions for most violations. The RTPL also established the Israeli Antitrust Authority (hereinafter: IAA) as the regulator responsible for the enforcement of the RTPL, and the Antitrust Tribunal, which sits within the District Court of Jerusalem, and is the appeal tribunal for IAA decisions. The IAA also

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388 Head of Antitrust and Competition at Agmon & Co. Rosenberg Hacohen & Co.
389 Associate at Agmon & Co. Rosenberg Hacohen & Co.
390 Restrictive Trade Practices Law 1988. Israel recently enacted two other laws to address specific competition concerns: the Law for the Promotion of Competition and Reduction of Concentration 2013; and the Law for the Promotion of Competition in the Food Industry 2014. As these laws have little bearing on the field of IP, they will not be addressed further.
391 RTPL, §…
consults other state bodies including the government and the legislature on issues regarding competition. The main provisions of the RTPL which may affect IP rights are found in Chapter 2 (Restrictive Arrangements) and Chapter 4 (Monopolies).

**Restrictive Arrangements**
The RTPL employs exceptionally broad language to define restrictive arrangements (cartels). Section 2 of the RTPL defines a Restrictive Arrangement as:

(a) (...) an arrangement entered into by persons conducting business, according to which at least one of the parties restricts itself in a manner liable to eliminate or reduce the business competition between it and the other parties to the arrangement, or any of them, or between it and a person not party to the arrangement.

(b) Without derogating from the generality of the provisions of subsection (a), an arrangement involving a restraint relating to one of the following issues shall be deemed to be a restrictive arrangement:

(1) The price to be demanded, offered or paid;

(2) The profit to be obtained;

(3) Division of all or part of the market, according to the location of the business or according to the persons or type of persons with whom business is to be conducted;

(4) The quantity, quality or type of assets or services in the business.\(^{392}\)

Section 2 thus distinguishes between arrangements which need to be examined to ascertain if they could reduce competition (subsection (a)), and arrangements which are considered restrictive per se (subsection (b)). According to Section 4 of the RTPL, no person may be party to a Restrictive Arrangement without first receiving a permit or an exemption from the Antitrust Tribunal or the Director General of the IAA (the "Director General").

The definition of “Restrictive Arrangement” in section 2(a), as noted above, consists of four elements: 1) there must be an arrangement; 2) between persons conducting business; 3) which restricts at least one of the parties; 4) in a manner liable to reduce competition.

\(^{392}\) RTPL, §2.
Each of these four elements has been interpreted expansively by the courts and competition authorities, with the express intent of granting Section 2(a) as broad of a scope as possible. The term “arrangement” is defined in the RTPL as any arrangement “whether express or implied, whether written, oral or by behaviour, whether or not legally binding.” To be considered an arrangement, there is no need for any express statement or even direct contact between the parties. There is also no requirement that the arrangement be between competitors or actors in the same market, and there is no need that the parties actually act in accordance with the arrangement.

“Between persons conducting business” includes natural and legal entities who are engaged in “the production, sale, marketing, acquisition, import or export of an asset as well as engaging in the provision or the receipt of a service.” The business being conducted may be the parties’ primary business, or a secondary or ancillary business. The condition includes mid-stream consumers who purchase goods and pass them along to end-consumers, but end-consumers would not be considered “persons conducting business” for the purpose of this definition. The element also excludes the state and state organs who may engage in various commercial arrangements for administrative purposes, but not for the purpose of “conducting business.”

As every legitimate commercial agreement restricts the parties in some way, Israeli case law has decided not to dwell on the question of the arrangement being restricting. Rather, it emphasizes the final condition - liable to reduce competition.

There is no need for an arrangement to be proven to have reduced competition in practice in order for it to be considered liable to reduce competition. Despite the wording of the clause, the courts have held that the “reduction in competition” does not necessarily pertain to the competition between the “restricted” party and its competitors. Liability to reduce competition in any market fulfills this element. The law does not define the degree to which competition must be reduced, and the courts have ruled that even the level of liability need not be significant.

Section 2(b) establishes that arrangements restricting four aspects of business will be considered restrictive arrangements per se: arrangements restricting price; profit; market division; or the quantity, quality or type of assets or services in a

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393 Shufersal Ltd. v. State of Israel (Crim. A, Case No. 5823/14) (October 22, 2015).
394 Holandia v. Director General (Crim. A, Case No. 6343/11) (December 24, 2013)
business. This Section establishes an irrefutable judicial presumption that the arrangement is restrictive in both civil and criminal proceedings. However, in a recent landmark decision\textsuperscript{395}, the Supreme Court held that Section 2(b) should, in most cases, be only applied to horizontal arrangements, while vertical ones, should practically all be examined under Section 2(a) – thereby effectively creating a distinction between per se restrictions of certain horizontal agreements, and a rule of reason analysis for vertical ones (and other horizontal and non-vertical agreements).

Section 3 of the RTPL exempts types of arrangements from the reach of Section 2 altogether. For our purpose, the most important one is found in Section 3(2): certain arrangements regarding IP:\textsuperscript{396}

Notwithstanding the provisions of Section 2, the following arrangements shall not be deemed restrictive arrangements:

(1) [...];

(2) An arrangement involving restraints, all of which relate to the right to use of any of the following assets: patents, designs, trademarks, copyrights, performers’ rights or developers’ rights, provided that the following two conditions are met:

(a) The arrangement is entered into by the proprietor of the said asset and the party receiving the right to use the said asset;

(b) If the said asset is subject to registration by law - it is so registered.\textsuperscript{397}

[...]

This clause, which removes certain licensing agreements from the purview of the RTPL, is meant to aid in the fulfilment of IP law’s purpose, that is the owner of IP rights should be able to profit from those rights, while limiting others’ abilities to use such rights.

However, Section 3(2) would not necessarily exempt abuse of IP rights under a pay-for-delay scheme, for example, as these schemes involve restrictions which do

\textsuperscript{395} Shufersal Ltd., supra, at 3 to Handle J.’s opinion.

\textsuperscript{396} Other exemptions in these Sections include: specific arrangements regarding agricultural products; arrangements entered into by a company and its subsidiary; certain exclusive supply agreements and specific arrangements regarding international air transport, as approved by the Minister of Transportation.

\textsuperscript{397} RTPL, §3(2).
not “relate to the right to use” the IP, such as withholding the development of competing products, and thus exceed the definition in Section 3(2).\textsuperscript{398} Restrictive arrangements that are meant to allow the effective use of copyrights, such as recording artists’ organizations for example, are not exempt from the RTPL’s provisions based on this clause. Such arrangements require approval from the Antitrust Tribunal, or an exemption from the Director General (see below).

Beyond the list of specific exemptions in Section 3, the RTPL provides for three categories of exemptions to be granted to restrictive arrangements, rendering them permissible despite their restrictive nature: block exemptions; specific exemptions granted by the Director General; and approval by the Antitrust Tribunal for restrictive arrangements that serve the public interest.\textsuperscript{399}

Three block exemptions are of interest here. The Block Exemption for Agreements for the Execution of Research and Development (the R&D Block Exemption), the Joint Venture Block Exemption (the JV Block Exemption), and the Block Exemption for Franchise Agreements (the Franchise Block Exemption).

The R&D Block Exemption allows competitors, subject to certain conditions, mainly regarding the relevant market’s structure, to enter into a restrictive agreement relating to joint research for the development of products. The terms of the block exemption differ according to whether the product developed is in a market where the competitors compete, or not. If the product under development is in a market where the parties to the restrictive arrangement compete, the arrangement would be exempt only if it satisfies limiting conditions regarding the market structure, the parties’ market shares, the eventual applications of the research, and the parties’ access to results of the research. This block exemption is meant to facilitate research, while ensuring that the agreement does not unduly impede competition.

The R&D Block Exemption allows for the sharing of information and IP between the parties, and ensures that the IP (or any other product of the R&D) be jointly accessible by the parties. Any marketing of products resulting from joint R&D efforts, however, must follow conditions of the JV Block Exemption.

The JV Block Exemption, which governs many forms of JVs, does not cover JVs where one party to the JV holds a monopoly position (defined as more than 50%...

\textsuperscript{398} See, for example, Pfizer Pharmaceuticals Israel v. Director General (RT, Case No. 606/06) (November 20, 2006).

\textsuperscript{399} RTPL, § 398.[ADD CITATION TO SECTION THAT DISCUSSES THESE EXEMPTIONS].
market share, regardless of market power or dominance). As a result, a joint R&D that produced patents and other IP, may not be covered by the JV Block Exemption when the marketing stages are reached.

The Franchise Agreement Block Exemption, requires that franchise agreements be relatively narrowly tailored and not involve unnecessary restrictions. Additionally, franchise agreements between competitors or involving monopolists do not fall under the ambit of this block exemption.

Another, somewhat relevant block exemption is the Block Exemption for Restraints Ancillary to Mergers. Under this block exemption, ancillary restraints regarding non-compete clauses (on the selling party to a merger) will be exempt only if the merger transaction includes transfer of reputation or know how (alongside a few other conditions). The Block Exemption for Joint Ventures for Marketing and Supplying Military Equipment Abroad (2015)\textsuperscript{400} may also have some effect on IP development, but it does not set out meaningful tests or doctrines and as such will not be addressed in this chapter.

Restrictive arrangements falling under one of the block exemptions must meet two general cumulative conditions in order to be protected by the exemption: 1) the restraints in the restrictive arrangement do not limit competition in a significant share of a market affected by the arrangement, or they do not substantially impede competition in that market; and 2) the objective of the arrangement is not to reduce or eliminate competition (e.g., for example the arrangement does not include any restraints which are not necessary to fulfill its objective).

Block exemptions are required only when the agreement in question does not fall within the general exemption in Section 3(2) mentioned above (that covers many IP transfer agreements). Therefore, only part of IP-related agreements require a block exemption (or any specific exemption) to begin with.

In general, block exemptions were designed to enable meaningful IP related cooperation, including between competitors. However, the exemption is available for companies with limited to narrow market share margins (typically, 30%, or 10-20% if the arrangement is between competitors), and are of little help when monopolies in tangential markets are involved in the arrangement.

\textsuperscript{400} [CITE? THE DATE SEEMS TO INDICATE A SEPARATE OR NEW PROVISION]
The wide ranging exemption in Section 3(2), is limited to arrangements which restrict competition, and does not relate, at all, to the monopoly provisions of the RTPL as discussed below.

**Unilateral Conduct/Dominance**

The RTPL defines a monopoly as a firm (or group of firms) holding more than 50% of any given market, based on the presumption that holding such a market share provides for market dominance.\(^{401}\) The RTPL does not prohibit the existence of monopolies or the creation of one; it merely regulates the use of their market power. Section 26 of the RTPL reads as follows:

(a) For the purposes of this Law, the concentration of more than half of the total supply or acquisition of an asset, or more than half of the total provision or acquisition of a service, in the hands of one person (hereinafter - “monopolist”) shall be deemed to be a monopoly. The Director General shall declare the existence of a monopoly by notice in the Official Gazette; (...).

(b) A monopoly can be specific to a particular region.

(c) The Minister may, upon the Director General’s recommendation, determine that, with respect to certain assets or a certain service, a concentration less than one half shall be deemed to be a monopoly, if he believes that a person holding such concentration has a decisive impact on the market for such assets or services.

The Director General’s declaration of a firm’s monopolist status, as provided for in Section 26(a), is declarative, not constitutive. A firm may be accused of abuse of market dominance regardless of a prior declaration of monopoly status.

Sections 29 and 29A of the RTPL prohibit certain types of monopolistic behaviour.

29. A monopolist may not unreasonably refuse to supply or purchase the asset or service over which the monopoly exists.

29A. (a) A monopolist shall not abuse its position in the market in a manner liable to reduce business competition or injure the public.

(b) A monopoly shall be deemed to be abusing its position in the market in a manner which might reduce business competition or injure the public, in any of the following instances:

\(^{401}\) RTPL, §__.
(1) Establishing an unfair buying or selling price for the asset or service over which the monopoly exists;

(2) Reducing or increasing the quantity of the assets or the scope of the services offered by the monopolist, not within the context of fair competitive activity;

(3) Establishing different contractual conditions for similar transactions in a manner which may grant certain customers or suppliers an unfair advantage vis-à-vis their competitors;

(4) Including in a contract regarding the asset or service over which the monopoly exists conditions that, by their nature or according to accepted trading practices, are unrelated to the subject matter of the contract.

The provisions of this subsection are supplementary to the provisions of subsection (a).

The RTPL thus establishes a general prohibition on abuse of market power, alongside five specific monopolistic behaviors that establish a judicial presumption of abuse of market power.

The fact that a monopoly is achieved and maintained through statutory protection, as in the case of a monopolist enjoying patent protection, does not affect the application of the RTPL’s monopoly provisions. A monopolist by virtue of IP laws remains subject to the prohibition against abuse of dominant position. However, there are only a handful of cases where the courts have applied the RTPL monopoly provisions to IP claims, and no decision relies heavily on the competition analysis of the monopoly provisions.

**IP Law**

Israel’s IP regime primarily consists of the following: the Patent Law (1967), the Copyright Act (2007), and the Trademarks Ordinance (1972). Patents are granted for inventions that are new, useful, and have industrial applications. The patents are registered with the Patent Registrar, and are granted for 20 years. Copyrights are granted for the lifetime of the author and seventy years following her death. Agreements involving the transfer of copyrights and exclusive licenses are only enforceable if they are granted in writing, and exclusive licensees may bring

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independent infringement claims to protect their licenses. Trademarks may be registered at the Patent Office, but such registration is not necessary, as Israeli Courts protect unregistered trademarks. Israel is also a member or signatory of the major international IP instruments, including WIPO, the Berne Convention and the TRIPS Agreement. Israel was included on the US Trade Representative’s Special 301 Report Watch List between 2005 and 2014. During that period, Israel strengthened its IP regime significantly, specifically with regard to patent protection in the pharmaceutical industry.

As mentioned above, the IP protection regime does not preclude the limitations imposed by Israel’s competition laws. Rather the two regimes operate in parallel, such that even if a monopolist’s position is protected by the Patent Law, it will still be required to abide by the restrictions imposed by the RTPL.

**Leading Judicial Precedents**

**Uniform v Sanofi**

In its 70 years of existence, Israel has produced a dearth of court cases relating to the interface between competition law and IP. The recent Sanofi decision that was issued by the Central District Court403 is, perhaps, the most comprehensive decisions in this area, and is currently on appeal. The case involved a claim by the generic Israeli drug manufacturer Unipharm that Sanofi presented false information to the Patent Registrar in order to extend its patent on the drug “Plavix,” which was due to expire in 2008. Unipharm claimed that the current IP regime incentivized patent holders to submit requests for patent renewals in the hopes of extending their monopoly in the relevant drug market. As such, Unipharm argued that it was eligible to receive a portion of Sanofi’s profits from the period during which it artificially extended its patent while the request was being reviewed by the Patent Registrar. Unipharm’s request was based in part on the RTPL, and specifically the claim that unlawfully and artificially extending a patent-holder’s monopolistic position amounts to abuse of monopolistic position under Section 29A of the RTPL.

The Court accepted Unipharm’s claim, and held that the submission of misrepresented information to the Patent Registrar may amount to a violation of Section 29A of the RTPL (abuse of dominant position). The Court held that there is no need to prove that Sanofi attempted to achieve patent protection through deceit or to prove a causal link between the misinformation and the extension of the

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403 Unipharm Inc. v. Sanofi et. al. (CC, Case No. 33666-07-11), [REPORTER/VOLUME], first page (October 8, 2015) (“Sanofi”).
patent protection (even though, the court found Sanofi to have done just that, rendering the whole RTPL discussion less relevant to the final result of the decision). Based on the RTPL’s broad purpose of ensuring fair competition, the Court referred to the European AstraZeneca case, and held that any attempt by a monopolist-patent applicant to gain unfair competitive advantage through a patent application with inaccurate information could amount to a violation of Section 29A. The Court clarified, however, that the RTPL does not, by itself, provide for a remedy of profit reallocation. As such, the Court issued that remedy based on the laws of unjust enrichment.

**ACUM**

With regards to copyright, the leading precedent is the ACUM case. ACUM, the Israeli Association of Composers, Authors and Music Publishers, is a body that manages the copyrights of most of Israel’s writing and recording artists, including authors, musicians and composers. ACUM’s members grant ACUM the right to manage their IP rights, including selling licenses, setting royalties, and enforcing IP rights. In 2004, the Director General of the IAA issued a decision declaring that ACUM is a monopoly in the market of artistic IP licensing, and that the agreements between ACUM and its members are restrictive arrangements under the RTPL, and thus must be approved by the Antitrust Tribunal.

In the ACUM case, ACUM’s appeal of this decision was rejected. The Antitrust Tribunal found that while ACUM’s activity was necessary for the very existence of the relevant markets, it was still a monopoly and subject to the relevant provisions of the RTPL. Furthermore, it was decided that the ACUM’s membership agreements are indeed restrictive arrangements, and their approval was subject to several conditions regarding eligibility to be a member of ACUM, the manner in which licensing fees may be set, allocation of royalties, etc. These conditions were mainly meant to protect both members and rights users from ACUM’s monopolistic power in the market. The precedent set in ACUM, whereby the agreements constituting copyright management bodies are restrictive agreements and must be approved by the Antitrust Tribunal, was later applied to other copyright management bodies in Israel.

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404 AstraZeneca v European Commission (T, Case No. 321/05, [REPORTER/VOLUME], [first page] (July 1, 2010).

405 ACUM v. Director General (RT, Case No. 513/04) (October 26, 2008).
PENALTIES

As mentioned above, the RTPL provides for criminal, civil, and administrative sanctions for violation of its provisions. In the current context, Section 47 of the RTPL dictates severe penalties for being party to an unapproved restrictive arrangement or not complying with a condition for the approval thereof, and for abusing market power. An individual who is found to have committed any of these acts is liable for punishments of up to 3 years imprisonment and fines of up to $588,000. Corporations who violate the RTPL are liable for fines of up to $1,176,000. If the violation was committed in “aggravated circumstances” – i.e., in a manner that could significantly impede competition – the violator is subject to five years imprisonment. The Supreme Court has declared that appropriate punishment for persons who enact restrictive arrangements is imprisonment, and violators have been imprisoned for enacting both vertical and horizontal restrictive arrangements. To increase the deterrent effect of criminal charges, Article 48 of the RTPL provides that a corporation’s managers and partners are to be held responsible for all of the corporation’s violations, “unless he has proved that the offense was committed without his knowledge and that he took all reasonable measures to ensure compliance with this Law.”

In lieu of pressing criminal charges, the IAA may impose administrative fines on violators of the RTPL. Section 50A provides that the IAA may impose on a person, a $260,000 fine for violation of the RTPL. Corporations whose annual turnover exceeds $2,600,000 are liable for a fine of up to 8% of their annual revenue, to a maximum fine in the sum of $6,241,000. The IAA may also opt to issue a fine under a Consent Decree.

Criminal indictments are tried before Antitrust Tribunal (a special department within the Jerusalem District Court). Administrative fines imposed by the IAA can be appealed before the Antitrust Tribunal within 30 days. The Antitrust Tribunal’s judgments in both criminal and administrative cases can be appealed before the Supreme Court within 45 days.

Over the past several years, there has been a clear trend towards stricter enforcement and harsher punishment for violations of the RTPL. Throughout the early 2000s, courts often employed rhetoric regarding the severity of cartel activity and the need to incarcerate offenders. In practice, however, sentences for cartel activity tended not to exceed fines and a suspended minor prison sentence or community service. Over the past several years the level of punishment has risen
significantly, with longer sentences and higher fines becoming more common. In a recent decision regarding an attempted monopoly by a major grocery chain, the Supreme Court made it clear that punishments should continue to involve prison terms, and that those terms should become more severe.\textsuperscript{406} A similar trend can be observed regarding administrative fines: though the practice is relatively recent (the authority to impose administrative fines was granted in a 2012 amendment to the RTPL), it seems that the IAA is becoming more comfortable with it, and is imposing more severe fines.

Under the RTPL the IAA has a unique power to issue a standalone determination whether an act has violated the law, (without, necessarily, fining the violator or initiating criminal proceedings). Such a determination (referred to as a section 43 Determination) constitutes a \textit{prima facie} proof of its subject matter in any legal procedure.

This unique tool is used by the IAA mainly to deter behaviour in a sub-criminal level, and to encourage private enforcement (due to the prima facie proof of anticompetitive behaviour it provides any plaintiff).

To our knowledge, there has been no section 43 Determination with regards to abuse of IP monopoly rights to date.

\textbf{PRIVATE ENFORCEMENT}

Section 50 of the RTPL clarifies that any act or omission in violation of the RTPL is a civil tort. Anyone injured by such act or omission may seek remedy in the civil courts under the provisions of the Torts Ordinance. As such, plaintiffs bear the burden of proof regarding all elements of the tort (cartelistic behaviour/abuse of monopoly power, damages, and causation), and only proven pecuniary and non-pecuniary damages will be awarded. The IAA, however, is currently promoting a bill which would allow an injured party to seek treble damages for injury caused by acts or omissions in violation of the RTPL.

As mentioned above, The General Director’s section 43 Determination that an agreement amounts to a restrictive arrangement in violation of the RTPL, or that certain behaviour constitutes an abuse of dominant market position, is considered prima facie evidence in civil proceedings. Plaintiffs can also petition the court for injunctive relief from anti-competitive activity. However, the courts in Israel have

\textsuperscript{406} Shufersal Ltd., supra.
been very reluctant to conduct competitive analysis in interim procedures, and injunctions based mainly on RTPL claims, are usually not awarded.

Defendants have the right to appeal all rulings imposing civil, administrative or criminal liability for breach of the RTPL’s provisions. A ruling by a competent civil court of first instance can be appealed by the plaintiff or the defendant within 45 days.

The Israeli Class Action Law provides that violations of the RTPL can be brought to court as class actions. Due to the significant damages that class actions can yield, such actions have become an especially popular vehicle for RTPL based claims. One of the reasons that there is relatively little civil case law regarding violations of the RTPL in general, and IP related violations specifically, is that Israeli class actions are often settled outside of court. Due to the importance of class action suits to the integrity of the antitrust regime, the IAA has a representative on the Ministry of Justice’s Class Action Support Fund, which can provide funding to class action plaintiffs to ensure that such actions can be successfully pursued.

**CURRENT DEVELOPMENTS**

One of the major issues that the Israeli antitrust regime has been grappling with is the question of excessive monopolistic pricing, including as it relates to IP. Section 29A(b)1 considers an unfair level of prices as an abuse of monopoly power. Under the previous General Director of the IAA, Professor D. Giloh, the IAA issued guidelines stating that they view excessive pricing as an abuse of monopoly power under Section 29A(b)1 (as well as predatory pricing, which was not under debate). The Guidelines went further to delineate when and how the IAA would enforce the prohibition on excessive pricing. According to those guidelines, a monopolist may be accused of excessive pricing if it charges a price that exceeds the competitive price for the same product, or if there is no reasonable relation between its economic value and its price. Identifying a price as “excessive” is a difficult counterfactual exercise that involves establishing what the hypothetically competitive price of the product should be. In appropriate circumstances, this may be done by assessing the products marginal costs. The IAA may also compare the price charged to the prices charged for similar products in competitive markets. In cases regarding a patent-protected monopolist, especially in industries where large amounts of risk and resources are invested in the development stage, these tests may lead to unsound judicial decisions. Alternatively, the IAA may compare the
monopolists profit margins to the profits reaped from similar products by other firms.

The IAA, under a new Director General, recently updated it guidelines on the matter, and recognised the difficulties in implementing a claim of excessive pricing, as well as the academic debate surrounding the desirability of such implementation. The amended guidelines made it clear that a claim of excessive pricing would only be employed by the IAA as a last resort, and only after careful consideration of the product and the relevant market. The IAA has recently terminated, without any findings, several investigations into allegations of excessive pricing.

The excessive pricing doctrine has not yet been utilized by the courts in a full judicial finding. The Central District Court, however, recently certified a class action claim against a major dairy producer for charging excessive prices for cottage cheese.

CONCLUSION

Israeli jurisprudence regarding the interface of competition law and IP law is severely underdeveloped. Rather than addressing the unique legal challenges and opportunities that the nexus of these two fields presents, Israel’s case law and regulatory bodies have been content to separate the two fields and address each one independently.

We expect that this historical disposition will soon change. As the Israeli economy becomes increasingly based on IP-rich industries, and as the Israeli regulators, specifically the IAA, become more assertive and proactive, we expect to see more judicial decisions and legal memoranda addressing this issue. However, the principles underlying current case law will likely remain the same: the existence of IP rights does not preclude the provisions of the RTPL - a monopoly by right must still compete fairly, and it is inadmissible to enter into a restrictive arrangement in order to enjoy other IP rights, except as provided by the RTPL.

407 Memorandum 1/17: Director General's Considerations When Enforcing the Prohibition on Excessive Pricing (February 28, 2017).
408 See Naor v. Tnuva Central Cooperative for the Marketing of Agricultural Produce in Israel Ltd. (Class Act., Case No. 46010-07-11 ) (April 5, 2016).
When competition law meets intellectual property, and particularly patent law, it is never easy for competition authorities and judges to strike a balance between these two fields of law.

Indeed, on the one hand, it is in the general interest to safeguard the incentive to innovate granted by the IP regulatory framework. The award of exclusive rights for a certain number of years allows innovative companies to reap the fruits of their investments and to develop further technologies from which the entire society can benefit. Although the patent system provides inventors with a de facto monopoly on their technology, the apparent harm to competition is counterbalanced by the circumstance that a well-functioning IPR system can trigger competition by encouraging firms to invest in innovation.

However, on the other hand, the need to favour technological improvements does not entail that markets dependent on patents are exempted from competition law. Patents may be a source of market power, and patentees tend in some circumstances to misuse their exclusive rights by means of exploitative or exclusionary conducts, either unilateral or multilateral.

A compromise between IP and competition law is even more complicated in the pharmaceutical sector, where also sectorial regulation comes into play and where human health and the sustainability of public budgets are relevant values at stake. In this regard, it has to be recalled that in many countries National Governments provide free medical assistance to the citizens and pick up the bill for pharmaceutical products. Therefore, when they notice anomalies in patent or pricing strategies, they go straight away to report those conducts to the competition authorities.

This was particularly true in the European Union over the last years, where the European Commission (“the Commission”) fined several pharmaceutical companies allegedly involved in anticompetitive agreements (i.e.: reverse payment

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409 Associate at BonelliErede.
settlements) and abuses of dominant position (i.e.: regulatory gaming, sham litigation, acquisition of scarce technology).

The Italian Competition Authority (“Autorità Garante della Concorrenza e del Mercato”, or “AGCM”) was one of the most active agencies in the pharmaceutical sector in the region and adopted one of its landmark decisions in Roche/Novartis, an unusual cartel case where many features come into play, including competition among licensor and licensee, strategy on communication related to the safety of the drugs and the interplay between competition and sectorial regulation. The final decision of the AGCM, which fined Roche and Novartis for a total amount of 180 million euros, was upheld by the Italian Court of first instance (TAR Lazio), but the case is still pending before the Italian Administrative Supreme Court (Consiglio di Stato), which stayed the proceedings and referred some questions to the Court of Justice of the European Union (CJEU) for a preliminary ruling. This paper will discuss the judgment delivered on 23 January 2018 by the CJEU, which provides guidance for future conducts in the pharmaceutical industry.

The facts
Genentech Inc, a subsidiary of Roche active in the United States, in the course of a single research program developed and patented two drugs, one (“Avastin”) for the treatment of cancer and the other (“Lucentis”) for the treatment of an eye disease known as “age-related macular degeneration” (“AMD”). The medicines are based on different active substances that are nevertheless obtained from the same antibody and have the same therapeutic mechanism.

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410 General Court of the EU, Judgment of 8 September 2016, H. Lundbeck A/S and Lundbeck Ltd v European Commission (T-472/13); European Commission, Decision of 10 December 2013, Fentanyl.
413 The reference for a preliminary ruling is a procedure exercised before the Court of Justice of the European Union. This procedure enables national courts to question the Court of Justice on the interpretation or validity of European law. The reference for a preliminary ruling therefore offers a means to guarantee legal certainty by uniform application of EU law. For further information, please refer to http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A14552.
414 CJEU, Judgment of 23 January 2018, F Hoffmann La Roche v AGCM, (C-179/16).
415 Avastin: request number MI2005B024272, application date 03/04/1998, issue number 0001325932, issue date 20/04/05. The patent should expire in 2018, with an SCP extension to 2019.
416 Lucentis: request number MI2007B021920, application date 03/04/1998, issue number 0000973804, issue date 27/12/06. The patent should expire in 2018, with an SCP extension to 2022.
Avastin was the first medicine developed by Genentech and contains an active principle called bevacizumab, which Genentech deemed suitable for the treatment of cancer but unsuitable, in terms of safety and efficacy, for the treatment of AMD. As a consequence, Genentech developed and patented another active principle for AMD, ranibizumab, and a new medicine incorporating it, Lucentis.

In order to market the drugs outside the United States, Genentech licensed Avastin to its parent company Roche, and Lucentis to Novartis, since Roche is not active in ophthalmology.

In Italy, the marketing authorization ("MA") for Avastin was granted two years earlier (2005) than the MA for Lucentis (2007). During this interval, medical practitioners started prescribing Avastin off-label, in weaker doses, to treat AMD. Although this usage was not covered by Avastin’s Summary of Product Characteristics ("SPC") and by the related MA, and it was initially intended to fill a therapeutic gap, it continued on a wide scale also after an MA was granted to Lucentis since the latter was significantly more expensive than Avastin.

As a consequence of its widespread use for the treatment of AMD and other ophthalmological diseases, in 2007 the off-label use of Avastin was also included in the list of the medicines reimbursed ("the list") by the Italian National Health Service ("Servizio Sanitario Nazionale", or "SSN") as, under Italian law, medicines used off-label are reimbursed in absence of viable alternative therapies.\footnote{Reimbursement was provided in connection with the treatment of AMD, retinal vein occlusion ("RVO"), diabetic macular edema ("DME"), myopic macular degeneration ("MMD") and neovascular glaucoma.}

The off-label use of Avastin grew against the wishes of the holder of the MA, Roche, and at the initiative of those who create the demand for it, namely prescribing medical doctors, further encouraged by the inclusion of the off-label use of Avastin in the list of the reimbursed drugs.

However, after the entry into the market of Lucentis, the off-label use of Avastin for the treatment of AMD was removed from the list of the reimbursed drugs\footnote{In this regard, the Consiglio di Stato, in another case pending before it, referred to the CJEU a question for a preliminary ruling on the compatibility with EU law of national measures that, for economic reasons, provide for the reimbursement of medicines prescribed off-label, such as Avastin (case C-29/17, pending before the CJEU, OJ 2017 C 195, p. 9).} and medical practitioners were in this way discouraged by the Italian legislation from prescribing Avastin off-label. Indeed, under Italian law, a doctor who prescribes a
drug for an off-label use instead of the approved one is liable for the side effects deriving from the use of the medicine and, as a matter of fact, medical practitioners tend to prescribe only approved drugs.419

According to the AGCM, the impediment for medical practitioners to prescribe the off-label use of Avastin for the treatment of AMD was the consequence of an anticompetitive horizontal agreement between Roche and Novartis in breach of article 101 of the Treaty for the Functioning of the European Union (”TFEU”).

More specifically, the AGCM concluded that Roche and Novartis had adopted concerted practises aimed at artificially differentiating between Avastin and Lucentis and manipulating the perception of the risks involved in the off-label use of Avastin in order to influence demand in favour of Lucentis, more expensive and therefore more profitable for them. In this regard, the AGCM stressed the circumstance that both Roche and Novartis would have enjoyed an economic return from a widespread usage of Lucentis, since this product was at least ten times more costly than Avastin. In concrete terms, Roche would have earned royalties through its subsidiary Genentech, licensor of the technology, and Novartis’ would have earned directly from the sales of Lucentis and from its 33% shareholding in Roche.

The pharmaceutical companies involved in the case and the AGCM obviously have a different vision of the case. On the one hand, Roche and Novartis argue that the off-label prescribing of a drug is contrary to the rationale of the EU regulatory framework on the commercialisation of medical products, since the off-label usage is not tested during preclinical tests and clinical trials and is therefore not safe enough. On the other side, the AGCM came to the conclusion that Roche preferred to collude with Novartis instead of doing what a reasonable player would have done, namely applying for an amendment of the MA for Avastin in order to get the off-label use authorised or, alternatively, unilaterally reporting the risks arising from the off-label use of Avastin. Therefore, in the view of the AGCM, the parties colluded to their own exclusive advantage and to the expenses of the social security system.

In particular, according to the AGCM, the agreement between Roche and Novartis included:

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419 Article 3(2), Law Decree n. 23/1998.
(i) the production and dissemination of opinions which call into doubt the safety and the efficacy of the off-label use of Avastin, downplaying the value of scientific evidence to the contrary;

(ii) the request by Roche to the European Medicines Agency (“EMA”) for an amendment to Avastin’s SPC in order to warn the public (doctors and patients) on the alleged risks connected to the off-label use of the drug and have the medicine removed from the list of the reimbursed drugs;

(iii) the request by Roche of an authorisation to send a “direct healthcare professional communication” (“DHPC”) to medical practitioners illustrating the amendments to Avastin’s SPC.

The preliminary ruling before the CJEU
In this context, the Consiglio di Stato decided to stay the proceedings and to refer some questions to the CJEU for a preliminary ruling.

By its first question, the referring Court asked whether the parties of a licensing agreement (i.e.: Genentech and Novartis) must be regarded as competitors if the licensee operates on the relevant market solely by virtue of that agreement and, if they are not, whether their collusive conduct may harm competition.

The second, third and fourth question all attain to the relationship between sectorial regulation and competition law and, for sake of clarity, can be reduced to one question. More specifically, the referring Court asked to clarify whether, for the purpose of defining the relevant market, the scope of MAs is binding on competition authorities. If the CJEU answers in the affirmative, a medicinal product used off-label and a medicinal product which has received an MA in respect of the same therapeutic indications would not be interchangeable under competition law.

Finally, by its fifth question, the Italian Court asked the CJEU to clarify whether a concerted practice intended to emphasise that a drug is worse than another can be regarded as a restriction of competition by object when that assumption, although not supported by reliable scientific evidence, cannot be indisputably excluded.

On 23 January 2018, the CJEU issued its final judgment on the above questions. The implications of this ruling will be analysed below.

a) Restrictions contained in a licensing agreement between non-competing undertakings may nevertheless amount to a breach of article 101(1) TFEU
By its first question, the referring Court asked whether a restriction of competition agreed between the parties of a patent licensing agreement should fall outside the scope of article 101 TFEU if the constraint is ancillary to the licensing agreement, or whether it can be exempted under article 101(3) TFEU. The Consiglio di Stato specifically referred to the licensing agreement between Genentech and Novartis in relation to Lucentis and to the allegedly restrictive conduct designed by these two companies to impede the off-label prescription of Avastin.

It is worthy to note that the CJEU assumes in the first place that, in light of the information contained in the file before the referring Court, the license agreement concluded between Genentech and Novartis does not raise antitrust concerns under article 101 TFEU.\textsuperscript{420} In this regard, it should be recalled that under the Technology Transfer Block Exemption Regulation ("TTBER"), the parties to a licensing agreement are competing undertakings in the relevant market for the contract products if, absent the agreement, they would have been actual or potential competitors in that market.\textsuperscript{421} In the present case, since Novartis had not planned to commence R&D in relation to drugs for the treatment of ocular vascular pathologies, Novartis and Genentech had to be considered non-competing undertakings, as noted by Advocate General Saugmandsgaard Øe in its opinion.\textsuperscript{422}

Having said that, the CJEU recalls the principle expressed in its ruling in Mastercard in which the theory of ancillary restrictions was elaborated.\textsuperscript{423} According to this doctrine, if a given agreement is compliant with article 101(1) TFEU, a restriction of the commercial autonomy of one or more parties which is objectively necessary for the implementation of that agreement and proportionate to its objectives does not entail a breach of competition law. However, "the fact that that operation is simply more difficult to implement or even less profitable without the restriction concerned

\textsuperscript{420} CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 73.

\textsuperscript{421} Regulation n. 772/2004, article 1(1)(j)(ii): “competing undertakings on the relevant product market” are undertakings which, in the absence of the technology transfer agreement, are both active on the relevant product and geographic market(s) on which the contract products are sold without infringing each other’s intellectual property rights or would, on realistic grounds, undertake the necessary additional investments or other necessary switching costs so that they could timely enter, without infringing each other’s intellectual property rights, the(se) relevant product and geographic market(s) in response to a small and permanent increase in relative prices. After the opening of the investigation, this Regulation was replaced by Regulation n. 316/2014.

\textsuperscript{422} AG Saugmandsgaard Øe’s Opinion of 21 September 2017, F Hoffmann La Roche v AGCM (C-179/16), paragraph 95.

cannot be deemed to give that restriction the objective necessity required in order for it to be classified as ancillary”.424

On this issue, the parties argued that their strategy was necessary to give the chance to Novartis to recover from the investment made to obtain the MA and to manufacture and distribute the product. In other words, according to the parties, their conduct was comparable to an exclusive license under which the licensor undertakes not to compete with the licensee in order to safeguard the viability of the licensing agreement. In this regard, the two companies argued that in light of CJEU’s case law their strategy directed to impede the off-label prescription of Avastin did not fall within the scope of article 101 TFEU since it was necessary for the very existence of the licensing agreement. Indeed, without it, Novartis would have been deterred from accepting the risks associated with the exploitation of the licensed technology.425

However, the CJEU rejects the arguments submitted by the parties and observes that the dissemination of allegedly misleading information agreed upon by the two parties did not affect the commercial autonomy of Genentech or Novartis, as required by Mastercard, but rather the conduct of third parties (i.e. medical practitioners) in order to eventually influence the demand of Avastin. As a consequence, the conduct above could not be considered objectively necessary for the implementation of the licensing agreement since it was agreed upon several years after the conclusion of the licensing agreement and was not even expressly provided for in the agreement.

In the second part of its question, the referring court inquired the CJEU on the possibility to have the conduct of Genentech and Novarties exempted under art. 101(3). The CJEU excludes this possibility.426 Indeed, in order to benefit from the exemption, an arrangement is subject to several cumulative requirements, including not to impose “restrictions that are not indispensable”.427 However, as

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424 CJEU, Judgment of 11 September 2014, MasterCard and Others v Commission (C-382/12 P), paragraph 91.
425 In this regard, it is useful to refer to CJEU, Judgment of 8 June 1982, Nungesser and Eisele v Commission (258/78), paragraphs 53, 60, 67, 77 and 78.
426 CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraphs 97-98.
427 According to article 101(3) TFEU, an exemption can be granted to an anticompetitive agreement "which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not: (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives; (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question".
explained above, the dissemination of misleading information in respect of medicinal product was not regarded as an indispensable restriction by the CJEU.

b) The content of MAs does not bind competition authorities for the purpose of defining the relevant market

By its second, third and fourth questions the referring Court asked the CJEU to clarify whether, for the purpose of defining the relevant market, the scope of MAs is binding on competition authorities. In this regard, it has to be recalled that the European Legislator established a centralised procedure for the authorisation of medicinal products at EU level.428

The CJEU takes a substantial approach in examining the interplay between the scope of MAs and the definition of the relevant market under EU competition law. More specifically, it draws attention to the fact that the relevant market always comprises those products which are regarded as objectively interchangeable by the demand side.429 Therefore, although legal rules may play a role in influencing the degree of substitutability of the products, they have to be assessed taking into account the characteristics of the product and the actual competitive conditions.430

In this regard, the CJEU clarifies that pharmaceutical products manufactured or sold illegally cannot be considered substitutable both on the supply side, because of all the risks to which they expose the manufacturers of those products, and on the demand side (i.e.: prescribing medical practitioners), due to the risk to public health.431 This principle seems dangerous, especially if translated into other industries (i.e.: digital content) where unlawful goods may affect the market power of entities which manufacture their goods in compliance with the applicable law. As a matter of fact, also unlawful goods may exert competitive pressure against lawful goods and their existence should be taken into account when defining the relevant market under competition law.

In any case, the Court notes that although it is not for the national competition authorities to verify compliance of drugs with the regulatory framework, in the present case the pharmaceutical regulators and the national courts had found no

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428 In particular, Article 3(1) of Regulation No 726/2004 states that "no medicinal product appearing in the annex may be placed on the market within the European Union unless [an MA] has been granted by the [European Union] in accordance with the provisions of this regulation”.

429 CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 51.


431 CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 52.
evidence that the conditions under which Avastin was repackaged and prescribed were unlawful. In particular, the Court stresses that “the manufacture of a medicinal product is subject to authorisation, except for repackaging carried out for retail supply by healthcare professionals”, which was the case in the circumstance at issue.

In conclusion, the CJEU notes that in Italy medical practitioners enjoy therapeutic freedom and are primarily guided by considerations of therapeutic appropriateness when prescribing medicines. Moreover, they prescribed Avastin for a long time for ophthalmological indications in spite of the uncertainty regarding the lawfulness of this practise in presence of a drug approved for that indication. This circumstance would reveal the existence of a relationship of substitutability between Avastin and Lucentis.

In light of the above, the CJEU answers the referred questions by saying that a drug covered by an MA and a drug prescribed off-label for the treatment of the same disease have to be included in the same relevant market in so far as they are interchangeable and compliant with the applicable provisions governing their manufacture and marketing.

c) Allegations of the lesser safety and/or efficacy of a drug in comparison to another have to be supported by reliable scientific evidence

By its fifth question, the referring Court asked the CJEU to clarify whether a concerted practice intended to disseminate allegations that a drug is more risky and less effective than another can be regarded as a restriction of competition by object when the scientific debate on the equivalence between the two drugs is still ongoing.

In this regard, the CJEU recalls that a restriction of competition by object occurs when an arrangement reveals a sufficient degree of harm to competition to render the examination of the effects superfluous. In order to determine whether an arrangement entails a restriction of competition by object, regard must be had

432 CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraphs 60-62.
433 CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 58.
434 (iii) that limiting the relevant market to the approved indications contained in the MAs would facilitate collusion between pharmaceutical companies, as they might share markets by ensuring that their MA applications cover different therapeutic indications.
to (i) the content of the agreement, (ii) the objectives it seeks to attain and (iii) the economic and legal context in which it is concluded, with particular consideration for the nature of the products or services at issue and the conditions of functioning of the market. The examination of these features allows to check whether there is an alternative explanation for the coordination other than the pursuit of an anticompetitive aim.\footnote{CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraphs 78-80. See also CJEU, Judgment of 6 October 2009, GlaxoSmithKline Services and Others v Commission and Others (C-501/06 P, C-513/06 P, C-515/06 P and C-519/06 P), paragraph 58 and the case-law cited.}

In view of this, the CJEU explains that in the pharmaceutical sector the impact of the EU regulatory framework has to be taken into account when assessing the economic and legal context in which an arrangement is concluded. In particular, under the pharmacovigilance system set by EU law, the holder of the MA is obliged to supply to the EMA, the Commission and the Member States any new information which might influence the evaluation of the benefits and risks of the drug concerned and must ensure that that information to the public is presented objectively and is not misleading.\footnote{In this regard, see Pablo Ibáñez Colomo, Alfonso Lamadrid, On the Notion of Restriction of Competition: What We Know and What We Don't Know We Know, in Damien Gerard, Massimo Merola and Bernd Meyring (eds), The Notion of Restriction of Competition: Revisiting the Foundations of Antitrust Enforcement in Europe (Bruylant 2017).}

Applying the above to the present case, the CJEU observes in the first place that since the submission of new information to the EMA rests solely with the holder of the MA, the fact that two undertakings marketing competing drugs colluded with each other to disseminate information relating to the product marketed by only one of them might constitute evidence of anticompetitive collusion.\footnote{CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 85. See article 16(2) and 24(5) of Regulation No 726/2004 of the European Parliament and of the Council laying down Community procedures for the authorisation and supervision of medicinal products for human and veterinary use and establishing a European Medicines Agency.}

Furthermore, Roche’s request to include the alleged side effects arising from the off-label use of Avastin in the list of adverse reactions was not granted by the competent pharmaceutical authority\footnote{CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 90.}, and this circumstance might entail a clue of the artificial exaggeration pursued by the parties.\footnote{Roche had requested amendments to section 4.8 (“adverse reactions”) of the SPC for Avastin, in particular, to indicate more adverse reactions in the case of the intravitreal use of Avastin than is the case for Lucentis. However, the EMA’s committee for medicinal products for human use took the view, in its report on Avastin, that amendments should be made only to section 4.4 (“Special warnings and precautions for use”), given that according to the scientific evidence currently available, the differences between Avastin and Lucentis in terms of...}
In the second place, the CJEU provides criteria for the referring court to assess whether the information provided by the parties to the competent authorities were misleading. In particular, information are deemed to be misleading if they lack completeness and accuracy, their purpose is to confuse the authorities and they emphasize in a context of scientific uncertainty the public perception of the risks associated to the off-label use of a drug.\textsuperscript{442}

In view of the above, the CJEU comes to the conclusion that whereas the existence of a concerted practice intended to disseminate allegations that a drug is more risky and less effective than another in a context of scientific uncertainty should be confirmed, that conduct would constitute not only an infringement of the regulatory framework applicable to the pharmaceutical sector, but it would also be sufficiently harmful to competition to entail a restriction of competition “by object” without the need for an examination of its effects.\textsuperscript{443}

\textbf{Conclusions}

The CJEU adopted a substantial approach in regard of all the issues raised by the Consiglio di Stato and reaffirmed the independent applicability of EU competition law in the disputes which involve also other branches of law, like IP law or sectorial legislation.

Three major developments arise from this ruling:

adverse reactions are not statistically significant and that systemic adverse reactions, that is to say, not limited to the eye that has been injected but concerning the patient's life, may be caused by anti-VEGF therapies generally.

\textsuperscript{441} When examining the economic and legal context, AG Saugmandsgaard Øe also noted in his Opinion (paragraph 169) that in Italy medical practitioners are particularly sensitive to safety considerations surrounding the off-label prescribing of pharmaceutical products, since under both Italian civil and criminal law doctors are liable for the side effects arising from it. From this peculiarity, the Advocate General inferred that the concerted practice at issue in the main proceedings might have discredited the off-label use of Avastin among medical practitioners.

\textsuperscript{442} CJEU, F Hoffmann La Roche v AGCM, supra note 5 at paragraph 92. In his Opinion to the CJEU, AG Saugmandsgaard Øe considered not only the economic and legal context where the agreement had been concluded, but also the objectives and the subjective intention pursued by the parties. With regard to the objectives (paragraphs 89 and 166), he argued that the aim pursued by Roche and Novartis was a reduction in the demand for Avastin and that, given the misleading nature of the communication campaign, there were no alternative plausible explanations for such collusion. In response to the arguments raised by the parties, according to which their strategy was aimed at halting the allegedly unlawful prescribing and marketing of Avastin off-label, the AG mentioned Slovenská sporiteľňa where the CJEU had clarified that an anticompetitive agreement is not justified by the unlawful nature of the activity of the competitor harmed by the agreement, and that in such a circumstance the parties to the agreement should lodge a complaint against the competitor before the competent authorities. In its final submission Roche argued that the reference to Slovenská sporiteľňa was irrelevant to the outcome of the case and the CJEU decided not to further focus on this suggestion from the Advocate General.

\textsuperscript{443} CJEU, Judgment of 11 September 2014, CB v Commission (C-67/13 P), paragraph 81.
(i) if a licensing agreement is compliant with article 101(1) TFEU, an ancillary restriction of the commercial autonomy of one or more parties which is objectively necessary for the implementation of that agreement and proportionate to its objectives does not entail a breach of competition law. If the ancillary restriction affects the conduct of third parties, this constraint will not be deemed either objectively necessary or proportionate and will infringe competition law;

(ii) the scope of the MA will not bind the competition authorities in the definition of the relevant market, but priority will be given to the prescribing practices diffused among medical practitioners and to the existence of a true relationship of substitutability between the drugs;

(iii) the reliability of the scientific information concerning the efficacy of a drug and the risks related to it can influence the decision-making process of competition authorities. More specifically, the existence of a concerted practice intended to disseminate allegations that a drug is more risky and less effective than another in a context of scientific uncertainty is to be considered as a restriction of competition by object.
INTRODUCTION

The South African legal system is a ‘hybrid’ system, comprising common law, statutory and customary law. South Africa has a strong legal framework to regulate competition and intellectual property (IP) matters. The Competition Act, No. 89 of 1998 (as amended) (the Competition Act) is the prevailing competition legislation and applies to all economic activity within, and having an effect within, South Africa. There are several IP statutes that apply to different forms of IP. This chapter provides (i) a broad overview of the relevant competition and IP statutes; (ii) considers cases in which competition and IP issues have intersected and how the relevant authorities have applied both existing statutes and the common law; and (iii) considers current policy developments in competition and IP law issues.

INTELLECTUAL PROPERTY (IP) LAW IN SOUTH AFRICA

IP law in South Africa is regulated by a number of statutes as well as the common law. This area of law in South Africa has been influenced by international law. South Africa is a signatory to the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention); the Paris Convention for the Protection of Industrial Property (Paris Convention); the World Intellectual Property Organisation Convention (WIPO Convention); the Trade-related Aspects of

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447 The authors are grateful to Kgomotso Noko for her review and editing of this article.
450 Convention Establishing the World Intellectual Property Organization (as amended on September 28, 1979). South Africa has been a signatory since March 1975.
Intellectual Property Rights Agreement (TRIPS);\textsuperscript{451} the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure Treaty (Budapest Treaty);\textsuperscript{452} and the Patent Cooperation Treaty.\textsuperscript{453} South Africa is also a member of the International Union for the Protection of New Varieties of Plants.\textsuperscript{454}

Ownership or rights in IP can be transferred much like other forms of property, although specific requirements may be applicable. In South Africa, IP rights are granted and administered by the Companies Intellectual Property Commission (CIPC), an agency of the Department of Trade and Industry (the DTI), and IP rights are generally privately enforced through civil proceedings.\textsuperscript{455} The transfer of IP is subject to South African exchange control laws. The principle statues governing IP rights are described below.

Copyright Act, No. 98 of 1978 (the Copyright Act)
The Copyright Act protects original creative works (including works of a technical nature) 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.\textsuperscript{456} Except in the case of cinematographic films (for which the Copyright Act provides for optional registration) copyright does not require registration in order to exist. A valid assignment of copyright must be in writing and must be executed by or on behalf of the assignor. The executed document should clearly indicate the subject of the agreement and the parties’ intentions and consensus to transfer the IP.\textsuperscript{457} The Copyright Act provides for criminal liability for certain prohibited conduct and also makes provision for the award of punitive damages in certain circumstances.

Patents Act, No. 57 of 1978 (the Patents Act)


\textsuperscript{456} Copyright Act § 2(1).

\textsuperscript{457} Copyright Act § 22(3).
The Patents Act is largely based on the British Patents Act\(^\text{458}\) and the European Patent Convention, and is in line with the international norms set out in the Paris Convention and TRIPs. Patents are granted for 20 years from the date on which the complete specification is filed with the patents office. The term of a patent 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. Patents therefore will be registered provided that they meet the formal and procedural requirements set out in the statute.

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 in the patent or design register (as the case may be). If the assignment is not recorded, the transfer will only be valid as between the assignor and assignee (as contracting parties) and the assignee will lack a basis on which to institute proceedings against any party that infringes the assignee’s patent or design rights.

Section 56 of the Patents Act provides for a party to apply to the Commissioner of Patents for a compulsory licence where patent or design rights are abused. Abuse under the Patents Act includes 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 a licence or licences.\(^\text{459}\)

The Patents Act stipulates the process for the enforcement of patent rights and states that the Court of the Commissioner of Patents is the court of first instance in relation to patent litigation. The Commissioner of Patents is a judge of the South African High Court, appointed as such in terms of the Patents Act, and would generally have 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.

**Designs Act, No. 195 of 1993 (the *Designs Act*)**

\(^{458}\) British Patents Act of 1977 (as amended).
\(^{459}\) Patents Act § 56.
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 to test, for example, that in practice it matches what it is claimed to be. Rather, if the procedural and formal requirements are met, a design may be registered. An aesthetic design registration endures for 15 years and a functional design registration endures for 10 years, from the date of registration thereof or from the release date, whichever date is earlier, subject to the payment of the prescribed renewal fee.460

Section 21 of the Designs Act provides for a party to apply to the Commissioner of Patents for a compulsory licence where a patent right or a design right is abused.

The Designs Act is in line with the Paris Convention and TRIPs.

**Intellectual Property Laws Amendment Act, No. 28 of 2013 (the IP Laws Amendment Act)**
The IP Laws Amendment Act amends the Performer’s Protection Act, the Copyright Act, the Trade Marks Act and the Designs Act to include the protection of traditional knowledge. Traditional knowledge is passed on within indigenous communities from generation to generation and includes both tangible expressions of creativity like handcrafts as well as and intangible forms of creativity, such as phonetic or verbal expressions, actions, and musical or sound expressions. Traditional IP may only be transferred in limited circumstances.

**Performers’ Protection Act, No. 11 of 1976 (the Performers Protection Act)**
This statute protects the rendition of a particular work by a performer, if the performance by that performer takes place and is broadcast live or is recorded in South Africa or in any World Trade Organisation country. In terms of the Performers Protection Act, a performer’s rights may be licensed, although they may not be assigned.

**Plant Breeders’ Rights Act, No. 15 of 1976 (the Plant Breeders’ Rights Act)**
The Plant Breeders’ Rights Act provides protection in relation to the cultivation of new plants, in line with TRIPs. The Plant Breeders’ Rights Act allows for the application for and registration of IP in a newly developed variety of plant, provided that the plant variety is distinct, uniform and stable. Registrations in terms of this

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460 Designs Act § 22.
statute are administered by the Registrar of Plant Breeders, who falls under the Department of Agriculture. Plant breeders’ rights endure for a period of 25 years in the case of vines and trees and for a period of 20 years in relation to all other plants, calculated from the date on which a certificate of registration is issued. The transfer of a plant breeder’s right must be notified to the Registrar of Plant Breeders.

Trade Marks Act, No. 194 of 1993 (the Trade Marks Act)
The protection of trade marks is regulated by both statute and the common law. The Trade Marks Act provides for a registration system to record existing rights and 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 trade marks, substantive rights have developed that, in some instances, extend the rights contained in the common law. The registration of a trade mark is valid for 10 years and is renewable in perpetuity. A trade mark must be assigned in writing and, in order to be valid, such assignment must be executed by, or on behalf of, the assignor. A trade mark may be assigned separately from the goodwill attaching to it. However, an unregistered trade mark is not capable of assignment separately from the business for which it is used. The transfer of a trade mark must be registered in the register of trade marks. Where a trade mark is not registered, a person using it may still enjoy protection under the common law.

COMPETITION LAW IN SOUTH AFRICA
The prevailing competition legislation in South Africa is the Competition Act, including the regulations promulgated thereunder.

The Competition Act applies to all economic activity within, or having an effect within, South Africa. The Competition Act is enforced by the South African Competition Commission (the SACC), the South African Competition Tribunal (the SACT) and the Competition Appeal Court (the CAC) (collectively, the Competition Authorities).

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461 Patents Act § 21.
462 Competition Act § 3(1).
463 Following the Seventeenth Amendment to the Constitution of the Republic of South Africa (the Constitution) (see Constitution § 168 (as amended by the Constitution Seventeenth Amendment Act, 2012 § 4), decisions of the CAC can be appealed to the South African Constitutional Court (the Constitutional Court) if the matter raises constitutional issues or if the matter raises an arguable point of law of general public importance which ought to be considered by the Constitutional Court. The Supreme Court of Appeal has confirmed that it no
With regard to specific sectors that may be separately regulated, the Competition Act confers concurrent jurisdiction on the Competition Authorities, on the one hand, and any industry or sector regulatory authority on the other, in respect of conduct regulated by the Competition Act, being primarily prohibited practices and merger control.\(^{464}\)

d: THE INTERACTION BETWEEN COMPETITION AND IP LAW IN SOUTH AFRICA

The interaction between competition law and IP law is not dealt with specifically in any statute. However, a number of decisions by the SACC and SACT are informative as to how the Competition Authorities address matters with both competition and IP law elements. The approach taken by the Competition Authorities to competition and IP law issues is discussed below.

Exemptions

The only express reference to IP rights in the Competition Act is contained in the provisions of the Competition Act relating to the granting of exemptions. A firm may apply to the SACC to exempt an agreement or practice, or category of agreements or practices, from the application of the chapter of the Competition Act dealing with prohibited practices, in certain limited circumstances.\(^{465}\) These circumstances include where an agreement or practice, or category of agreements or practices, relate “to the exercise of intellectual property rights including a right acquired or protected in terms of the Patents Act, Performers’ Protection Act, Copyright Act, Designs Act, Trademarks Act, and Plant Breeders’ Rights Act”.\(^{466}\)

The only known, successful application made to the SACC in terms of this section of the Competition Act was made by Visa SA, a branch of Visa International Service Association Inc., in 2004. Visa is an association comprised of banks that pay membership fees and effect payment amongst themselves. The application requested permission for the relevant members to agree on prices and trading conditions in terms of an agreement to set up a Visa National Organisation for South Africa, and to use computer software to operate a payment system, in addition to other existing IP rights, such as the Visa brand. This agreement was, as stated in the application, pursuant to the “exercise [of] certain intellectual property

\(^{464}\) Competition Act § 3(1A)(a) and (b).

\(^{465}\) Competition Act § 10(1).

\(^{466}\) Competition Act § 10(4).
The application for exemption was granted on 5 November 2004 for a period of eight (8) years and six (6) months, ending on 30 April 2013.\textsuperscript{468}

**Prohibited practices**
The Competition Act prohibits restrictive horizontal practices, restrictive vertical practices, and the abuse of dominance.

Collusion between competing firms - (i) directly or indirectly fixing purchase or selling prices or trading conditions; (ii) dividing markets, by allocating customers, suppliers, territories, or specific types of goods or services; or (iii) collusive tendering\textsuperscript{469} (collectively, *Cartel Conduct*) - is *per se* prohibited and cannot be justified once characterised.\textsuperscript{470} Further, any conduct between firms in a horizontal relationship, such an agreement between or concerted practice by these firms that, on balance, \textit{“has the effect of substantially preventing, or lessening competition in a market”} (Rule of Reason Analysis) is also prohibited.\textsuperscript{471} The practice of exercising, or the acts of transferring or licensing, IP rights between competitors could amount to an agreement or concerted practice in the context of a horizontal relationship. Where Cartel Conduct can be characterised it is an automatic contravention of the Competition Act. However, it is generally permissible for competitors to engage, and create joint ventures, with each other. For example, the following activities would generally be permissible: research & development; addressing industry-wide concerns including regulations (often through trade associations); and the engagement with competitors as suppliers or customers. These types of competitor interactions, while not *per se* prohibited, are to be assessed under a Rule of Reason Analysis and should not be used to restrict competition in any way.

The Competition Act prohibits agreements between parties in a vertical relationship which have the effect of substantially preventing or lessening competition in a

\textsuperscript{467} Competition Commission, Competition News, 19 (2005) 15.


\textsuperscript{469} Where competitors agree, discuss or exchange information relating to the manner in which they intend to participate in a tender including: which competitors will or will not participate; which competitor will win; and the prices at which competitors will tender.

\textsuperscript{470} Competition Act § 4(1)(b) and American Soda Ash Corporation and Another v Competition Commission of South Africa and Others [2002] ZACAC 531.

\textsuperscript{471} Competition Act § 4(1)(a).
market. The practice of minimum resale price maintenance is *per se* prohibited but the setting of recommended sale prices is permissible.\(^\text{472}\)

The test for dominance is set out in the Competition Act - a firm is dominant if: (a) it has at least 45% of that market; (b) it has at least 35% but less than 45% of that market, unless it can show that it does not have market power; or (c) it has less than 35% of that market but has market power.\(^\text{473}\) Where dominance is established, an IP holder may not:

- charge an excessive price to the detriment of consumers,\(^\text{474}\)
- refuse access to essential facilities,\(^\text{475}\)
- engage in any one of the following exclusionary acts: induce others not to deal,\(^\text{476}\) refuse to supply scarce goods,\(^\text{477}\) engage in tying or bundling,\(^\text{478}\) sell below marginal or average variable cost,\(^\text{479}\) or buy up scarce supplies;\(^\text{480}\)
- engage in price discrimination;\(^\text{481}\) or
- engage in any other exclusionary act, which, on balance, has an anticompetitive effect (that act outweighs its technological, efficiency or other procompetitive gain).\(^\text{482}\)

Where the competitive use of IP is to be challenged through Competition Authorities, the case must be plead on competition law grounds.\(^\text{483}\) Though some complaints regarding the abuse of IP have been made, to date there have not been any successfully prosecuted prohibited practice claims in this field.

\(^{472}\) Competition Act § 5(1).
\(^{473}\) Competition Act § 7. Where “market power” means “the power of firm to control prices, to exclude competition or to behave, to an appreciable extent, independently of its competitors, customers or suppliers” (Competition Act § 1(xii)).
\(^{474}\) Competition Act § 8(a).
\(^{475}\) Competition Act § 8(b).
\(^{476}\) Competition Act § 8(d)(i).
\(^{477}\) Competition Act § 8(d)(ii).
\(^{478}\) Competition Act § 8(d)(iii).
\(^{479}\) Competition Act § 8(d)(iv).
\(^{480}\) Competition Act § 8(d)(v).
\(^{481}\) Competition Act § 9.
\(^{482}\) Competition Act § 8(c).
\(^{483}\) Ngobion Arts Business Enterprise CC and Business Place Joburg & BeEntrepreneurng [2006] ZACT 24 (22 March 2006).
The SACT assessed an IP case under the abuse of dominance provisions of the Competition Act in *DW Integrators CC v SAS Institute (Pty) Ltd.*\(^{484}\) The SAS Institute was a software firm with IP (software copyright) and DW, the complainant, provided consulting services to SAS Institute’s licensees. The complaint was that, when terminating the software licence agreement between the parties, the SAS Institute was abusing its dominance by excluding DW from the market and denying it access to an essential facility. The complaint was dismissed, as DW failed to establish dominance on the part of the SAS Institute. The SACT noted that caution is warranted in the Competition Authorities’ intervention in matters concerning competition and IP rights.\(^{485}\)

The *Hazel Tau* cases\(^ {486}\) were the result of two complaints against GlaxoSmithKline (GSK) and Boehringer Ingelheim (BI) for alleged abuses of dominance through their patent rights related to antiretroviral (ARV) medication. The complaints alleged that GSK and BI abused their dominance in the market by: (i) refusing access to an essential facility (section 8(b)); (ii) engaging in exclusionary acts that had an anti-competitive effect that outweighed technological efficiency or other procompetitive gains (section 8(c)); and (iii) charging an excessive price to the detriment of consumers (section 8(a)). The SACC referred the consolidated complaints to the SACT on 16 October 2013. Following investigation, but prior to a public hearing, the two pharmaceutical companies entered into a settlement agreement with the SACC that included: (i) the granting of licences to generic manufacturers; (ii) permitting licensees to export ARV medicines to sub-Saharan African countries; and (iii) capping royalties to no more than 5% of the net sales of ARVs.\(^ {487}\) In the SACC’s newsletter discussing the *Hazel Tau* cases, the SACC said, in response to concerns that patents will automatically be viewed as conferring 100% market share to the holder of the IP—

“[a] product market definition depends not on whether a product is the subject of a patent but on the substitutability of the relevant product with other, comparable products. The market definition in this case was no exception. The [SACC] formed the view that each active ingredient formed a market on its own based on the degree of substitutability between the

\(^{484}\) 1999-2000, CPLR 191 (CT).

\(^{485}\) Id 18.


\(^{487}\) Competition Commission, Competition News 49(2017) 7.
various antiretroviral active ingredients, not on the fact that each active ingredient was the subject of a patent.”

In the leading case on excessive pricing - Sasol Polymers\textsuperscript{489} - the CAC corrected the SACT and SACC’s emphasis on innovation or risk taking, as a factor in favour of justifiably charging higher prices. The CAC argued that this approach must be incorrect for, if it were correct, it would obviate any chance of a successful excessive pricing case in the area of IP: “While patent holder innovation research expenditure may have a bearing on economic value of its product and the reasonableness of its price this is not ... a license for patent holders to engage in excessive pricing. Such an approach has no basis on the wording of [the Competition Act].”\textsuperscript{490}

\textbf{Merger control}

“Innovation can fundamentally affect merger analysis in two ways. First, innovation can dramatically affect the relationship between the pre-merger market place and what is likely to happen if a proposed merger is consummated. Thus, innovation can fundamentally influence the appropriate analysis for addressing traditional, static efficiency concerns. Second, innovation can itself be an important dimension of market performance that is potentially affected by a merger.”\textsuperscript{491}

IP affects assessments of the market by bearing on factors such as: ease of entry into the market; levels and trends of concentration in the market; degree of countervailing power; dynamic characteristics of the market, including market growth, innovation and product differentiation.

The proposed transaction between Multichoice (Pty) Ltd (\textbf{Multichoice}) and South African Broadcasting Commission SOC Limited (\textbf{SABC})\textsuperscript{492} involved the determination of whether certain provisions in the “Commercial and Master Channel Distribution Agreement” (the \textbf{Agreement}) between the parties constituted an acquisition of control for purposes of the Competition Act, triggering the obligation to notify the Agreement as a merger to the SACC. The Agreement provided for the

\textsuperscript{490} Sasol Polymers supra 173 citing Sutherland and Kemp Competition Law of South Africa (loose-leaf at 7-50 (4)).
\textsuperscript{492} Caxton and CTP Publishers and Printers Limited and Others v MultiChoice Proprietary Limited and Others [2016] ZACAC 3.
licensing of certain rights in respect of television channels for a period of five years. The two most contentious offerings were the entertainment channel and SABC’s digital free to air (FTA) channels. The Agreement contemplated that the entertainment channel would be created from materials sourced in SABC archives in respect of which Multichoice would have, subject to qualifications, exclusive distribution and marketing rights. Multichoice was to provide SABC with a Multichoice FTA channel, for SABC to distribute on its OTT Platform. Multichoice would grant SABC a non-exclusive license to receive, distribute and market this channel in South Africa during the term of the Agreement. In reciprocation, SABC would grant to Multichoice a non-exclusive right to distribute and market SABC FTA channels in South Africa, and the parties agreed to discuss in “good faith” the terms for Multichoice to distribute these channels in the rest of Africa.

The Competition Act provides that a merger “occurs when one or more firms directly or indirectly acquire or establish direct or indirect control over the whole or part of the business of another firm”. The main thrust of the appellants’ argument was that a merger had taken place because SABC’ had divested itself of its copyright - that is the right to use or otherwise exploit the content of the channel individually and as a package - which divested copyright constituted a viable self-standing business. Further, the limited duration of the agreement was of no effect on this finding because a concentration may arise in cases where agreements envisaged a definite end-date.

The CAC found against the applicants on these points. As to whether a business had been transferred, the test was whether there had been a relatively permanent transfer of either market share or productive capacity from one firm to another; and whether there was a transfer of an identified set of activities and structures which can now be identified as a separate business undertaking and which could be pursued by the transferee. In answer the CAC found:

“Even if it could be argued that somehow the agreement to license first respondent could be analysed as a business within the meaning set out above, the wording of s 12 makes it clear that what has to be transferred is part of the transferor’s business which is now transferred as ‘a going concern’ to the transferee. No evidence on these papers was provided to suggest that what was transferred by second respondent pursuant to the agreement

493 SABC channels SABC1, SABC2 and SABC3.
494 Competition Act § 12(1)(a).
495 Supra note 50 at 45 -46.
constituted a discrete business operation which prior to the agreement, had been run by second respondent. This lack of evidence in itself reveals the difficulty of considering the agreement to be a notifiable transaction within the clear meaning of s 12 of the Act.”

The 5 year licence was found by the CAC to be insufficiently able to meet the requirement of a relatively permanent transfer. This requirement requires a lasting change in the control of the transferred firm in the structure of the market. In sum, there was “insufficient evidence to conclude, on the probabilities, that market share will sufficiently be altered so as to meet a test which would distinguish a commercially based licensing agreement from a transaction which falls within the scope of s 12”.

As to whether control had been transferred from SABC to Multichoice, the question was whether certain clauses in the agreement “ha[d] the ability to materially influence the policy of the firm” (as provided for in the Competition Act). The CAC determined that:

“It seems logical, in our view, that the forms of control [to materially influence the policy of the firm] involved acquisition of control in respect of decisions that may be made in future. [SABC] argued that it could not have been the intention of the legislature that a party who undertakes certain obligations in a contract which may constrain its strategic direction, conferred upon the other party the power to influence its future strategic policy. We agree with this view.”

This case creates a good standard of how vertical licensing arrangements are to be viewed by the Competition Authorities and in which circumstances such licensing would require notification as a merger (in addition to meeting the applicable merger notification thresholds).

There have been cases that consider the impact that an accretion in IP would have on the market. Pioneer involved a potential transaction between Pioneer Hi-Bred

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496 Id 50.
497 Id 51.
498 Id 55.
499 Section 12(2) defines “control”, the applicable subsection provides that “[a] person controls a firm if that person has the ability to materially influence the policy of the firm in a manner comparable to a person who, in ordinary commercial practice, can exercise an element of control” akin to beneficially owning more than 50% of the issued share capital, is entitled to vote a majority of votes or is able to appoint or veto the appointment of a majority of directors.
International Inc. (Pioneer) and Pannar Seed (Proprietary) Limited (Pannar) that would have resulted in a three to two merger. Pioneer held patents in the market for hybrid maize seeds. The main rationale for the merger was the sharing of IP. When considering the matter, the CAC set out the jurisprudential position on the relationship between IP and Competition Law:

“The modern view holds that both intellectual property policy and merger policy seek to promote consumer welfare by creating an economic environment in which innovative activities are stimulated by both competition and the promise of returns to successful innovation”.

In overturning the SACT’s decision to prohibit the merger, the CAC set out the test under which mergers involving IP should be assessed. The judgment made reference to Michael Katz and Howard Shelansky’s views of an innovation impact criterion and an innovation incentives criterion for merger review involving IP:

“The closer the innovation at issue in a particular merger is to resulting in an identifiable, predictable product, the more likely the issue for merger review will be how the innovation will affect future structure and performance in the product market, relevant to the transaction (i.e. the innovation impact criterion). The further the innovation is from a tangible result, the more likely the question for merger authorities will be how the transaction will affect the likelihood and level of continued investment in R & D (i.e. the innovation incentives criterion)”.

The CAC then went on to apply both tests to the merger before it and held as follows at paragraph 51:

“As regards the ‘innovation incentives criterion’ it is likely that the merger will affect consumer welfare, as the pace and nature of innovation will bring new hybrids to the market. Absent the merger, it is clear that Pioneer, without the germplasm of Pannar, will not achieve the same level of innovation. Pannar, without the advanced breeding technology of Pioneer and the complementary germplasm pool of Pioneer, likewise will not achieve the same level of innovation. As regards the ‘innovation impact criterion’ it is likely that the market structure will be altered by the creation of a more

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500 In the form of (i) advanced breeding technologies, germplasm and genetically modified traits.
501 Pioneer supra 58 citing Katz and Shelanski supra 120.
502 Pioneer supra 43 citing Katz and Shelanski supra 112.
competitive adversary for Monsanto, the market leader, in the long-term in the form of the merged entity of Pioneer and Pannar”.

The CAC conditionally approved the merger. The remedies package involved a range of conditions, including: (i) the establishment of an International Research and Technology Centre in South Africa by Pioneer; (ii) a learnership / training programme for developing and subsistence farmers within South Africa; (iii) a two-year prohibition on merger related retrenchments; (iv) a pricing remedy; and, most significantly, (v) an undertaking by the Parties to licence plant materials in the genetic material list (the conventional, Pannar, maize, inbred varieties in South Africa), to South African public institutions, Dow and Syngenta on a non-exclusive and perpetual basis.

The Nestlé/Pfizer merger involved the imposition of a transitional re-branding remedy that, at the time of hearing, was also being negotiated in Chile, Mexico and Columbia, and had been accepted in Australia. The proposed transaction involved Nestlé’s acquisition of Pfizer’s global infant nutrition business. Both merging parties were involved in infant nutrition products that the SACC viewed as complementary rather than competitive. Of concern was the fact that the South African infant milk formula market is distinctly concentrated: in the infant, follow-on and growing-up milk markets there are only three significant competitors (Nestlé, Pfizer and Aspen) and the specialty milk market had only four competitors (Nestlé, Pfizer, Aspen and Abbott). The proposed transaction would have resulted in post-merger market shares by each merging party, in each relative market of over 70%.

The SACC, when investigating the merger, had considered permanent divestiture as a remedy, and found problems with it because the transaction had already been unconditionally approved by competition authorities in nine other jurisdictions, and Nestlé had already become the owner of the Pfizer trade marks in those jurisdictions. In particular, there were concerns that divestiture would amount to a behavioural remedy that would be less impactful than a structural remedy aiming to introduce a new rival into the market. The SACC emphasised that a permanent divestiture without a re-branding obligation on the purchaser might amount to a licence in perpetuity (with the licensee paying royalties). The licence relationship between Nestlé and the purchaser of Pfizer’s infant nutrition business created risks including the potential for future co-ordination between Nestlé and its licensee, with

503 Nestle SA v Infant Nutrition Business of Pfizer Inc [2013] ZACT 16
504 Id 4.
505 Id 12, 18 and 2.
whom it would be a perpetual competitor in the South African market. Alternatively Nestlé might weaken the purchaser’s competitive position in the market through manipulation of the licensing arrangements.\(^{506}\) Further still, permanent divestiture would mean that Nestlé would be the owner of the Pfizer brands in other jurisdictions in the world except in South Africa, where the trademarks and other IP would be owned by the third party; leading to reputational risks and risks of free riding for both Nestle and the potential purchaser.\(^{507}\) Where the abovementioned risks would exist in perpetuity, a re-branding strategy would cure these effects while also allowing the purchaser and incumbent competitor the chance to gain significant market share before becoming subject to rigorous competition from (the dominant) Nestlé. As such, the SACT imposed the remedy for (i) an exclusive ten year paid up licence for use of Pfizer’s trademarks followed by a ten-year black out period during which time Pfizer trademarks will not be used in South Africa; (ii) an exclusive ten-year licence to use Pfizer’s product formulations for the relevant products; and (iii) a non-exclusive perpetual licence for process technology including trade secrets and the know-how necessary to develop and manufacture the divested products and products in the pipeline.\(^{508}\)

Nampak Products Limited (Nampak) sought to attain the remaining 50% in its joint venture – Burcap Plastics (Pty) Ltd (Burcap) - from the exiting shareholders. Prior to the merger, Nampak and Burcap were run as separate businesses. There were horizontal overlaps in the businesses of the merging parties. There were no merger concerns in the market for injected molded plastics containers for the food industry, where the barriers to entry were low, there was high supply side substitutability, and a large number or players. However, in the market for industrial containers, in addition to possessing a dominant position for the supply of metal containers, Nampak had acquired exclusive rights to manufacture polyethylene terephthalate (PET) containers from an overseas firm. This new technology would have enabled plastic containers to contain not only water-based paints, but solvent based paints, in a market where metal containers are more expensive and are losing market share to plastic containers. Though there were other PET patents, the parties advised, none had been licensed for exploitation in South Africa. Nampak therefore undertook not to acquire any further exclusive

\(^{506}\) Id 37.
\(^{507}\) Id 41-43.
\(^{508}\) Id 30, 51-53, 60-61 and 67.
licences for PET paint containers in South Africa for three years after the approval of the merger.\textsuperscript{509}

\section*{PENALTIES}

\textbf{Competition remedies}

As already canvassed, under competition law, the abuse or restrictive use of IP may be dealt with under the exception provisions (where a potentially prohibited practice may be exempted from the merger and prohibited practices of the Competition Act) or as a prohibited practice.

The Competition Act provides that, where the SACC investigates allegations of violations of the Competition Act, the adjudication of prohibited practices is within the exclusive domain of the SACT. Section 58(1) empowers the SACT to-

\begin{quote}
“(a) make an appropriate order in relation to a prohibited practice, including -

(i) interdicting any prohibited practice;

(ii) ordering a party to supply or distribute goods or services to another party on terms reasonably required to end a prohibited practice;

(iii) imposing an administrative penalty ... with or without the addition of any other order in terms of this section;

(iv) ordering divestiture, subject to section 60;

(v) declaring conduct of a firm to be a prohibited practice in terms of this Act, for purposes of section 65;

(vi) declaring the whole or any part of an agreement to be void;

(vii) ordering access to an essential facility on terms reasonably required;

(b) confirm a consent agreement in terms of section 49D as an order of the Tribunal”
\end{quote}

\textsuperscript{509} Nampak Products Limited and Burcap Plastics (Pty) Ltd [2007] ZACT 42.
Certain prohibited practices attract administrative penalties for a first time offence, whereas other administrative penalties may only be imposed for a repeat offence.\textsuperscript{510} Horizontal Cartel Conduct, the vertical abuse of resale price maintenance; as well as the abuse of dominance pertaining to excessive pricing refusal, to an essential facility and any of the rebuttable abuses of dominance\textsuperscript{511} attract penalties for a first time offence. The “Guidelines for the Determination of Administrative Penalties for Prohibited Practices”\textsuperscript{512} outline the principles for administrative penalty calculation. First, the affected turnover in the relevant year of assessment must be determined. Second, a base amount must be calculated as a proportion of the affected turnover falling between 0 and 30%. Determining where a firm should fall in this range is dependent upon (i) the nature, gravity and extent of the contravention; (ii) any loss or damage suffered as a result of the contravention; and (iii) the market circumstances in which the contravention took place. Third, where the contravention exceeds one year, the base amount should be multiplied by the duration of the contravention. Fourth, where the monetary result exceeds the cap of 10% the firm’s annual turnover in the previous financial year from activities in South Africa, the amount will be adjusted downwards. Fifth, mitigating and aggravating factors will be taken into account, including:

- \textit{The Nature, Duration and Extent of Contravention} - The duration cannot go back further than 1 September 1999 (the date on which the SA Act was brought into effect).
- \textit{Loss or Damage as a Result of the Contravention} - The weight of this factor is lower because competitors or consumers can recoup their losses via civil claim.
- \textit{The Behaviour of Respondent} - This relates to a respondent’s behaviour in market vis-à-vis competitors and consumers.
- \textit{Market Circumstances} - The nature and dynamic of the market at the time of the contravention.

\textsuperscript{510} Competition Act § 59.
\textsuperscript{511} Including (i) requiring or inducing a supplier or customer to not deal with a competitor; (ii) refusing to supply scarce goods to a competitor when supplying those goods is economically feasible; (iii) selling goods or services on condition that the buyer purchases separate goods or services unrelated to the object of a contract, or forcing a buyer to accept a condition unrelated to the object of a contract; (iv) selling goods or services below their marginal or average variable cost; or (v) buying up a scarce supply of intermediate goods or resources required by a competitor.
\textsuperscript{512} Government Gazette No. 38693, Notice 323 of 2015.
- *The Level of Profit Made as a Result of the Contravention* - This factor is difficult to prove – thus it carries a lower weight than other factors.

- *Degree of Co-operation with Authorities* - This is a swing factor which can act quite substantially in aggravation or mitigation.

- *Previous Contravention* - Where this is a repeat offence, this is a serious factor in aggravation.\(^{513}\)

As described above, in the merger context, the Competition Authorities impose a remedy for the compulsory licensing of IP in certain circumstances.\(^{514}\) Such remedy has been included with other remedies with the aim to provide for local access in a key sector (in agriculture in *Pioneer*). There have also been orders for re-branding strategies or obligations not to pursue further licences for a similar type of patent (*Nestle/Pfizer* and *Nampak*). These remedies were also imposed in markets that were heavily concentrated.

**Statutory remedies**

In addition to that which is provided for under the competition regime, certain intellectual property statutes provide for compulsory licensing.

The Patents Act provides for the granting of a compulsory licence in respect of dependent patents and in cases of abuses of a patent right. A patent will be compulsory licensed to an applicant, for whom the licence is required in order to work their own patent (without infringing the prior patent).\(^{515}\) In these circumstances, the invention claimed relating to the dependent patent must involve “an important technical advance of considerable economic significance” and the applicant must offer a cross licence on reasonable terms to the patentee of the prior patent to use the invention claimed (dependent patent compulsory licensing).\(^{516}\) Compulsory licensing for reason of abuse applies where a patented invention is not being worked on a commercial scale or to an adequate extent; demand is not being met at all or on reasonable terms; the establishment of a new trade or industry is being prejudiced or it is in the public interest that a licence be granted; or import is meeting demand and the patent holder’s price is “excessive in

\(^{513}\) Competition Act § 59(3).
\(^{515}\) Patents Act § 55.
\(^{516}\) Patents Act §55(a) - (c).
relation to the price charged” in the countries of export (abused patent compulsory licensing).\textsuperscript{517}

The Designs Act\textsuperscript{518} and the Copyright Act\textsuperscript{519} make provision for abused patent compulsory licensing. In terms of the Plant Breeders’ Act compulsory licensing will be granted when being unreasonably withheld or being provided on unreasonable terms.\textsuperscript{520} On application to the Court the Trade Marks Act provides for a trademark to be deregistered on ground of non-use.\textsuperscript{521}

**PRIVATE ENFORCEMENT**

**Competition remedies**

Except for the powers of the SACT to award damages to the complainant as part of a consent order,\textsuperscript{522} only a civil court may award damages to the complainant for the harm suffered - section 65 deals with such damages claims. The SACT and the CAC have exclusive jurisdiction to determine whether there has been a contravention of the Competition Act. Following such a determination, a claimant seeking damages in a civil court must file with the civil court a notice from the Tribunal or CAC, this is known as a section 65 certificate, which is binding on the civil court, certifying that the conduct in question has been found to be a prohibited practice.\textsuperscript{523} The section 65 certificate is conclusive proof of its contents, and is binding on a civil court.\textsuperscript{524}

The first and, currently, only successful civil claim in terms of section 65 was Nationwide Airlines v SAA.\textsuperscript{525} This was a delictual claim (tort) by Nationwide Airlines for loss of profits from South African Airways (SAA) caused by SAA’s anti-competitive conduct.\textsuperscript{526} The central focus of this case was the quantification of the damages, if any, to be awarded to Nationwide.\textsuperscript{527} The court considered various possible methods of quantifying damage arising out of anti-competitive conduct. The method relied upon by the court, as agreed by the parties for the calculation of

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\textsuperscript{517} Patents Act §56(2)(b).
\textsuperscript{518} Designs Act §21(2).
\textsuperscript{519} See further the definition of “licence scheme” in § 1 read with § 31.
\textsuperscript{520} Plant Breeders’ Rights Act § 26(1).
\textsuperscript{521} Trade Marks Act § 27.
\textsuperscript{522} Competition Act §49D(3).
\textsuperscript{523} Competition Act §65(6)(b).
\textsuperscript{524} Competition Act § 65(7).
\textsuperscript{525} Nationwide Airlines (Pty) Ltd (in liquidation) v South African Airways [2016] 4 AllSA 153 (GJ).
\textsuperscript{526} Nationwide Airlines v SAA 2.
\textsuperscript{527} Nationwide Airlines v SAA 14.
the damages is the linear interpolation method. The court ordered SAA to pay Nationwide Airlines damages in the sum of R104 625 million.

Common law remedies
The common law also provides delictual remedies for what is called unlawful competition. An action lies where an aggrieved competitor can show that they have suffered damage as a result of a respondent’s intentional or negligent wrongful action (or omission). For unlawful competition, the wrongfulness of a competitive act lies in the violation of a rival’s right to attract custom, this is the goodwill or business reputation of the aggrieved party; on this count, our courts have placed emphasis on fairness and honesty.

There are specific forms of unlawful competition that are recognised in South African law that generally relate to a competitive interest and those that relate to the quality of the goods.

Passing off involves a representation by one person that his business (or merchandise) is that of another, or that it is associated with that of another, to the extent that there is the reasonable likelihood that members of the public may be confused into believing that the business of the one is, or is connected with, that of another. The misappropriation and misuse of trade secrets of another can attract liability. Other forms include dishonest adoption of sign or get-up of competitor; adoption of trade description of competitor; making disparaging comments regarding a competitor’s business; boycotting of a business; the exertion of physical or psychological pressure on a rival’s customers or employees and generally trading in contravention of a right of another by, for example, obtaining and trading or using the confidential information of another trader licensed to use

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528 Nationwide Airlines v SAA 54. The judgment indicates that the linear interpolation method uses both “the ‘before’ and ‘after’ period as a comparator establish what would have occurred in the counterfactual period.” The relevant variables included passenger numbers and market share.

529 Caterham Car Sales & Coachworks Ltd v Birkin cars (Pty) Ltd and Another 1998 (3) SA 938 (SCA).

530 Schultz v Butt 1963 (3) SA 667 (A); Payen Components SA Ltd v Bovic Gaskets CC 1994(2) SA 464 (W); Bress Designs (Pty) Ltd v GY Lounge Suit Manfactuerers (Pty) Ltd 1991 (2) SA 455 (W).

531 Capital Estate & General Agencies (Pty) Ltd and others v Holiday Inns Inc and others 1977 (2) SA 916 (A) at 929 C. See also, “leaning on”, where a person or business uses the trade mark of another to promote its own performance and goodwill and misrepresents that the other trader’s goods as their goods (Victor Products (SA) (Pty) Ltd v Lateulere Manufacturing (Pty) Ltd 1975 (1) SA 961 (W)).

532 Harvey Tiling Co (Pty) Ltd 1977 (1) SA 316 (T).

533 Grobbelaar v Du Toit 1917 TPD 433.

534 Ebrahim v Twala 1951 (2) SA 490 (W).
the information. Remedies for a successful delictual claim generally include damages and/or an interdicts.

These common law remedies are distinguishable from the actions that lie in terms of the Competition Act in that these remedies generally lie for a competitor as a claimant, and thus proceed from a different premise than the Competition Act, which seeks to protect the competitive process and consumers.

**CURRENT DEVELOPMENTS**

The DTI has published a draft National Policy on Intellectual Property, which confirms the jurisdiction of the Competition Authorities in relation to competition issues arising from abuses of IP rights. In 2016, the Minister of Trade and Industry published, for comment, an Intellectual Property Consultative Framework, 2016 (IP Consultative Framework) which purpose is “not to prescribe South Africa’s IP policy position”, but rather is a consultative instrument for the formulation of South Africa’s IP policy.

The IP Consultative Framework encourages a coordinated approach to IP issues by government agencies and society, and establishes an Inter-Ministerial Committee to serve as the consultative forum to co-ordinate the policy approach of the various government entities responsible for IP enforcement. The IP Consultative Framework outlines immediate, medium-term and long-term goals. The issues outlined for immediate domestic review include, among others: (1) IP and competition law; (2) compulsory licenses; (3) exceptions; (4) local manufacture and export in line with industrial policy; and (5) parallel importation.

The IP and competition law section recommends a joint effort with the SACC to clarify the remit and scope of the intersection between competition law and IP. It notes the role given to competition policy in the TRIPS agreement as enabling market access, specifically, in the case of medicines. It further highlights that IP law should not be used as a platform for illegitimately extending market power. Noteworthy is the position adopted on “compulsory licenses”, which seems to

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535 Prok Africa (Pty) Ltd and Another v Nth (Pty) Ltd and others 1980 (3) SA 687 (W).
536 Government Gazette No. 36816, Notice 918 of 2013.
538 IP Consultative Framework at page 2.
539 Including the CIPC, Medicines Control Council, the High Court of South Africa, Department of Communications and Competition Authorities.
540 IP Consultative Framework at page 4.
reflect South Africa’s unique developmental needs. The position is summarized as follows -

“South Africa’s unique challenges, including especially vulnerable populations and urgent development concerns, will require the scope of compulsory licences to be strengthened and clarified in a manner that is fair and compliant in relation to both international obligations and national law. Following due process, guidelines will be introduced, including legal process for government use, and a renewed effort to facilitate the process of exporting IP goods, such as medicines, to the African continent”.

Though both the IP National Policy and the IP Consultative Framework remain in draft form, on 25 August 2017 the Draft Intellectual Property Policy of the Republic of South Africa Phase I, 2017 (IP Policy Phase I) was published for comment. It outlines two main issues: (1) IP and public health, which includes IP and competition law as a sub-issue; and (2) international IP cooperation, which details the updating of compliance with existing signed treaties, signed conventions and treaty opportunities.

CONCLUSION
While South Africa does not have a dedicated framework that deals collectively with all competition and IP law issues, it is clear that there is sufficient legislation to regulate these legal areas. Further, given the objectives and the scope of application of the South African competition law regime, the Competition Act’s provisions would apply to IP law issues, where those IP law issues raised competition concerns, provided that an argument could be made with reliance on the provisions in the Competition Act and that the matter does not fall under the exemptions in the Competition Act. The draft IP National Policy is a welcomed initiative that will hopefully enhance the existing IP legal framework.

South Korea

Cecil Saehoon Chung and Kyoung Young Kim

ENFORCEMENT POLICIES AND GUIDANCE

Statutory Framework

Article 59 of the Monopoly Regulation and Fair Trade Act ("MRFTA") mandates that the Korean antitrust laws apply to intellectual property rights ("IPR"). It reads: “This Act shall not apply to any act which is deemed the justifiable exercise of the right under the Copyright Act, the Patent Act, the Utility Model Act, the Design Protection Act, or the Trademark Act.”

There is no clear guidance to discern a “justifiable” exercise of an IPR under Article 59 of the MRFTA or any similar rules elsewhere. In a related case, the Korean Supreme Court held that if the exercise of a patent right goes beyond the intent or is inconsistent with the essential purpose of the patent laws, then such conduct is not a fair exercise of the patent right. To determine whether a conduct is a fair exercise of a patent right, courts must scrutinize the conduct based on the purpose and intent of the patent laws, the nature of the concerned patent right, the impact of the conduct on fair and free competition, and other circumstances.

Lower courts and agencies interpreted this holding to require a combined approach of considering both the intellectual property laws and antitrust laws when determining the fair exercise of a patent right.

To set forth more specific rules for regulating the abuse of IPRs in Korea, the Korea Fair Trade Commission ("KFTC") issued guidelines entitled “The Types and Criteria

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544 Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S. Kor.).


546 This Korean Supreme Court case is understood to be in line with FTC v. Actavis, Inc., 133 S. Ct. 2223 (2013).
of Unfair Trade Acts in International Agreements,” in 1990.  

Mainly targeting licensing agreements between Korean and foreign companies, the KFTC published the guidelines following a period of strong foreign direct investment and the introduction of foreign technologies in Korea during the 1980s and 1990s. The KFTC promulgated the guidelines primarily to protect the rights of Korean companies that, in most cases, had entered into licensing agreements in the capacity as a licensee, rather than a licensor. Ironically, the KFTC only sanctioned companies that incorporated and existed in Korea for violating the guidelines due to the KFTC’s jurisdictional constraint. 

This caused controversy over the effectiveness of the guidelines in the course of enforcement. Despite such limitation, the guidelines effectively provided Korean companies with a basis for rejecting unfair terms and conditions when negotiating licensing agreements with foreign parties, by arguing that those terms may contravene Korean law (without regard to who is subject to the resulting sanctions).

In April 7, 1997, the KFTC addressed conducts involving the abuse of IPRs in the guidelines titled “The Types and Criteria of Abuse of a Market-Dominant Position.” In August 2000, the KFTC issued new guidelines that was tailored to regulate the exercise of IPRs (“IP Guidelines”), which applied only to agreements or trades in Korea.

In the IP Guidelines, the KFTC listed specific types of patent-right abuses and misuses that are highly likely to constitute a breach of the MRFTA, reflecting its position that the MRFTA should, in principle, govern every exercise of a patent right by a market-dominant business entity. Specifically, the IP Guidelines provide the following illustrative, non-exhaustive list of patent right exercises that may violate the MRFTA.

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547 Korean Economic Planning Board initially issued these guidelines on July 18, 1981, and the board later repealed the guidelines on August 2009.

548 Today, the KFTC takes the position that it has extraterritorial jurisdiction over foreign conduct, if it has the requisite "direct, substantial, and foreseeable effect" on the Korean commerce.

549 In 2000, the KFTC’s "Guidelines on the Assessment of Abuse of a Market-Dominant Position" replaced the "Types and Criteria of Abuse of a Market-Dominant Position" guidelines.

550 The IP Guidelines apply to a market-dominant business entity’s unilateral conducts. Particularly, if exercising an IPR involves a refusal to deal, discriminatory treatment, or imposition of excessive license fees, the IP Guidelines are applicable only when the business entity has significant market power. In addition to determining whether an exercise of an IPR constitutes an unfair trade practice, the “Guidelines for Review of Unfair Trade Practices” applies separately. IP Guidelines, Part II. 2. B.
<table>
<thead>
<tr>
<th>Type</th>
<th>Example of Violation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exercise of patent rights via litigation</td>
<td>(1) Filing a patent infringement lawsuit based on a deceptively acquired patent, while knowing that the patent has been acquired deceptively.</td>
</tr>
<tr>
<td></td>
<td>(2) Filing a patent infringement lawsuit with the knowledge that the patent infringement claim is invalid (or that the patent itself is invalid).</td>
</tr>
<tr>
<td></td>
<td>(3) Filing a patent infringement lawsuit, despite the fact that it is objectively clear that patent infringement claim is not valid in terms of social norms.</td>
</tr>
<tr>
<td>Patent licensing</td>
<td>(1) Unfairly colluding with other business entities to fix, maintain, or change royalties.</td>
</tr>
<tr>
<td></td>
<td>(2) Unfairly imposing discriminatory royalty rates depending on the counterparty.</td>
</tr>
<tr>
<td></td>
<td>(3) Unfairly demanding royalties for parts of technology that is not used by a licensee.</td>
</tr>
<tr>
<td></td>
<td>(4) Unfairly imposing royalties for any period after the expiration of the patent in the license terms.</td>
</tr>
<tr>
<td></td>
<td>(5) Not specifying the method used for calculating a royalty and authorizing the licensor to unilaterally determine or change the royalty-calculating method.</td>
</tr>
<tr>
<td></td>
<td>(6) Colluding with other competing business entities to refuse to license to another business entity without just cause.</td>
</tr>
<tr>
<td></td>
<td>(7) Unfairly refusing to license to another business entity.</td>
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<tr>
<td></td>
<td>(8) Refusing to license to another business entity to ensure effectiveness of another unfair conduct (for example, refusing to license to another business entity because it did not accept unreasonable licensing terms).</td>
</tr>
<tr>
<td></td>
<td>(9) Entering into an unfair agreement between a patent holder and a licensee on output, trade areas, or other trade terms, while limiting quantity, geographical coverage, or the period related to the product or technology for which the license is granted.</td>
</tr>
<tr>
<td></td>
<td>(10) Unfairly limiting quantity, geographical coverage, or the period related to the product or technology for which the license is granted depending on a counterparty.</td>
</tr>
<tr>
<td>Patent pool</td>
<td>(1) Unfairly agreeing on conditions limiting price, output,</td>
</tr>
</tbody>
</table>

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551 IP Guidelines, Part III. 2.
552 IP Guidelines, Part III. 3.
<table>
<thead>
<tr>
<th>Type</th>
<th>Example of Violation</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>geographical coverage, counterparty, and technical improvement in the course of managing a patent pool.</td>
</tr>
<tr>
<td></td>
<td>(2) Unfairly refusing to license to or licensing on discriminatory terms with another business entity that does not participate in the patent pool.</td>
</tr>
<tr>
<td></td>
<td>(3) In the course of managing a patent pool, unfairly inducing other business entities to share knowledge, experience, or technical achievement that they have obtained independently.</td>
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<tr>
<td></td>
<td>(4) Including in a patent pool a patent that is either invalid or not essential as a package.</td>
</tr>
<tr>
<td></td>
<td>(5) Imposing a package licensing royalty that is substantially higher than the sum of individual royalties of each patent constituting the patent pool to the undue disadvantage of a licensee.</td>
</tr>
<tr>
<td>Standard Essential Patents (“SEPs”)(^{554})</td>
<td>(1) In the course of carrying out discussions for designating or adopting a standard, unfairly agreeing on conditions limiting price, quantity, trade area, counterparty, or technical improvement related thereto.</td>
</tr>
<tr>
<td></td>
<td>(2) Unfairly refusing to disclose patent information, either applied for or registered, for the purpose of increasing the possibility of the patent to be designated as part of a standard or to avoid negotiations on licensing terms.</td>
</tr>
<tr>
<td></td>
<td>(3) Unfairly avoiding or circumventing licensing on Fair, Reasonable and Non-Discriminatory (“FRAND”) terms for the purpose of attaining enhanced market dominance or foreclosing competitors.</td>
</tr>
<tr>
<td></td>
<td>(4) Unfairly refusing to license a SEP.</td>
</tr>
<tr>
<td></td>
<td>(5) Unfairly discriminating licensing terms or imposing unreasonable royalties when licensing a SEP.</td>
</tr>
<tr>
<td></td>
<td>(6) Imposing conditions that unfairly restricts a licensee from exercising its own patent rights or demands a cross-license of a non-essential patents held by that licensee.</td>
</tr>
<tr>
<td>Exercise of patent rights by a non-practicing</td>
<td>(1) Imposing a royalty at a rate that is considerably unreasonable in light of common trade practices.</td>
</tr>
<tr>
<td></td>
<td>(2) Imposing a royalty at a rate that is unreasonable in light of common trade practices for a patent right acquired from a third</td>
</tr>
</tbody>
</table>

\(^{553}\) IP Guidelines, Part III. 4.  
\(^{554}\) IP Guidelines, Part III. 5.
### Example of Violation

<table>
<thead>
<tr>
<th>Type</th>
<th>Example of Violation</th>
</tr>
</thead>
<tbody>
<tr>
<td>entity (&quot;NPE&quot;)</td>
<td>party, while refusing to license on FRAND terms previously applied to that third-party patent holder.</td>
</tr>
<tr>
<td>(3)</td>
<td>Unfairly agreeing with other companies that have jointly established an NPE to refuse to license or license on discriminatory terms against another business entity.</td>
</tr>
<tr>
<td>(4)</td>
<td>Filing a patent infringement lawsuit or sending a notice of patent infringement in a deceptive manner.</td>
</tr>
<tr>
<td>(5)</td>
<td>Having a patent holder transfer its patents to an NPE and causing the NPE to engage in abusive conduct (so-called privateering).</td>
</tr>
</tbody>
</table>

### Key Administrative Policies

The KFTC’s efforts to regulate IPR-related areas did not stop at rulemaking and publishing administrative guidances. Since 2000, the KFTC has brought a series of aggressive enforcement actions targeting alleged abuse of IPRs by global information technology ("IT") companies, notably Microsoft (February 24, 2006), Intel (November 11, 2008) and Qualcomm (December 30, 2009).\(^5\)

In the early days, investigations in other jurisdictions frequently prompted the KFTC’s actions; however, after garnering substantial knowledge and experience, the KFTC started its own fact-finding surveys (investigations) with respect to suspected abuses of IPRs, targeting the pharmaceutical and IT industries in 2010 and the chemical and steel industries in 2011, and written survey (investigation) of the machinery industry in 2012.

From 2013, the KFTC focused on alleged abuses of patent rights by global information and communications technology ("ICT") companies, such as Google, Samsung Electronics, Apple, Dolby, Oracle, and Qualcomm. The latest case of international renown is the KFTC’s enforcement action against Qualcomm, alleging that Qualcomm facilitated an anticompetitive business model.\(^6\)

Around the time of issuing its decision in the so-called “Qualcomm Case II” that attracted worldwide attention, the KFTC newly established the Anti-Monopoly

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\(^5\) KOREA FAIR TRADE COMMISSION, KFTC IMPOSES SANCTIONS AGAINST QUALCOMM’S ABUSE OF SEPs OF MOBILE COMMUNICATIONS (2016), available at http://www.ftc.go.kr/solution/skin/doc.html?fn=50ba93a6149acc5be3cae03dc2f4de97e254681689def7a42b2e4ae6eaa1924&rs=/fileupload/data/result/BBSMSTR_000000002402.
Division (Knowledge Industry) under its Anti-Monopoly Bureau to narrowly-tailor investigations for unfair exercises of IPRs, especially in the ICT and other cutting-edge technology areas. Currently, the new division is expending its enforcement efforts to the pharmaceutical industry. The KFTC’s enforcement in that industry mainly concerned illegal rebates, except for one reverse-payment case in 2012.558 In 2017, however, the KFTC announced its intention to strengthen its monitoring of reverse payments and other types of patent rights abuses in the pharmaceutical industry, including the foreclosure of competitors in the medical-device after service market.

In addition, the KFTC announced its intention to enhance the monitoring of abusive conduct by market dominant business entities that depend heavily on SEPs in its annual project plans for 2017. As specific targets for such effort, the KFTC listed that it will scrutinize SEP holders seeking injunctive reliefs, despite its FRAND commitment, and tying its SEP with unrelated services or products as a package.

**Leading Judicial Precedents**

In line with trends in other jurisdictions, the Korean courts are increasingly paying attention to the interface between competition law and the exercise of IPRs and recently rendered a number of decisions on relevant key issues. Below is a summary of recent cases with significant implications.

(1) Qualcomm’s Abuse of Market Dominance (“Qualcomm Case I”)559

Qualcomm is a holder of SEPs for a wireless standard called Code Division Multiple Access (“CDMA”) and a market-dominant business entity in the Korean domestic markets for CDMA, CDMA 2000 modem chips, and CDMA 2000 RF chips. In violation of its FRAND commitment, Qualcomm offered rebates to Korean mobile handset makers purchasing Qualcomm’s modem and RF chips if they placed a majority of orders with Qualcomm but imposed discriminatory higher royalties if they used competing modem chips. As a result of Qualcomm’s policy, the KFTC found that Qualcomm’s competing modem chip makers such as VIA (Taiwan) and EoNex (Korea) were unfairly restricted from entering into the Korean modem chip market.

The KFTC determined that Qualcomm’s pricing practices constituted an abuse of market dominance and an unfair trade practice prohibited under the MRFTA and

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558 See Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S. Kor.).
559 Seoul High Court [Seoul High Ct.], 2010Nu3932, June 19, 2013 (S. Kor.).
imposed a corrective order and an administrative fine. Qualcomm appealed for judicial review of the KFTC’s administrative decision.

On appeal, the Seoul High Court affirmed the KFTC’s decision that Qualcomm’s practices constituted a violation of the MRFTA as an abuse of market dominance, among others. When analyzing whether Qualcomm had the requisite anticompetitive intent or purpose, the court primarily looked into the circumstances that suggested Qualcomm knowingly and intentionally breached its 1997 FRAND commitment. This suggests that the Seoul High Court treated a SEP holder’s breach of its FRAND commitment as circumstantial evidence for finding anticompetitive intent or purpose, rather than prima facie evidence for finding a restraint on competition.560 As of December 2017, the matter is still pending before the Korean Supreme Court.

(2) Unfair Concerted Conduct by GSK and Donga Pharmaceuticals (2014)561

This case involved a reverse payment arrangement between global and domestic pharmaceutical companies that aimed at restricting the release of generic drugs in the Korean market. GlaxoSmithKline (“GSK”) held a patent for an anti-nausea drug, Zofran. When Dong-A Pharmaceuticals, Co., Ltd. (“Dong-A”) released a generic version of the anti-nausea drug called Ondaron, GSK filed a patent infringement action against Dong-A. Later, GSK dropped the lawsuit, because Dong-A agreed to delay marketing Ondaron in return for a payment by GSK. The KFTC determined that the reverse payment scheme constituted an unfair concerted conduct prohibited by the MRFTA and imposed corrective orders and administrative fines. The two companies appealed for judicial review.

Both the Seoul High Court and the Korean Supreme Court affirmed the KFTC’s administrative decision. In particular, the Supreme Court held

[i]n determining whether a reverse payment is illegal, the court should consider (i) whether the patent holder may interfere with free and fair competition in the relevant market by agreeing to share its monopolistic gains with others and thereby securing its monopolistic position, (ii) the circumstances, content, and period (whether the entry barrier remains even after the expiration of the patent) of the agreement, the size of payment paid in exchange for the agreement, the litigation

560 Given that both parties have appealed, this case is pending before the Korean Supreme Court (referenced as 2013Du14726).

561 See Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S. Kor.).
costs, and expected benefits from patent disputes, and (iii) whether there are other justifiable reasons.

Supreme Court [S. Ct.], 2012Du24498, Feb. 27, 2014 (S. Kor.).

Key Issues Related to the Exercise of IPRs

(1) FRAND Commitments vs. Competition law

The text of the IP Guidelines allows an interpretation that as a general rule, the KFTC should not treat the practices listed in the IP Guidelines as an immediate violation of the MRFTA. For example, to decide whether an exercise of a specific IPR violates the MRFTA, the KFTC must consider all requisite elements of a violation as set forth in each provision: Article 3-2 (Prohibition of Abuse of Market-Dominating Position), Article 7 (Restriction on Business Combination), Article 19 (Prohibition of Unfair Collaborative Acts), Article 23 (Prohibition of Unfair Trade Practices), Article 26 (Prohibited Activities of Enterprisers’ Organization), Article 29 (Restrictions on Resale Price Maintenance).562

However, with regard to a market-dominant business entity’s or a monopolist’s abuse of licensing SEPs, the KFTC’s practical approach is to presume an anticompetitive effect for a violation of FRAND commitments, which is similar to a *de facto per se* analysis with almost no room for rebuttal. Note, when a standard setting organization (‘SSO’) selects a patent as an SEP, the KFTC does not automatically infer that the patent holder enjoys market power, nor does the KFTC consider every activity of the SEP holder to be an abuse of its market power. The KFTC needs to provide evidence and prove each element to demonstrate anticompetitive effects. Nevertheless, in practice, the KFTC’s approach mechanically tends to presume the requisite market power and anticompetitive effect without thoroughly satisfying the required burden of proof. This approach is based on the KFTC’s belief that treating FRAND commitment violations as *per se* illegal may protect markets and consumers from various abuses arising from FRAND violations. Thus, the KFTC seems to perceive FRAND commitments as a valuable screen when making certain presumptions under competition law.563

562 IP Guidelines, Part II. 2. B.

In a recent decision, the KFTC held that in the absence of any competing substitutes that would have existed and competed with the standard technology had there not been a standardization process, a FRAND commitment is the sole method of preventing an SEP holder from abusing its market dominance.\(^{564}\) As such, any FRAND commitment violation eliminates the only remaining method to prevent anticompetitive conducts, because no substitutable technology exists for the relevant standard.\(^{565}\)

Moreover, it is quite telling to note that a recent British decision distinguished the scope of FRAND commitments in relation to competition law by holding that the boundaries of FRAND commitments and competition law are not the same.\(^{566}\) Thus, a royalty rate may be above the FRAND rate but not contrary to competition law.\(^{567}\)

(2) Finding Unfairness During the Exercise of IPRs

Unlike generally assessing the abuse of market dominance under the MRFTA,\(^{568}\) the KFTC’s IP Guidelines take the position that an exercise of IPRs is unjustified only when anticompetitive effects exceeds any efficiency gains. To balance this test, the KFTC weighs anticompetitive effects—immediate and long-term effects of exercising the IPR—against long-term procompetitive effects, such as promoting technological utilization and innovation, price reductions resulting from promoting technological innovation, quality improvement, and expanding consumer choice.\(^{569}\) The KFTC seemingly takes this position based on the appropriate and reasonable empirical judgment that efficiency gains, as a result of the exercise of IPRs, are generally highly probable. Nevertheless, it remains somewhat doubtful whether the KFTC will actively consider, analyze, measure, or judge efficiency gains from the exercise of IPRs with the same level of expertise and caliber of a competition analysis.


\(^{565}\) Id.


\(^{567}\) Id.

\(^{568}\) The “Guidelines on the Assessment of Abuse of a Market-Dominant Position” does not address such efficiency assessment.

\(^{569}\) “When an exercise of IPRs increases both the anti-competitiveness and effectiveness, whether the exercise violates the Act or not in principle is determined after by comparing the two effects through the fair comparison of the interests. When the effectiveness of the exercise concerned outweighs the anti-competitiveness, the exercise does not violate the Act. The term ‘unfairly’ in Provision III of the Guideline means that the anti-competitiveness of an activity exceeds effectiveness.” IP Guidelines, Part II. 2. D. Meanwhile, the KFTC’s “Guidelines for Abuse of a Market Dominant Position” do not compare the anti-competitive effect with any increase in efficiency gains.
When a company exercises its IPRs in an economically reasonable and efficient manner without resulting in unreasonable or unfair consequences, the KFTC should take into account the resulting efficiency-enhancing effects with the same level of significance as it does with its anticompetitive effects. It is reasonable to hold the KFTC responsible for comparing the degrees of the two effects, given that the KFTC established the IP Guidelines to guide its own enforcement. When analyzing efficiency-enhancing effects from the exercise of IPRs, the KFTC should ensure that the dynamics of the technology market and the characteristics of research and development ("R&D") in the modern technology market (such as the emergence of open-platform and open-source R&D, which contrasts with traditional in-house R&D) are fully taken into account.

(3) Regulating De Facto SEPs

De facto SEPs are technologies that is so widely adopted in an industry—in terms of market share—that the standard effectively plays the role of an SEP without an SSO’s formal adoption. For example, Microsoft’s Windows operating system and Intel’s Pentium CPU chips are de facto standards.

Some commentators have noted that, like formal SEPs, in some situations, a patent holder may have the capability and incentive to engage in opportunistic behaviors in a relevant market due to the lock-in effect of de facto SEPs. More problematically, a holder of a de facto SEP technology could easily abuse its market power, because it is not subject to any FRAND obligation/commitment. On the other hand, it is equally possible to assert that the de facto SEP should not be subject to the same level of scrutiny as a formal SEP, if the technology has achieved the status of a de facto SEP through free market competition. Exercising such dominant market power should be honored as a due and fair exercise of the patent holder’s patent rights, and imposing excessive obligations on a de facto SEP technology holder that won such status through competition may impede incentives for innovation.

The KFTC takes a more neutral approach that is also consistent with many other major jurisdictions. In its IP Guidelines, the KFTC excludes a de facto SEP from the definition of the term “SEP,” by narrowly defining the term “standard technologies”

571 Id. at 381.
as a technology that is designated as a standard by a standard-setting body and the term “SEP” as a patent that requires a party to acquire a license when manufacturing a product that implements a standard technology.

Sanctions and Private Enforcement

Sanctions
Under the MRFTA, courts and agencies will deem unjustifiable exercises of IPRs as an abuse of market dominance (Article 3-2), unfair concerted conduct (Article 19), unfair trade practice (Article 23), or resale price maintenance (Article 29). The administrative and criminal sanctions for each violation are as follows:

<table>
<thead>
<tr>
<th>Type of Violation</th>
<th>Criminal Sanctions</th>
<th>Administrative Sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abuse of market dominance</td>
<td>A maximum of three years in prison or criminal penalty not exceeding KRW 200 million.</td>
<td>Corrective order(s) or administrative fine not exceeding three percent of relevant turnover (if relevant turnover does not exist or cannot be calculated, a party may be fined a fixed amount not exceeding KRW 1 billion).</td>
</tr>
<tr>
<td>Unfair concerted conduct</td>
<td>Same as above.</td>
<td>Corrective order(s) or administrative fine not exceeding ten percent of relevant turnover (if relevant turnover does not exist or cannot be calculated, a party may be fined a fixed amount not exceeding KRW 2 billion).</td>
</tr>
<tr>
<td>Unfair trade practice</td>
<td>A maximum of two years in prison or criminal penalty not exceeding two percent of relevant turnover</td>
<td>Corrective order(s) or administrative fine not exceeding two percent of relevant turnover</td>
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</tbody>
</table>

572 IP Guidelines, Part I. 3. A. 5. The previous IP Guidelines expressly included de facto SEPs within the scope of a standard technology or SEP by defining the term "standard technology" as "a technology that is designated as a standard by a standard-setting body or is so widely used in a relevant technology field as to effectively play a role of a standard." This expansive definition was criticized and replaced with the revision dated December 17, 2014.
574 MRFTA, art. 66.
575 MRFTA, art. 5–6.
576 MRFTA, art. 66.
577 MRFTA, art. 21–22.
<table>
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<tr>
<th>Type of Violation</th>
<th>Criminal Sanctions</th>
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|                           | exceeding KRW 150 million.\(^{578}\) (As an exception, unfair inter-company transactions violations are subject to a maximum of three years in prison or criminal penalty not exceeding KRW 200 million.\(^{579}\)) | (if relevant turnover does not exist or cannot be calculated, a party may be fined a fixed amount not exceeding KRW 500 million.\(^{580}\))  
For unfair inter-company transactions, the administrative fine shall not exceed five percent of the average relevant turnover in the last three years (if the relevant turnover does not exist or cannot be calculated, a party may be fined a fixed amount not exceeding KRW 2 billion).\(^{581}\) |
| Resale price maintenance | A maximum of two years in prison or criminal penalty not exceeding KRW 150 million.\(^{582}\) | Corrective order(s) or administrative fine not exceeding two percent of relevant turnover (if relevant turnover does not exist or cannot be calculated, party may be fined a fixed amount not exceeding KRW 500 million.\(^{583}\)) |

**Private Enforcement**

Anyone that suffered harm from an illegal exercise of IPRs may bring a private damages action against offending parties. Before 2004, to bring a private damages action under the MRFTA, plaintiffs were required to wait for the KFTC’s final remedial measures. However, the legislature repealed this requirement, and now, plaintiffs may file a complaint for private damages regardless of where the KFTC stands in its investigation. The plaintiff has the burden of proving the defendant’s liability and the causation between the defendant’s action and the plaintiff’s injury, and the defendant has the burden of proving that its action was not based on intent or negligence. MRFTA, art. 56.

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578 MRFTA, art. 67.  
579 MRFTA, art. 66.  
580 MRFTA, art. 24–24-2.  
581 MRFTA, art. 24-2(2).  
582 MRFTA, art. 67.  
583 MRFTA, art. 31–31-2.
Even though the MRFTA no longer imposes time constraints for bringing a private damages action, the vast majority of plaintiffs do not initiate the action until the KFTC finds and publicizes a defendant’s liability, because it is otherwise extremely difficult for a private plaintiff to collect sufficient facts and evidence (partly because the Korean judicial system does not provide a class action system or pre-trial discovery). Even though the KFTC’s findings of fact are not legally binding, courts may, and often do, defer to the KFTC’s findings of facts through its administrative proceedings as established facts in subsequent private damages actions. This incentivizes plaintiffs to bring a private damages action, despite a pending appeal of the KFTC’s administrative decision before the Seoul High Court.

Article 56-2 of the MRFTA requires the KFTC to submit all records of a case to the court upon the court’s request. Therefore, in a follow-on private damages case, the court will be able to use identical evidence and information that the KFTC collected and reviewed in the administrative proceeding.

If it is unduly burdensome for the plaintiff to prove the amount of injury it suffered, Article 57 of the MRFTA authorizes the court to acknowledge a substantial amount as the amount of injury suffered by the plaintiff based on the totality of circumstances, which includes the oral arguments and results of the fact-gathering investigation. This provision relieves the plaintiff’s burden to prove the accurate amount of injury it suffered as a result of the defendant’s illegal conduct. The MRFTA currently does not provide for punitive damages such as treble damages.\(^{584}\)

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\(^{584}\) Recently, the National Assembly has adopted a punitive damages system for the areas such as the Fair Transactions in Subcontracting Act, the Fair Franchise Transactions Act, and the Fair Dealer Transactions Act.
Taiwan

Andy C. M. Chen

Viewed by many as a “high-tech island”, Taiwan is among the most innovative countries in the world. The value gained from implementing intellectual property rights (IPRs) produced as a result of creative innovations or from implementing them in collaboration with IPRs licensed by innovators from other countries has significantly contributed to the economic development of Taiwan. However, the heavy reliance on IPRs has rendered Taiwan susceptible to intellectual property (IP) arrangements that can evoke disputes over their competitive impacts in various markets. In response to this concern, the Taiwan Fair Trade Commission (TFTC) is paying increasing attention to alleged anticompetitive IP licensing practices that could weaken the global competitiveness of Taiwanese high-tech companies.

This paper offers an overview of the regulatory framework for competition issues arising from IPR implementation in Taiwan. We focus on the experience gained from public enforcement and skip private Taiwan Fair Trade Act (TFTA) litigations because the former is the predominant venue in which anticompetitive business arrangements are investigated and sanctioned. Part I of this paper introduces the relevant substantive laws and regulations. Part II covers the procedural rules for investigating and litigating competition cases involving IPR disputes. Part III uses leading competition cases to illustrate how the framework functions in practice. Part IV discusses the current issues and changes to the TFTC in this regard. Part V concludes this paper.

SUBSTANTIVE LAWS AND REGULATIONS FOR IP-RELATED COMPETITION CASES

The major competition law in Taiwan is the TFTA, which was enacted in 1991 and took effect in 1992. Modeled after legislations from the United States, Germany, Japan, and Korea, the TFTA contains the major elements frequently seen in most

585 Former Commissioner, Taiwan Fair Trade Commission; Professor of Law, Department of Financial and Economic Law, Chung Yuan Christian University, Taiwan.

586 Taiwan ranked fifth in 2014 and 2015 in terms of the number of invention patents that the U.S. Patent and Trademark Office (USPTO) granted. Taiwan ranked first in terms of the number of patent applications per million people to the USPTO in 2015 and sixth in terms of patent impacts in 2014 and 2015. See CHOU PEI-HSUAN, FENG LING-HUI & CHEN HSU-JEN, TAIWAN INST. OF ECON. RESEARCH WHITE PAPER FOR INDUSTRY TECHNOLOGIES 24-25 (2016).

587 The overall expenditure of research and development was around three percent of the GDP of Taiwan, ranked eighth globally in the past six years. Id. at 17.
other jurisdictions. The TFTA includes a chapter on unfair competition to regulate practices that might be deemed “unfair” to market competition. In addition, the TFTC has issued guidelines to regulate IPR licensing practices.

**The Taiwan Fair Trade Act**

In Chapter 2 “Restraints of Competition”, the TFTA classifies four primary types of business conduct as practices having competition-restraining potential. These practices are subject to the TFTC’s review, and include: (1) monopolists’ market power; (2) “concerted actions”; (3) mergers; and, (4) vertical arrangements.

Articles 7 and 9 deal with problems of monopolists’ market power abuse (throughout this paper, references to “Articles” refer to those in the TFTA, unless indicated otherwise). Under Article 9, the practices that might be deemed “abusive” can be grouped into the following two categories: (1) abusive pricing practices (e.g., price discrimination, predatory pricing, and excessive pricing)\(^{588}\); and, (2) non-price abusive practices (e.g., refusal to deal, tying, and discriminatory transaction terms).\(^{589}\) Notably, Article 9 prohibits a monopolist from requiring its trading counterpart to provide preferential treatment without justification.\(^{590}\) This provision has been read to include anticompetitive conduct arranged by monopsonist. Although the TFTC may rely on various approaches to define relevant markets and to measure market power, the “substitutability test” is the theoretical underpinning for conducting such reviews. The TFTC has recognized that the degree to which competition might be constrained hinges on demand and supply substitution and potential competition; therefore, these should be the three factors that the TFTC considers when defining relevant markets.\(^{591}\)

Under the TFTA, cartels or “concerted actions” are the most serious types of violation. The enforcement principle and legal requirements regarding cartel violations are identical to those adopted in the United States and the European Union. For example, concerted action is per se illegal under the TFTA.\(^{592}\) In establishing the violation, the TFTC grapples with the daunting requirement of the existence of a collusive agreement. The TFTA identifies four illustrative types of circumstantial evidence the TFTC may use to infer the existence of collusive agreements were incorporated into Article 14, including evidence relating to: (1)

\(^{588}\) Taiwan Fair Trade Commission, Fair Trade Act of 2015 [Fair Trade Act], art. 9 ¶ 2.

\(^{589}\) Id. at art. 9 ¶¶ 1, 3, 4.

\(^{590}\) Id. at art. 9 ¶ 3.


\(^{592}\) Id. at art. 15.
market conditions; (2) characteristics of products or services; (3) cost and revenue considerations; and, (4) economic rationality of conduct under review.\footnote{593} Mergers and acquisitions involving firms with market share or business turnover exceeding specified thresholds are subject to the TFTC’s review before they are completed.\footnote{594} Specifically, merging parties are obligated to file a pre-merger notification with the TFTC if: (1) a merger or acquisition enables the acquiring firm to hold more than one-third market share in the relevant market after the merger; (2) one of the merging parties enjoys at least one-fourth pre-merger market share in the relevant market; or, (3) one of the merging parties has business turnover surpassing the threshold prescribed by the TFTC.\footnote{595} When reviewing a merger, the TFTC must balance the merger’s “overall economic benefit” against the “disadvantages resulting from competition restraint.”\footnote{596} An ongoing debate exists regarding whether “overall economic benefits” should include benefits from industrial policies. When deciding not to object to the notified mergers, the TFTC has the authority to impose remedies to address any likely competitive harm that might appear post-merger.\footnote{597} In practice, the TFTC adopts behavioral remedies more frequently than structural remedies.

Articles 19 and 20 govern vertical arrangements. For vertical price arrangements, both minimum and maximum resale price maintenance (RPM) are per se illegal under the original TFTA. After the 2015 amendments, minimum RPM is reviewed using the standard of presumed illegality, which permits investigated parties to justify their RPM practices.\footnote{598} Non-price vertical restraints, including tying, exclusive dealing, and territorial and customer restrictions, are reviewed under the rule of reason.\footnote{599} The standard requires the TFTC to take into account the supply and demand conditions in the market, cost differences, transaction amounts, credit risks, and other reasonable justifications before declaring an arrangement illegal.\footnote{600}

The implementation of IPRs in Taiwan might also create concern for unfair competition. Article 25 proscribes the implementation practices that are deceptive
or obviously unfair and that are able to affect trading order. The loosely defined term “obviously unfair” may put a number of implementing practices at risk of violating the Act. Even though the TFTC issued guidelines on the application of Article 25, the controversy regarding the definition of “unfairness” and the lack of consistent analysis of the “affecting trade order” requirement remain.

The TFTC Guidelines on Cases Related to Technology Licensing Agreement

In recognition of the importance of IP legislation for encouraging innovation and the need to reconcile the potential conflicts between IPR protection and competition, Article 45 exempts certain implementing practices. Article 45 provides that “No provision of this Act shall apply to any proper conduct in connection with the exercise of rights pursuant to the provisions of the Copyright Act, Trademark Act, Patent Act, or other Intellectual property laws.” \(^{601}\) The TFTC issued the "Fair Trade Commission Disposal Directions (TLA Guidelines) on Technology Licensing Agreements" (Guidelines) to clarify the loosely-defined "proper" requirements.

In Section 4, the TLA Guidelines explain the reviewing procedure for Article 45. \(^{602}\) In principle, the TFTC will evaluate the competitive impacts of a licensing arrangement on product, technology, and innovation markets. The factors that will be considered include:

- market power of the licensor with regard to the licensed technology;
- the market position of the parties to the agreement in the relevant market and the market conditions;
- the enhanced opportunity from the licensing agreement for the technology to be utilized and the degree to which the licensing arrangement will exclude competition;
- the degree of entry barriers for the relevant market;
- the length of the term of limitations under the licensing agreement; and,

\(^{601}\) Fair Trade Act, supra note 4, at art. 45 (emphasis added).

\(^{602}\) Taiwan Fair Trade Commission, Fair Trade Commission Disposal Directions (Guidelines) on Technology Licensing Agreements [TLA Guidelines], § 4.
In Section 5, the TLA Guidelines describe the implementing practices that will be presumed legal. For example, to facilitate the calculation of royalties for licensed technology that is part of a manufacturing process or that subsists in component parts, the licensor could base the calculation on the quantity of finished goods manufactured or sold that employ the licensed technology, on the quantity of raw materials, on component parts used that employ the licensed technology, or on the number of times such materials or parts are used in the manufacturing process.\textsuperscript{604} Similarly, non-exclusive grant-back licensing of the improved or new application of the licensed technology by the licensee is permitted.\textsuperscript{605} However, the TFTC might still hold these licensing arrangements to be illegal if, after reviewing the factors listed in Section 4, it concludes that these arrangements are improper.

In Section 6, the TLA Guidelines stipulate the licensing practices presumed to be in violation of the TFTA. Notably, they include tying licensed technology with other irrelevant technologies, exclusive grant-back licensing, fixing resale prices for products implementing licensed technology, and basing the calculation of royalties for licensed technology on the sale or production volume of a product irrespective of whether the licensed technology has been applied in the product.\textsuperscript{606}

**The TFTC Guidelines on Cases Related to Article 25 of the TFTA**

The term “obviously unfair” was defined in the “Fair Trade Commission Disposal Directions (Guidelines) on the Application of Article 25 of the Fair Trade Act” (Article 25 Guidelines) as using patently unfair methods to engage in competition or business transactions.\textsuperscript{607} In Section 7, the Article 25 Guidelines further specify the types of conduct that will be treated as obviously unfair. Among these types, the following conduct is pertinent to the implementation of IPRs: (1) impeding market competition; (2) exploiting the fruits of others’ work; and, (3) improper use of relative market dominant position.\textsuperscript{608}

\textsuperscript{603} Id.
\textsuperscript{604} TLA GUIDELINES, supra note 7, at § 4.
\textsuperscript{605} Id. at § 5.
\textsuperscript{606} Id. at § 6.
\textsuperscript{607} TAIWAN FAIR TRADE COMMISSION, FAIR TRADE COMMISSION DISPOSAL DIRECTIONS (GUIDELINES) ON THE APPLICATION OF ARTICLE 25 OF THE FAIR TRADE ACT [ARTICLE 25 GUIDELINES], § 7.
\textsuperscript{608} Id. at § 7 ¶¶ 1, 2, 4.
First, harming competitors to hinder market competition includes improperly disseminating pre-warning letters alleging patent infringements by competitors. A pre-warning letter is more likely to raise competitive concerns under Article 25 when a patent holder who failed to implement specific initial measures to substantiate the infringements in question issues the letter. The following section will discuss the TFTC’s guidelines regarding pre-warning letters.

Second, exploiting from the fruits of competitors’ efforts includes: passing off of another enterprise’s trademarks, trade dress, or business reputation as an one’s own; cybersquatting; or, parallel imports that may mislead people into believing that they are imported by authorized product agencies.

Third, superior bargaining position refers to a type of economic power a party in a business transaction enjoys relative to its transaction counterpart, which could render the counterpart highly reliant on the business relationship and unlikely to deviate from that relationship. In the context of IPR implementation, patent holders’ requests for sensitive information irrelevant to the determination of patent licensees’ royalties could amount to an abuse of superior bargaining power.

The TFTC Guidelines on Cases Related to Issuing a Pre-Warning Letter Alleging Copyright, Trademark, and Patent Infringements

The sanction of IP holders issuing a pre-warning letter to halt or prevent existing or potential infringements of their IPRs requires the TFTC to strike a delicate balance between two legal concerns for law enforcement. On the one hand, preventive measures for avoiding IPR infringements are protected rights stipulated in relevant IP legislations. The TFTC should be mindful of not overstepping the boundary dividing unlawful exercises of economic power and the justified application of exclusive rights granted to encourage follow-up innovations. On the other hand, Article 45 obligates the TFTC to safeguard market competition from being distorted by misapplication of IPRs. Sending pre-warning letters to competitors and their customers alleging IPR infringements and legal liability may create a “suspense effect” likely to induce customers to terminate their business relationships with the alleged infringing competitors. This is competitively more worrisome if the allegation is unfounded and strategically made by the IP holder to foreclose rivals’ business opportunities, thereby raising rivals’ competition costs. The balance

609 Id. at § 7 ¶ 1.
610 ARTICLE 25 GUIDELINES, supra note 22, at § 7 ¶ 2.
611 Id. at § 7 ¶ 4.
612 Id. at § 7 ¶ 4(E).
created by the TFTC requires the IP holder to demonstrate that sending a pre-warning letter was driven by a legitimate concern for IPR infringements rather than by the intention to hinder competition.

Under the “Fair Trade Commission Disposal Directions (Guidelines) on the Reviewing of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark and Patent Rights” (Warning Letter Guidelines), sending a pre-warning letter is presumed to be legal as follows: (1) Certain judiciary or quasi-judiciary actions to verify the alleged infringement are taken before the letter is issued. These actions include winning the litigations of the alleged IPR infringements at court or the allegations of copyright infringements confirmed by the Copyright Regulatory and Mediation Board established by the Intellectual Property Office in the Ministry of Economic Affairs; (2) In cases where a third-party professional organization has verified and confirmed the alleged infringements of patent rights, and the IP holder, after obtaining the verification reports, has notified the likely infringing manufacturers, importers, or agents and requested ceasing infringements before or contemporaneously when sending the letter; and, (3) If the IP holder had notified the likely infringing manufacturers, importers, or agents and requested the ceasing of infringements before or contemporaneously when sending the letter and had in the pre-warning letter described clearly the content, scope, and concrete facts showing infringements on copyright, patent, or trademark to be sufficient to allow the parties who receive the letters to know the possibilities of the disputed IPRs having been infringed upon.

Procedural Legislation for Investigating and Litigating IP-related Competition Cases

Competition cases are investigated primarily through administrative procedures, with the TFTC acting as the leading government agency responsible for the enforcement of the TFTA. The systems of private litigation and criminal investigation exist but are rarely used. The TFTC’s decisions are judicially reviewable using administrative litigation. The high administrative courts and the

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613 TAIWAN FAIR TRADE COMMISSION, FAIR TRADE COMMISSION DISPOSAL DIRECTIONS (GUIDELINES) ON THE REVIEWING OF CASES INVOLVING ENTERPRISES ISSUING WARNING LETTERS FOR INFRINGEMENT ON COPYRIGHT, TRADEMARK AND PATENT RIGHTS [WARNING LETTER GUIDELINES], § 3.

614 There are exceptions to this notification requirement if the IP holders had initiated the remedial procedures or exercised reasonable due care. The duty to notify could also be waived if it is objectively impossible to make the notification, or if evidence indicating that the infringing parties were already aware of the disputes of infringements exists. WARNING LETTER GUIDELINES, supra note 28, at § 3 ¶ 3.

615 The same exceptions to this notification requirement apply as those listed in the previous footnote. Id. at § 4 ¶ 2.
Supreme Administrative Court are the primary venues to which most TFTC decisions are appealed. The Intellectual Property Court has reviewing authority over cases involving issues that cut across IP and competition laws. In addition, a number of administrative legislations exist to ensure the TFTC’s investigative and dispositional procedures meet due process requirements.

**Jurisdiction**

The allocation of court jurisdictions for competition cases in Taiwan can be summarized as follows: (1) the administrative courts have jurisdictions over regular competition cases; (2) the Intellectual Property Court serves as the court of first instance for administrative litigation for cases involving IP and competition issues arising under the Patent Act, Trademark Act, Copyright Act, and Optical Disk Act, among others specified in the Intellectual Property Court Organization Act (IPCOA) 616; and, (3) the Tribunal for Administrative Litigation of the Taipei District Court has jurisdiction over cases involving administrative fines less than NT$400,000 according to Subparagraph 2, Paragraph 1 of Article 229 of the Administrative Litigation Act.

**Administrative Procedure Act and Administrative Litigation Act**

The Administrative Procedure Act (APA) is one of the most critical pieces of legislation in Taiwan used to safeguard due process and transparency requirements in administrative investigation procedures. It sets forth the fundamental principles and rules for administrative investigation procedures that are crucial to the realization of this legislative goal, including fact-finding and evidence-discovering procedures, the principles for information disclosure and access to materials acquired from investigation, the principles for contacts with administrative agencies during investigation, and hearing procedures. 617 Several provisions protect the investigated parties’ rights to be heard by giving them the opportunity to be notified of the investigation, to produce evidence and require the administrative agencies to investigate that evidence, and to present their opinions on the investigated cases. 618 In principle, the investigated parties must have the right to access the agencies’ files and materials concerning the investigations and to request a hearing. 619 When notifying the investigated parties of the opportunity to present their opinions, the agency needs to specify in the written notification the

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616 INTELLECTUAL PROPERTY COURT ORGANIZATION ACT (2007) [IPCOA], art. 3 ¶ 3.
617 See ADMINISTRATIVE PROCEDURE ACT [APA].
618 Id. at arts. 37, 39, 102.
619 Id. at arts. 46, 61, 107.
factual causes and the legal foundations for the administrative disposition likely to restrain or deprive the investigated parties of their liberty or rights.\textsuperscript{620}

The Administrative Litigation Act (ALA) is the general procedural legislation governing cases seeking judiciary reviews of administrative actions and dispositions. Although the Intellectual Property Case Adjudication Act exists, which is a special legislation for trying IP cases, the principles and rules provided in the ALA are still highly relevant because the IPCOA is silent on almost all of the crucial procedural issues that may arise in administrative IP litigations. A detailed description of the provisions in the ALA is not possible here. However, to comprehend how the ALA would interact with competition cases, it will suffice to mention the following three regulatory principles.

First, the APA and the ALA were built upon the inquisitorial principle. The administrative courts are required to conduct an inquisition ex officio into factual relationships regardless of any allegation made by the party.\textsuperscript{621} The courts are also under the obligation to conduct ex officio investigation on evidence \textit{if it is necessary for the maintenance of public interest}.\textsuperscript{622}

Second, courts typically sustain administrative agencies’ discretions that are authorized by law. Under the ALA, administrative dispositions based on authorized discretions are reviewable only when the administrative agencies have \textit{exceeded} or \textit{abused} the authorized power.\textsuperscript{623} In practice, the courts have demonstrated a high degree of deference to the TFTC’s discretions. In most cases, the courts conduct their assessments on discretion by simply reciting the legal principles aiming to prevent its abuses, like the principle of proportionality, without engaging in in-depth analysis of whether the discretions might have exceeded what was needed for enforcement purposes.

Finally, Article 174 of the APA (not the ALA) specifies that unless otherwise provided, administrative appeal of procedural dispositions can only be made together with the appeal of their substantive decisions.\textsuperscript{624} For example, the administrative courts cannot review independently the discretion to deny parties’ access to documents and evidence when the discretion was made; rather, they must wait until the final substantive decisions establishing the violation of the TFTA

\textsuperscript{620} Id. at art. 104 ¶ 2.
\textsuperscript{621} ADMINISTRATIVE LITIGATION ACT [ALA], art. 125.
\textsuperscript{622} Id. at art. 133.
\textsuperscript{623} Id. at art. 201.
\textsuperscript{624} APA, supra note 32, at art. 174.
based on that procedural discretion have been made and then appeal both to the administrative courts.

**Administrative Penalty Act**
The Administrative Penalty Act establishes the general principles and rules for imposing administrative penalties, including the considerations for the culpability of the conduct, as well as its positive and adverse impacts.\(^{625}\) The Administrative Penalty Act protects investigated parties’ due process rights, including by allowing investigated parties the opportunity to express their views before penalties are imposed.\(^{626}\) Further, an agency must hold a hearing when considering imposing specified penalties and the investigated party has requested a hearing.\(^{627}\) Under a number of exceptions, however, a hearing is not required.\(^{628}\) Notably, the Administrative Penalty Act specifically relieves administrative agencies from providing investigated parties the opportunity to express opinions in the penalty-determination phase if the investigated parties were notified to do so earlier in the investigative phase.\(^{629}\)

**The Taiwan Fair Trade Act and the Administrative Rules Issued by the Taiwan Fair Trade Commission**
In comparison with its substantive provisions, the TFTA contains surprisingly few articles regarding investigation procedures. Only three investigation provisions exist in Chapter 4 "Investigation and Sanction Procedures." Article 27 is the most pertinent provision.\(^{630}\) Under Article 27, the TFTC is obligated to notify the parties and any related third party to (1) appear before the agency to make statements on the investigated case, and (2) submit books, records, documents, and any other necessary materials or exhibits to the agency.\(^{631}\) Article 27 authorizes the TFTC to conduct an on-site investigation and to seize articles obtained from the investigation that may serve as evidence.\(^{632}\) However, these provisions shall not be understood as providing the TFTC with search powers during investigations. The investigated parties can refuse on-site investigations if refusals can be justified with

\(^{625}\) Administrative Penalty Act, art. 18.
\(^{626}\) Id. at art. 42.
\(^{627}\) Id. at art. 43.
\(^{628}\) Id.
\(^{629}\) Administrative Procedure Act, supra note 40, at art. 43.
\(^{630}\) Article 26 in Chapter 4 describes generally the TFTC’s power to conduct ex officio investigations or to commence an investigation procedure after receiving complaints. Article 28 prescribes the substantive and procedural requirements for suspending or terminating investigations when the investigated parties commit to ceasing or correcting their investigated conduct. Fair Trade Act, supra note 3, at arts. 26, 28.
\(^{631}\) Id. at art. 27.
\(^{632}\) Id.
proper reasons. Non-cooperative parties are subject only to administrative fines and cannot be compelled to cooperate with the TFTC.

Article 40 of the TFTA authorizes the TFTC to impose administrative fines and other non-pecuniary orders, which, based on its discretion, are proper for punishing and deterring violations. When determining the amount of a fine, the TFTC can take into account the measuring factors listed in Article 36 of the Enforcement Rules of the TFTA, which include:

- motivation, purpose, and expected improper benefit of the acts;
- the degree of the act’s harm to market order;
- the duration of the act’s harm to market order;
- benefits derived because of the unlawful act;
- scale, operating condition, and market position of the enterprise;
- types of, number of, and intervening time between past violations, as well as the punishment for such violations; and,
- remorse shown for the act and attitude shown for cooperation in the investigation.

The TFTC has discretion to increase fines over the TFTA’s maximum levels for “serious violation” of cartel or abusive cases. The definition of “serious violations” and the factors to be considered when adjusting the fines are specified in Regulations for Calculation of Administrative Fines for Serious Violations of Articles 9 and 15 of the TFTA.

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633 Id.
634 Id. at. art. 44.
635 Id. at. art. 40.
636 TAIWAN FAIR TRADE COMMISSION, ENFORCEMENT RULES OF FAIR TRADE ACT OF 2015 [ENFORCEMENT RULES], art. 36.
637 FAIR TRADE ACT, supra note 3, at art. 40.
638 TAIWAN FAIR TRADE COMMISSION, REGULATION FOR CALCULATION OF ADMINISTRATIVE FINES FOR SERIOUS VIOLATIONS OF ARTICLES 9 AND 15 OF THE FAIR TRADE ACT [REGULATIONS], art. 2. The TFTC promulgated the Regulations under the authorization of Paragraph 3, Article 40 of the TFTA. FAIR TRADE ACT, supra note 3, at art. 40 ¶ 3. Article 6 of the Regulations sets out the aggravating and mitigating factors for fine adjustments. The factors for fine increases include the followings: (1) The enterprise in concern has organized or encouraged the unlawful conduct; (2) The enterprise under consideration has implemented supervision or sanctioning measures to ensure that the concerted action is upheld or executed; (3) The enterprise under consideration has been sanctioned for
More detailed and specific rules relating to due process and transparency requirements are stipulated in the TFTC’s administrative rules and guidelines. The following are the most relevant: (1) TFTC Key Points for Holding Oral Debate; (2) TFTC Notice for Holding Hearings; (3) TFTC Notice for Case Investigation; (4) TFTC Notice for Access of Files and Documents; and, (5) TFTC Notice for Contact Outside Administrative Procedure by TFTC Staff.

**REPRESENTATIVE CASES ON IPR IMPLEMENTING PRACTICES**

Numerous cases exist concerning the disputes of IPR implementing practices with three being particularly noteworthy. The case on compact-disc recordable (CD-R) format patent licensing arrangements is representative of major competitive issues that may arise from IPR implementations, and illustrates the approaches the TFTC and the courts adopted to deal with those issues. The case regarding Microsoft’s acquisition of Nokia’s device department and the case regarding Qualcomm’s patent licensing practices, centered on the concern of abusing the market power acquired by holding standard essential patents (SEPs) for wireless telecommunication. Both cases highlight the theoretical foundations the TFTC relies on to establish the competitive harms from IPR arrangements and to justify its interventions in this rapidly growing industry.

**In re CD-R Patent Licensing Practices**

In the CD-R patent licensing case, the three companies holding patents to produce the CD-R format (i.e., Philips, Sony, and Taiyo Yuden) formed a patent pool and authorized Philips to negotiate on their behalf with CD-R producers in Taiwan over the licensing terms for the packaged and standardized technology patents. According to the licensing agreement, licensees would have to pay a royalty of “3% of the net sale prices or 10 Japanese Yen per disc, whichever is higher.” In 2001, Taiwanese CD-R producers filed complaints with the TFTC alleging several violations from the licensing arrangements. First, they argued that the method of calculating licensing royalties was equivalent to a price-fixing scheme and constituted an unlawful concerted action under the then Articles 7 and 14 of the TFTA. Moreover, the complaints alleged that patent pool members failed to adjust their

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violation of Article 9 or 15 of the Act within the past five years. For fine reduction, the TFTC may consider: (1) The enterprise under investigation has immediately ceased the unlawful act when the competent authority began the investigation; (2) The enterprise in concern has shown real remorse and cooperated in the investigation; (3) The enterprise under consideration has established compensation agreements with the victims or has taken remedial measures; (4) The enterprise under consideration has participated in the concerted action under coercion; (5) Fine reduction is encouraged or approved by other agencies or can be granted in accordance with other Acts. REGULATIONS, supra note 55, at art. 6.

639 Article 14 and 15 after the 2015 amendments.
royalties downward in response to the dramatic decrease of global CD-R prices. Taiwanese CD-R producers were forced to pay an unaffordable royalty reaching 17.8% of CD-R factory prices. At the same time, the global demand for CD-R increased significantly, which allowed the three companies to collect licensing revenues far exceeding what they had anticipated. Accordingly, CD-R producers argued that the maintenance of royalties by the three companies constituted excessive pricing in violation of the then Subparagraph 2 of Article 10 of the TFTA.\(^\text{640}\) Lastly, the patent holders refused to provide the producer-licensees with crucial information concerning the licensed patents, such as their scope and expiration dates, and prohibited the licensees from challenging their validity. The licensees considered this conduct to be non-price abusive practices in violation of the then Subparagraph 4 of Article 10 of the TFTA.

The TFTC agreed with the CD-R producers on all of their allegations and ordered the three patent holders to cease employing the controverted method to calculate royalties and other alleged practices.\(^\text{641}\) After several appeals, that lasted for more than a decade, by both parties,\(^\text{642}\) the Supreme Administrative Court reversed the TFTC’s decisions on issues of collusion and non-price abuses. Regarding collusion, the court maintained that the licensing patents in this patent pool were complementary and not substitutive patents; therefore, the three patent holders were not competitors in the technology market. As the then Article 7 of the TFTC applied only to cartels formed by competitors at the same market level (horizontal markets), this patent pool arrangement did not meet the definition of concerted action under Article 7.\(^\text{643}\) For non-price abuses, the Supreme Administrative Court found that the licensor did not refuse to provide the information crucial to the licensed patents when requested by the licensees. Similarly, the no-challenge clause was introduced as a condition for settlement negotiations between the licensees and licensors regarding unpaid royalties, not to deter market competition.\(^\text{644}\)

In contrast, the Intellectual Property Court affirmed the decision to change excessive royalties.\(^\text{645}\) The court maintained that it might be inappropriate for the TFTC to intervene in the royalty negotiation process because doing so would violate

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\(^{640}\) Article 9 after the 2015 amendments.
\(^{641}\) TFTC Gong-Zu-Tze No. 021 (2001).
\(^{642}\) For the history of this case, see the most recent decision by the Intellectual Property Court, Intellectual Property Court, Xing-Gong-Su-Tze No. 1 (2016).
\(^{643}\) The Supreme Administrative Court, Pan-Tze No. 553 (2007).
\(^{644}\) The Supreme Administrative Court, Pan-Tze No. 1001 (2012).
\(^{645}\) The Supreme Administrative Court, Pan-Tze No. 553 (2007).
the principle of freedom of contract. However, the court upheld the TFTC’s decision holding the royalty-calculating method as an abusive practice implemented by a monopolist because the licensors refused to re-negotiate with the licensees toward a more reasonable royalty in correspondence with the dramatic drop of global CD-R prices. As no licensing alternatives for CD-R production were available to the licensees, they were compelled to pay royalties not driven by market supply and demand. In turn, this financially and unreasonably handicapped the licensees’ abilities to compete in the relevant markets.

**Nokia v. TFTC**

In September 2013, Nokia and Microsoft entered into a sale agreement (Agreement) in which Microsoft agreed to purchase most of the services and assets from Nokia’s device and service division, including the design team, promotional supporting services, and design patents. According to the Agreement, Nokia promised to grant the 10-year non-exclusive licensing of its patents to Microsoft, and Microsoft would have the right to renew this licensing indefinitely. In reciprocity, Microsoft agreed to cross-license its patents for digital-map and positioning services (i.e., the HERE service). The Agreement met the definition of “merger” under the TFTA. As Microsoft commanded more than one-fourth of the market share for personal computer operating systems, and because each company’s business turnover exceeded the threshold for filing pre-merger notifications, they filed an application for merger approval with the TFTC in November 2013.

The TFTC was required to review whether the merger’s “overall economic benefits” would outweigh the “disinterests of restraining competition”. Regarding the evaluation of economic benefits, the TFTC recognized numerous efficiencies the merger could generate.\(^\text{646}\) Regardless of these pro-competitive potentials, the TFTC was concerned that the merger would relieve Nokia from the need to negotiate with its competitors when cross-licensing patents indispensable for manufacturing Nokia’s mobile devices. Without the merger, Nokia would feel more restrained in attempting to raise patent royalties for fear of triggering retaliation from its licensees by also increasing their cross-licensing royalties to Nokia. However, this countervailing power of “mutually assured destruction” would disappear after the merger. As Nokia no longer engaged in manufacturing mobile devices, it did not

\(^{646}\) For example, the TFTC proposed that the Agreement would enable Microsoft to acquire the urgently needed technologies for hardware designs, management of supply chains, demand predictions, and to increase its sale outlets. It would also improve Microsoft’s cost structure, accelerate its innovation and facilitate the emergence of a new competing operation system for mobile devices other than Apple and Android.
need to account for retaliation when deciding whether to increase its royalties. The TFTC argued that Nokia would have a greater incentive to charge higher royalties for its primary sources of revenue from its SEPs and would ultimately become a patent assertion entity (PAE). Accordingly, the TFTC imposed the FRAND (Fair, Reasonable, and non-discriminatory) commitment that Nokia had made to the standard-setting organizations (SSOs) not to charge excessive royalties as a remedy for its approval. This remedy applied to future transferees of Nokia’s SEPs.

Nokia appealed to the Taipei High Administrative Court for two main reasons: (1) the TFTC’s decision on Nokia becoming a PAE was unpersuasively reasoned, and (2) the FRAND remedy was error-prone and unnecessary. As to the first, Nokia maintained that the evidence was not balanced against the company’s counter evidence. The TFTC relied on market competitors’ and other stakeholders’ testimony, and on industry regulators’ predictions of market developments, to establish the merger’s potential anticompetitive effects. Second, Nokia alleged that the FRAND remedy was error-prone and unnecessary. As the TFTC failed to support its findings with persuasive evidence for Nokia’s incentive to become a PAE and the potential harms the merger would present, it was highly questionable that the TFTC could construct a remedy that would meet the principle of proportionality.

Both the High Court and the Supreme Administrative Court disagreed with Nokia’s arguments. They indicated that it was within the TFTC’s discretion to decide the potential harms associated with a merger, and the types of remedies that could most effectively address those harms. The court further argued that the dynamic and uncertain nature of competition in the hi-tech market makes it unlikely that the TFTC could present clear and specific evidence to support its decisions. Based on these premises, the court accepted wholesale the TFTC’s reasoning regarding the issue of characterization and remedies. The court argued that the TFTC evaluated the testimonies indicating Nokia’s propensity to become a PAE in their entirety, with due care to exclude bias. The court held that the TFTC did not violate the principle of proportionality because it was within the TFTC’s authority to make the decision.

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647 In addition, Nokia also challenged the TFTC for lacking the authority to review how the merger would change Nokia’s post-merger competitive incentive and business model because Nokia was the “seller” and not the “acquirer” in the Agreement; therefore, the transaction would weaken rather than strengthen Nokia’s market dominance. Nokia contended that the scope of review should be limited to the party whose market power would be enhanced by the merger. This was also the position the European Commission held. See Case No. Comp/M.7047 - Microsoft/Nokia, available at http://ec.europa.eu/competition/mergers/cases/decisions/m7047_687_2.pdf.

648 Taipei High Administrative Court, Su-Tze No. 1858 (2014); The Supreme Administrative Court, Pan-Tze No. 403 (2016).
As Nokia had committed to the SSOs to charge FRAND royalties, imposing these royalties as a remedy would not add any implementing uncertainty or hardship to Nokia either.

**In re Qualcomm SEP Licensing Practices**

As the leading innovator of wireless telecommunication technology, Qualcomm holds numerous key chip patents that are included by the SSOs as SEPs for producing smartphones of various generations. Due to its prominent role in this industry, Qualcomm’s patent licensing practices have been under the watchful eyes of competition agencies in the United States, Europe, China, Japan, and Korea. The TFTC commenced its investigations on Qualcomm’s SEP licensing practices in 2015. During the investigation process, the TFTC raised an array of competitive concerns, including: (1) calculating SEP royalties based on the price of a whole device (the smartphone itself) and not on the enhanced value Qualcomm’s chips contributed to a device; (2) refusal to license competing chip manufacturers its SEPs; (3) conditioning chip sales to device manufacturers on their also signing the patent licensing agreements; (4) mandatory free cross-licensing from the licensees; (5) discriminatory rebates to device manufacturers; and, (6) requiring licensees to provide competitively sensitive information to Qualcomm, like sale prices, customer lists, product models, and sale quantities.

On October 11, 2017, after more than 2 years of investigation, the TFTC rendered its decision, imposing record fines of NT$23.4 billion (approximately US$7.75 million) on Qualcomm for the violation of Subparagraph 1 of Article 9 of the TFTA.\(^{649}\) The TFTC indicated initially that Qualcomm owned a significant number of SEPs for the 3G-telecommunication standards CDMA and WCDMA, and for the 4G standard LTE. Qualcomm held a monopolistic position in the market for baseband chips essential to the operation of these telecommunication standards. Relying on these market advantages, Qualcomm engaged in the following abusive licensing arrangements in violation of Subparagraph 1 of Article 9 of the TFTA.

First, Qualcomm refused to license competing chip manufacturers its SEPs to avoid patent exhaustion at the market level of baseband chips. This increased the costs for device manufacturers to transact with competing chip manufacturers and allowed Qualcomm to implement its scheme of charging device-based royalties.

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\(^{649}\) At the time of this writing, the official version of this decision and its reasons are not available yet. The following discussion is based on the TFTC’s press release, available at http://www.ftc.gov.tw/internet/english/doc/docDetail.aspx?uid=179&docid=15287 (last accessed December 19, 2017).
Second, Qualcomm conditioned the sale of its chips to device manufacturers on their also signing the patent licensing agreement that was more favorable for Qualcomm. Third, Qualcomm offered royalty rebates to major customers in exchange for their commitment to deal exclusively with Qualcomm. This in turn would foreclose business opportunities for Qualcomm’s competitors or disadvantage them in price competition. Lastly, as patenting around Qualcomm’s SEPs was unlikely, competing chip manufactures were forced to provide Qualcomm competitively sensitive information, like their chip prices, customer lists, and sale quantities. According to the TFTC, these interconnected licensing practices seriously harmed competition in the baseband chips market, and the competitive order in Taiwan.

The TFTC calculated the fine after taking into account the factors enumerated in Article 36 of the Enforcement Rules, including: the violation’s duration, the royalties Qualcomm collected from Taiwanese companies, and the amounts Taiwanese companies paid for Qualcomm’s baseband chips during the violation period. Moreover, the total product or service sales during the violation period exceeded NT$100 million, constituting a “serious violation” under Paragraph 2 of Article 40 of the TFTA; therefore, fines could be augmented up to 10% of the violating company’s total sales income from the previous fiscal year.

Additionally, the TFTC ordered Qualcomm to cease the violating practices and to notify competing chip and device manufacturers that they may offer to re-negotiate licensing with Qualcomm. Upon receiving offers, Qualcomm should conduct re-negotiations on the principles of good will and good faith. The re-negotiations should cover, but not be limited to, the violating practices and must not limit the right of the re-negotiating counterparts to resort to courts or independent third-party arbitrators to resolve disputes. Qualcomm is obligated to report to the TFTC every 6 months, beginning from the next day the disposition is served, concerning the progress of re-negotiation and should report to the TFTC within 30 days after the revised or newly amended licensing agreements are signed.

**CURRENT ISSUES AND CHALLENGES FOR THE TFTC**

To a certain degree, the representative cases have clarified the TFTC’s enforcement approaches for various competitive concerns in markets related to IPR

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650 According to TFTC, the violation had lasted for at least 7 years, with the royalties collected by Qualcomm and the amounts paid for baseband chips within the violation period reaching approximately NT$400 billion and US$30 billion respectively.

651 REGULATIONS, supra note 55, at arts. 2 and 7.
implementations. However, issues exist that might challenge the TFTC’s enforcement skills and the credibility of its future decisions.

First, *Nokia* illustrates that the TFTC may need to present its theory of competitive harms for individual cases more consistently and convincingly. Simply demonstrating the possibility that a business entity has the incentive to become a PAE post-merger does not necessarily mean that the business entity will implement PAE strategies.\(^{652}\) That possibility needs to be tested by encompassing market conditions and by the assessments of the potential constraints likely to be exerted upon the entity via its dynamic mutual interactions with the targeted victims.

Equally important, the TFTC needs to describe clearly the theories establishing the duty to deal or license. In the majority of the TFTC’s decisions on this issue, the duty was established by simply ascribing to the refusing party’s control of an essential facility or patent without offering in-depth analysis on the other elements under the “essential facility doctrine”, such as market power and the possibility of duplicating the facility or acquiring substituting patents from other licensors.

Moreover, the issue of whether a competition agency could intervene in the price decision process and could have the enforcement latitude to declare royalties as excessive will continue to challenge the TFTC in the future. Although the TFTC did not find Qualcomm’s whole-device method of calculating royalties in violation of the TFTA, the CD-R decision nevertheless remains. Despite the TFTC constantly indicating that it is not a price regulator, that Subparagraph 2 of Article 9 of the TFTA should be interpreted to prohibit unreasonably high prices has never been ruled out by the TFTC. Its clear statement on its position and the criteria for triggering the investigation of allegations of royalty overcharges, if it decides to intervene, should be welcome by industry and market participants.

Closely related to the royalty-overcharge issue is the rebate issue. From the press release of the *Qualcomm* decision, the primary concern for the TFTC regarding the exclusive rebates given by Qualcomm to major customers was its effect on depriving Qualcomm’s competitors of their business opportunities. This is the most commonly observed but highly problematic line of reasoning in rebate cases decided either under the abusive provision of Article 9 or the “inducement with low

prices” provision of Subparagraph 3 of Article 20.\textsuperscript{653} In essence, effective competition inevitably forecloses business opportunities for competitors. Put differently, the increase in business opportunities for firms practicing licensing rebates could be viewed as a product of healthy price competition, namely, “losses of business opportunities” per se cannot be the reason for condemning rebates. Anticompetitive rebates causing business opportunity loss warrant further investigations. Accordingly, the TFTC should have the duty to construct an analytical framework capable of verifying the overall competitive effects, not the effects on competitors, from rebate schemes. Viewing the recent Intel decision by the Court of Justice of the European Union that requires the European Commission to investigate whether competition from an “as efficient competitor” would be foreclosed by Intel’s loyalty rebates,\textsuperscript{654} the challenge lying ahead for the TFTC is substantial.

CONCLUSION

In sum, both the substantive and procedural legal tenets for addressing competition issues related to IPR implementations are well established in Taiwan. What remains to be improved is the manner in which enforcement agencies interpret and enforce relevant laws. In particular, we suggest that the TFTC be clear about its theory of competitive harm, its enforcement approaches and its position against pricing and non-pricing abusive practices associated with IPR implementations. A transparent and predictable legal environment built on a consistent enforcement philosophy for market competition attracts foreign investment and enhances economic growth. It will also ensure that Taiwan will continue to prosper on its advantages in technological innovation for decades to come.

\textsuperscript{653} Subparagraph 3 of Article 20 provides that: “No enterprise shall engage in any of the following acts that are likely to restrain competition:….3. Preventing competitors from participating or engaging in competition by inducement with low price, or other improper means.” FAIR TRADE ACT, supra note 3, at art. 20.

INTRODUCTION

The United Kingdom (“UK”) has robust competition and intellectual property regimes, and increasingly, the overlap between these areas is coming under scrutiny in both regulatory investigations and private proceedings. The regulatory focus is to move away from the more recognized problems surrounding patent settlements and consider dominant companies setting prices in the pharmaceutical sector. On the civil side, litigation following from the decisions of regulators in relation to patent settlements continues, while private entities continue to raise novel issues in the context of intellectual property disputes. In particular, cases relating to the validity and infringement of standard essential patents are evolving into fair, reasonable, and non-discriminatory terms (“FRAND”) disputes, frequently involving significant competition law analysis.

As the UK is set to exit the European Union (“EU”) by March 2019, there may be a shift in policy and priorities. However, it may be some years before we see any real change, given that the planned ‘Great Repeal Bill’ will initially transpose all EU law into UK legislation. With the shape of the legislation and the duration and impact of any transitional period are still unclear, we have avoided speculating on them in this chapter.

This review considers the following:

- Key competition and intellectual property legislation;
- Regulatory penalties that follow a breach of competition law;
- Private parties and recovery of losses caused by a violation of competition law; and
- Recent developments.
ENFORCEMENT POLICIES AND GUIDANCE

In the UK, there are no legislative provisions in competition law specifically dealing with intellectual property rights ("IPRs") and vice versa (save for one minor, and to-date unused exception\(^{658}\)). IPRs are protected by a mixture of national and supranational (EU) legislation which protects both registered and unregistered IPRs. The key pieces of UK legislation, (incorporating relevant EU principles) which protect IPRs, are:

- the Trade Marks Act 1994 (registered trademarks);
- the Patents Act 1977 (patents);
- the Registered Designs Act 1949 (registered designs); and
- Copyright, Designs and Patents Act 1988 (copyright, unregistered design, and database rights).

The UK is a signatory to the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), and UK legislation is therefore consistent with the TRIPS provisions. Names, get-up, and unregistered marks are protected under the tort of passing off, whereas trade secrets and know how are protected by enforcing contractual terms and under the common law of confidence. *Coco v A.N. Clark Engineers Ltd.*, [1969] RPC 41 (Eng.).

All IPRs can be licensed, and licensing (as well as other) agreements are subject to UK competition law, which mirrors the EU regime (embodied in Articles 101 and 102 of the Treaty on the Functioning of the European Union ("TFEU")). The key pieces of UK legislation for competition enforcement are:

- the Competition Act 1998 ("CA98");
- the Enterprise Act 2002 ("EA2002"); and
- the Consumer Rights Act 2015 ("CRA2015").

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\(^{658}\) Patents Act 1977, § 50A mandates that the UK competition regulator, the Competition and Markets Authority, has the right to apply to the Comptroller of Patents to take action following a merger or market investigation in relation to (i) conditions in patents licences restricting the use of the invention by the licensee or the right of the proprietor to grant other licences; or (ii) a refusal by the proprietor of a patent to grant licences on reasonable terms. Such powers have not been exercised to date.
Chapter I of the CA98 ("Chapter I") contains the prohibition on anticompetitive agreements and mirrors Article 101 of the TFEU ("Article 101"). Chapter II of the CA 98 ("Chapter II") mirrors Article 102 of the TFEU ("Article 102") and prohibits a dominant undertaking from abusing its position with market power. While the UK remains a member of the European Union, Council Regulation 1/2003 (EC) is applicable, under which Articles 101 and 102 can be applied directly in any regulatory or private proceedings in the UK. EU block exemptions also apply. Whenever trade between member states is affected, member states must apply EU competition law. In principle, the UK (like other EU member states) is entitled to apply stricter national laws than Article 102 to unilateral conduct (this differs from Article 101, where a uniform approach is required). However, the overall approach of the UK is the same as that of the EU, although there are at times some divergence in administrative priorities. For example, a current priority for a UK regulator is to focus on pricing abuses within the pharmaceutical industry, which we discuss in more detail below.

The Competition and Markets Authority ("CMA") and sectoral regulators investigate potential competition law abuses. The CMA also assesses mergers and carries out market inquiries. Market inquiries are sector-focused and are intended to identify any competition law issues and areas for reform. Recent inquiries include medical shortages (closed on grounds of administrative priorities), private healthcare (resulted in an order to remedy findings of an adverse effect of competition leading to higher prices being charged to medical insurers), and digital comparison tools (ongoing).

Any decision made by the CMA (or the other sectoral regulators) can be appealed to the Competition Appeal Tribunal ("CAT"). If conduct is potentially anticompetitive under Articles 101 and 102, the European Commission ("the Commission") also will have jurisdiction to investigate, and if it chooses to do so, the CMA must suspend any proceedings it has initiated. The CMA may only resume its investigation if the Commission either does not issue a decision or makes a decision that does not include the UK. As a member of the European Competition Network and the International Competition Network, the CMA will coordinate with other competition authorities on investigations and in the convergence of rules and standards.

**PENALTIES**

During an investigation, the CMA's enforcement powers include the ability to give interim measures directions and to fine uncooperative undertakings (for example, CMA recently fined Pfizer Ltd. ("Pfizer") with 10,000 pounds for failing to provide
requested information\textsuperscript{659}). The CMA can accept binding commitments, rather than continuing an investigation to a final decision; however, as in the EU, the CMA is unlikely to accept commitments for hard-core infringements or serious abuse of dominance, and the CMA will not accept any commitments that will be difficult to monitor for compliance. Should the CMA find that an undertaking has engaged in anticompetitive behavior, it has broad discretion to make orders and give direction to end an ongoing infringement and can impose a penalty on any undertaking involved in the infringement of up to ten percent of worldwide turnover for the last business year, preceding the date of the decision. Further, the CMA can hold parent companies jointly and severally liable and impose successor liability, for the period of ownership (for example, the CMA recently sent Statements of Objections to Intas Pharmaceuticals Ltd. (“Intas”) and Accord Healthcare Ltd. (“Accord”) in relation to an ongoing investigation regarding excessive pricing by Actavis UK Ltd., which was acquired by Intas/Accord during the alleged infringement). The CMA may not imposed fines if the conduct was of minor significance or where the CMA granted immunity pursuant to UK rules on lenient treatment.\textsuperscript{660}

In addition to the civil penalties listed above, individuals associated with the infringement may be disqualified from serving as a UK director of a UK company for up to fifteen years. Further, under EA2002, §188 participation by an individual in a cartel (i.e., conduct viewed as the most serious and damaging form of anticompetitive behavior) is a criminal offence and the individual could be imprisoned for a period of up to five years or have to pay a fine (the amount of which is unlimited). To date, however, only a few individuals have been prosecuted by the authorities under this provision.

**PRIVATE ENFORCEMENT**
A party can recover damages from violators for infringements of competition law. This right applies equally to harm caused by anticompetitive practices which relate to licensing or transfer of IP rights and non-IPR related infringements of competition law. (EA2002, § 18 introduced CA98, §§ 47A, 47B; CA98, § 47A provides for individual claims, while CA98, § 47B provides for collective claims.)

\textsuperscript{659} Case CE/9742-13 Penalty notice under section 40A of the Competition Act 1998 – Addressed to Pfizer Ltd., 12 April 2016.
\textsuperscript{660} See CA98, §§ 39–40 for conducts of a minor significance. A comprehensive view of the leniency program is set out in the OFT Guidance (adopted by the CMA), Applications for Leniency and No Action in Cartel Cases (OFT 1495) July 2013. See also the OFT Guidance (adopted by the CMA), Appropriate Level of a Penalty (OFT 423), Sept. 2012.
The UK has also implemented the EU Damages Directive, which sought to harmonize damages claims across the EU member states. Due to several procedural advantages (such as an extensive disclosure regime), the English courts have emerged as one of a small number of preferred fora for competition damages claims in the EU. While the Damages Directive seeks to create a level playing field, the UK currently remains one of the most experienced court systems in this area. However, the prospect of Brexit does raise uncertainties, particularly claims based on infringement decisions issued by the European Commission.

Private enforcement claims may be brought on either as a ‘follow-on’ (the claim follows an infringement decision by either the European Commission or the CMA and can be relied on as proof of liability) or on a ‘standalone’ basis (the infringement must be proved by the claimant). Claimants can seek injunctions or compensatory damages, as well as declaratory relief. Claimants can claim interest, including compound interest, on damages and recover their costs if successful (but are at risk of paying the defendant’s costs if unsuccessful). Exemplary damages are generally not available but are not wholly excluded for pre-Damages Directive claims, in cases where the court has not issued an infringement decision.

Private damages actions can proceed in two forums: the High Court (which includes the Patents Court, a specialist court) or the CAT. The key difference is that in the High Court, a single judge hears claims, whereas in the CAT, a panel of three individuals, consisting of a chairperson (a judge or senior lawyer) and two ‘ordinary members,’ taken from selected experts in fields such as economics, accountancy, and business, hears claims. One patent case recently sought to transfer the competition arguments of the case to the CAT, leaving the infringement and contractual elements in the High Court. However, the court held that the competition issues were inextricably linked with the contractual issues that transferring the arguments would separate interrelated claims in a way that was impractical.

In addition, from October, 1 2015, those harmed by anticompetitive conduct have the option of bringing a collective action to the CAT under CRA2015, schs. 8, amending CA98, § 47B. As this is a procedural mechanism, claimants can base the

662 Devenish Nutrition Ltd. v. Sanofi-Aventis SA (France) & Others[2008] EWCA Civ 1086(UK).
cause of action on an infringement arising before CRA came into force. Other mechanisms for group actions, such as those under Part 19 of the Civil Procedure Rules, have been determined to be inappropriate in competition cases.\(^6\) The relatively new collective redress procedure was introduced to facilitate cases where an entity harms many consumers or businesses by anticompetitive conduct, but not to such a significant degree that it would be viable for each to bring a claim.

Part 5 of the Competition Appeal Tribunal Rules and Section 6 of the accompanying Guide to Proceedings lists the procedures and requirements for bringing a collective action. The regime applies only to claims of infringements of UK or EU competition law and can be brought on an opt-in or opt-out basis.

**CURRENT DEVELOPMENTS**

This section focuses on recent developments either which directly involve an interplay between IP rights and competition law, or which relate to IP rich industries, and may have a direct or indirect bearing on how those rights are exercised in future.

**Pharmaceutical Pricing**

Since 2013, the CMA has initiated several cases which focus on pricing abuses in the pharmaceutical sector. These cases have attracted considerable attention, as they are perceived to be a novel use of the CMA’s powers with very few prior cases relating purely to excessive prices. The CMA currently has two active investigations in this area: one into Actavis for excessive pricing of hydrocortisone tablets, and another into Concordia regarding its pricing of unidentified pharmaceutical products. The CMA also issued its first decision in this area in December 2016, fining Pfizer and Flynn Pharma Ltd. ("Flynn") 90 million pounds for anticompetitive behavior when pricing phenytoin sodium capsules. This was the highest fine imposed by the CMA, indicating the gravity of the conduct, and CMA required the companies to reduce prices within four months.

As background, the UK provides public healthcare via the National Health Service (the “NHS”). Such healthcare includes access to medicine at reasonable prices. Two schemes in the UK regulate pharmaceutical prices:

- a mandatory scheme (under statutory regulations), which imposes a list price reduction of fifteen percent on all medicines listed on the NHS on December 1,

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\(^6\) Emerald Supplies Ltd. & Southern Glass House Produce Ltd. v. British Airways PLC[2010] EWCA Civ 1284.
2013, and provides that the Secretary of State may impose maximum prices on those medicines listed post-December 1, 2013; and

- a voluntary scheme (under the Pharmaceutical Price Regulation Scheme, the “PPRS,” which is renewed every five years), which requires its members to pay a proportional rebate if the NHS overspends on its annual branded medicines bill, and imposes limits on the profit its members may make on the sale of branded medicines. If a member agrees to be bound by the PPRS, the statutory scheme ceases to apply.

The PPRS seeks to strike the balance between reasonable terms and stability for the NHS, ensuring an innovative and profitable pharmaceutical industry. Neither the PPRS nor any equivalent scheme applies to unbranded generic medicines—the expectation is that these markets would be self-regulating, with high prices signaling opportunities and incentive for entry, increasing market participants, and encouraging price competition. However, price increases of up to 12,500 percent in relation to a variety of drugs have recently attracted significant media attention and subsequent political pressure. While Parliament has recently introduced new legislation, which provides that pharmaceutical companies can be instructed to reduce the price of generics where charges are unreasonable, competition law appears to be the primary tool for establishing what is ‘unreasonable.’

The Flynn/Pfizer decision exposed an apparent “loophole”; pharmaceutical companies can take products ‘off-brand’ to evade the application of PPRS and increase prices. If there is a market failure that results in no new entrants and few market participants, such price increases could be significant and prolonged.

In this instance, Pfizer sold its UK marketing authorization for Epanutin (an old, off-patent product) to Flynn, who de-branded the product and sold it as ‘phenytoin sodium hard capsules.’ Pfizer continued to manufacture the product (and sell it as Epanutin throughout the rest of the EU), but Flynn had exclusive supply rights for the UK, under which Flynn would purchase the product from Pfizer at prices that CMA found excessive and unfair.

Once Flynn began selling the product, prices jumped 2,600 percent overnight, attracting media attention and attempts by health bodies to understand such a significant increase. When Pfizer and Flynn failed to engage constructively with the Department of Health, the CMA was asked to open an investigation.

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665 The Health Service Medical Supplies (Costs) Act 2017.
To establish an infringement of the competition rules, the CMA would either need to prove that an anticompetitive agreement existed between Pfizer and Flynn or prove dominance on the part of the companies. Although the CMA originally looked at whether the suite of agreements between Pfizer and Flynn breached the Chapter I, this aspect of the investigation was later dropped. No reason was given, but the lack of a pre-existing competitive relationship between the companies would have been likely to be a factor in the CMA’s decision.

The CMA therefore had to establish that Pfizer and Flynn held a dominant position in a relevant market. This outcome was not self-evident, because Epanutin was now considered a third line treatment for epilepsy, and as a result, the number of patients treated with it was declining. However, although other companies marketed products containing the same active ingredient as Epanutin, due to the narrow therapeutic index of the product, 48,000 patients currently treated with Epanutin could not be switched safely to an alternative. As a result, clinical guidance stipulated that patients should be stabilized and remain on a specific brand of drug. Substituting, even between brands of the same active pharmaceutical ingredient, was therefore rare and deterred by the authorities. Epanutin capsules thus formed a product market, with Pfizer as the sole manufacturer, and Flynn as the only distributor. The CMA inevitably found that Pfizer and Flynn held a dominant position due to this ultra-narrow definition.

The CMA’s test for abuse is in line with EU case law (although the test has been rarely applied in practice). The test stipulates that a price is excessive if it has no reasonable relation to the economic value of the product. This entails two conditions:

- the difference between the costs incurred and the price charged was excessive; and
- the price was unfair compared to competing products.

In this instance, the CMA accepted that costs for the first part of the test should in fact be ‘cost plus’—costs plus a reasonable rate of return, with the appropriate rate of return linked to returns, which are considered acceptable under the PPRS (as the closest to an agreed industry standard for returns on pharmaceutical products). Although the two companies could legitimately earn returns greater than cost plus,
CMA found the actual excesses material and sufficiently large enough to be deemed excessive.

The second part of the test, whether the price was unfair, involves assessing the product’s economic value and comparing it with other products. In the Pfizer/Flynn case, there were no products that would provide a meaningful comparison to determine whether the prices were unfair compared to competing products. The only available comparators were phenytoin sodium tablets that were not sufficiently close enough to be within the same product market, and parallel imports. However, each of these were price takers, who set their own price based on Flynn’s or the NHS’s Drug Tariff. Ultimately, the CMA found the prior price of Epanutin in the UK and its price in the EU Member States were the most important data points.

Economic value is not simply whatever price a product or service the market will reasonably bear; particularly, if the economic value of a product or service were primarily determined by what price the dominant undertaking’s customers are willing to pay. Taking this approach would automatically prevent a finding that a price was unfair whenever a customer was purchasing the product. The economic value would therefore be cost plus, but the CMA has recognized that prices may exceed this level if a party can demonstrate that there are additional non-cost related factors:

[There is n]o quantitative threshold by which the price actually charged must exceed economic value in order for it to be considered to amount to an unfair pricing abuse. This is instead a matter of fact and degree.

The CMA’s finding that the price of Epanutin in the UK was unfair was supported by the fact that Epanutin was an old drug, which was superseded by other anti-epileptic drugs; the health authorities’ were unwillingness to pay a premium and knew that the prices did not represent value for money; the guidance recommended that patients should not be switched from different epilepsy treatments applied to a range of anti-epileptic drugs; and the high price did not justify any innovation by Flynn/Pfizer. Therefore, CMA determined that Pfizer and Flynn’s prices bore no reasonable relationship to its economic value and were unfair.

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666 Pfizer’s prices exceeded cost plus by between 29 and 705 percent, and Flynn’s prices exceeded cost plus by between 31 and 133 percent.
Unusual transactions, which lead to significantly higher prices, may signal a need for scrutiny (Aspen and Concordia both increased prices following product divestments) and lead to regulatory intervention. The Pfizer/Flynn decision emphasizes the need for a connection between price and costs, but also cautions against the use of benchmarking, as there is the possibility that the benchmark product itself may have an excessive price. It would therefore be advisable to avoid transactions structured to significantly increase the original Marketing Authorisation holder of a legacy product’s profit, particularly if the original brand owner retains some control over pricing and the transaction leads to significantly increased prices to a captive market. However, gradual price increases (particularly those justified by internal documents evidencing increasing costs) or products where there have been significant, recent investments are less likely to warrant regulatory attention.

It seems unlikely that this policy development will extend to the pricing of original products. The PPRS, which applies to most original products, already provides cost protection from the NHS, and there has been concern around the NHS budgets that appears to have driven the decision to open pricing investigations. Further, a high price is not necessarily an excessive and unfair price; rather high prices can be a reward for innovation and investment. (Investigations into the pricing of original products would undermine the very purpose of IPRs - the recognition of the bargain struck between society and patentees and the incentives to invest.) This would be a particular concern in the pharmaceutical industry, where innovation is crucial, and competition authorities recognize such concerns. Pricing intervention should therefore be restricted to instances where innovation and investment play a minor role, which were significant relevant factors in the Pfizer/Flynn decision.

**Pricing and patent infringement / licensing of standard essential patents**

It is not only the CMA that shapes competition policy. The courts play an increasingly important role in standalone actions. In some cases, competition law issues may arise in the context of defenses against a claim which is, in itself, unrelated to competition law.

In April 2017, the High Court (Patents Court) delivered its judgment in *Unwired Planet*.667 Unwired Planet International Ltd. (“Unwired Planet”) brought the case against Samsung and Huawei Technologies Co. Ltd. (“Huawei”), asserting infringement of six patents, five of which were declared as standard essential patents (“SEPs”), patents essential to various telecommunications standards that

stemmed from a portfolio of 2,100 patents acquired from Ericsson under a revenue sharing agreement. SEP holders are required to license their technology on FRAND. The case was divided into five technical trials, considering the validity and infringement of the patents, and one ‘non-technical’ trial, discussing FRAND and competition issues (although after Unwired Planet settled with Samsung, several competition arguments were dropped, including an allegation that Unwired Planet acquired the patents pursuant to an anticompetitive agreement between Unwired Planet and Ericsson).

Unwired Planet pursued licensing negotiations with Huawei and Samsung and alleged they were unwilling licensees. In response, Huawei (and originally Samsung, prior to its settlement) claimed that the offers made by Unwired Planet were not FRAND, and Unwired Planet had abused its dominant position by not offering FRAND terms and by seeking an injunction prematurely.

Both Unwired Planet and Huawei made offers in the proceedings that each claimed were FRAND. The Court was tasked with assessing these offers. Ultimately, the Court determined that neither Unwired Planet nor Huawei made FRAND offers and proceeded to determine a FRAND rate for a license from first principles, albeit relying on evidence submitted by the parties. In doing so, the Court confirmed that its jurisdiction is not confined to assessing whether offers made by a party are FRAND but extended to the determination of an appropriate FRAND rate. In setting such rate, the Court distinguished between contractual FRAND and competition law FRAND. Considering French law, which governs the European Telecommunications Standards Institute ("ETSI") IPR Policy, the Court held that a declaration of essentiality to ETSI creates a contract between ETSI and the declarant in which third-party implementers may rely on to enforce a right to a FRAND license. The Court noted that it was therefore unnecessary for the court to determine whether the patentee is dominant to rely on an ETSI FRAND declaration, thus avoiding a potential enforcement gap if dominance could not be established.

Turning to the assessment of FRAND itself, the Court held that there is only ‘one true FRAND rate’ between the parties in any given situation, which must strike the balance between rewarding the SEP holder for innovation and allowing implementers proper access. The Court considered this approach straightforward and to promote certainty. The Court applied the concept of a unique appropriate FRAND rate to other terms of a FRAND license, including in particular its geographic scope.
The FRAND rate should reflect the value of a patent portfolio. The Court took the approach of focusing on comparable licenses (in particular, other licenses in the Ericsson portfolio, from which the Unwired Planet patents were drawn). The Court then cross-checked against the implied total aggregate royalty burden, as if the same rate were applied across all relevant SEPs, which the Court assessed based on evidence from the parties. Controversially, the Court held that a SEPs holder is entitled to obtain some value arising from the inclusion of its technology in a standard and some of the enhanced value of the products using the standard. (This is inconsistent with the European Commission approach, which has previously indicated that the assessment of royalty rates should be based on ‘ex ante’ values—those applied before standardization.\textsuperscript{668} In effect, this ruling could be suggesting that a SEPs holder has some margin to exploit its market power following the inclusion of its technology in the standard.)

Although the Court found that Huawei could rely directly on Unwired Planet’s FRAND undertaking, it also had to adjudicate Huawei’s abuse of dominance. In determining whether Unwired Planet had abused its dominant position, the Court first held that Unwired Planet had a 100% market share for licenses under the relevant SEPs. Although it acknowledged that dominance could not be assumed when there are constraints, such as the existence of FRAND obligations and a patent hold-out, the Court held Unwired Planet possessed a dominant position.

As to the alleged abuses, the Court held that Unwired Planet did not breach competition law on the facts of the case. First, Unwired Planet did not issue proceedings for an injunction prematurely. The Court distinguished this case from the framework provided by the European Court of Justice in Huawei Technologies Co. Ltd. v. ZTE Corp & ZTE Deutschland GmbH.\textsuperscript{669} The Court found that an abuse would not necessarily arise merely because the patentee failed to follow the rather rigid rules prescribed by the European Court of Justice. This finding reflects the different legal context in the U.K. compared to German patent proceedings. The German system provides an opportunity for patentees to obtain and enforce injunctive relief following an infringement finding before parties establish validity. The English system, by contrast, considers final relief only once a court has assessed the full case. The fact that Unwired Planet requested an injunction therefore arguably had less coercive effect. Nevertheless, this finding still

\textsuperscript{668} Communication from the Commission, C11/01 Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, paragraph 289.

\textsuperscript{669} Case C-170/13, Huawei Technologies Co. Ltd. v. ZTE Corp. & ZTE Deutschland GmbH, 2015.
contrasted markedly not only with Huawei v. ZTE, but also with the European Commission’s decision in Motorola – GPRS Patents.\textsuperscript{670}

Huawei’s second allegation was that the royalties sought by Unwired Planet were unfair and excessive. The Court also rejected this allegation, finding that such an allegation would be made out only if the requested rates were so far above the FRAND rate that it disrupted or prejudiced the negotiations. This is arguably a pragmatic approach, which acknowledges the reality of royalty negotiations in which parties start with higher or lower rates to achieve a mutually agreeable compromise. Nevertheless, when considering the context of Huawei’s global sales, even a relatively small difference could have a significant impact—a point that was not considered in detail in the judgment. It remains unclear what a ‘disruptive’ offer would be and how ‘prejudice’ should be interpreted.

Huawei also asserted that Unwired Planet had discriminated against Huawei. Huawei alleged that Unwired Planet provided more favorable terms to Samsung than to Huawei. The Court determined that the terms offered to Samsung did not have to be made available to Huawei, even though it was a similarly situated licensee. In principle, the Court’s finding that there is only one FRAND rate and set of terms for a portfolio (i.e., the rate is not based on the identity of a particular licensee) should mean that all licensees should be charged approximately the same rate. However, the Court held that this does not mean a lower rate can necessarily be demanded on the basis that it was given to another licensee if there were particular reasons which made that transaction incomparable. According to the Court, the obligation to license at the same rate applies only if any difference in rates would actually distort competition between the licensees. In this case, the Court considered that the difference between the rates was minimal when compared to Samsung’s and Huawei’s margins, and there was no evidence of actual effects on competition. This finding arguably conflicts with the approach of the EU Court of Justice in many cases where a potential effect on competition has been sufficient for a breach of Article 101 or 102 to be made out.

Huawei has been granted permission to appeal several aspects of the High Court’s decision, including the findings of discrimination and the ability of the UK courts to determine FRAND terms for territories other than the UK.

FRAND issues continue to play a part in litigation flowing from licensing negotiations. There have been at least two additional patent infringement cases \textsuperscript{670} Case AT.39985, Motorola - Enforcement of GPRS Standard Essential Patents, 2014.
filed in the UK since the *Unwired Planet* judgment raising FRAND arguments. Given the importance of the development of the FRAND concept, the *Unwired Planet* provided some welcome judicial guidance with relatively clear suggestions and a practical approach to distinguishing between contractual FRAND and competition law FRAND. However, it is not necessarily straightforward to divide FRAND in this way. Given that FRAND is a concept that seeks to balance rewarding SEPs holders for their innovation with providing implementers effective access, it is essentially a derogation from the prohibition on anticompetitive agreements, and any analysis of contractual FRAND terms should require regulatory authorities courts to consider its effects on competition.

One of the newly filed cases raising FRAND arguments, *Apple Retail UK v. Qualcomm*, involves several claims which seek to take the interpretation of FRAND in a different direction, including arguments that the appropriate royalty base should be limited to the chipset (where the licensed IP is embodied) and seeking royalties based on the value of the handset is discriminatory and may suppress innovation by handset manufacturers. The case also revives the question of whether FRAND rates should be assessed *ex ante*, prior to standardization.

The case also involves refusal to license allegations, based on Qualcomm’s alleged unwillingness to grant licenses to competing chipset manufacturers, which may have implications for the point in the value chain at which manufacturers grant FRAND licenses.

Although the circumstances will be fact dependent, this case may further clarify the applicable criteria to assess the behavior of companies that hold crucial IPRs. It will also be interesting to see how this case fits against the backdrop of the ongoing proceedings between Qualcomm and Apple in the US, as well as the various regulatory investigations into Qualcomm’s licensing practices.

**Patent infringement settlements and the CMA**

The CMA first considered the application of competition law to patent settlement agreements in 2011, when it opened an investigation into GlaxoSmithKline, PLC (“GSK”) and many other generic companies for entering settlement agreements relating to paroxetine, a drug used to treat mental health conditions. The CMA held that GSK and two other generic companies infringed competition law in February

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671 Apple Retail UK v. Qualcomm, HP-2017-000015, High Court of Justice Chancery Division; Conversant v. Huawei & ZTE.
GSK held a patent over the paroxetine molecule which expired in 1999, but it still held secondary patents covering production and formulation processes. In 2001, Generics (UK), Ltd. ("Generics UK") and Alpharma Pharmaceuticals Inc. ("Alpharma") took steps to enter the market with a generic version of paroxetine, and GSK commenced litigation against the two manufacturers alleging that their products infringed GSK’s patents. The proceedings were settled after each manufacturer entered a settlement agreement with GSK with terms prohibiting entry into the UK paroxetine market. Generics UK and Alpharma, instead, became distributors of GSK’s product (although the CMA dismissed the proposition that these were ‘true’ vertical agreements—they were essentially horizontal agreements). In the CMA’s view, this settlement allowed GSK to preserve its market power and maintain prices; when generic entry occurred in 2003, the average price of paroxetine dropped by over 70%.

The CMA found that the agreements manifested anticompetitive aims within the meaning of Chapter I and Article 101; the substantial value transfers from GSK to Generics UK and Alpharma were commercially irrational, and the only plausible basis for them was the objective to delay challenges against GSK’s dominant position in the market. Further, GSK abused its dominant position in violation of Chapter II and Article 102 by making payments to the generic companies to induce them into postponing market entry.

The decision largely aligns with the European Commission’s approach in Case AT.39226, Lundbeck and (with regard to the abuse of dominance issue) Case AT.39612, Les Laboratoires Servier. However, a couple of key points are worth noting—the first in relation to market definition. The usual approach of regulators had been to look at the European Pharmaceutical Market Research Association or World Health Organization Anatomical Therapeutic Chemical Classification System, but, in line with more recent trends, the focus in the CMA’s decision was on actual competitive constraints, which led to a very narrow definition based on the active pharmaceutical ingredient. This narrowly defined market is important, not only in relation to the possibility of abuse of dominance findings, but because it implies that pharmaceutical companies may need to consider the possibility that they have very large market shares when entering licensing and other commercial agreements.
In arguing against the abuse, GSK claimed that generic entry constituted patent infringement and it was entitled to resolve the infringement through a settlement. The settlement agreements themselves were pro-competitive, as they allowed the companies to enter the market early. However, according to the CMA, such a pro-competitive benefit depends on whether the patent is in fact valid, and in this case, there was genuine uncertainty as to whether GSK would have prevailed in the infringement proceedings. In such analyses, patents are treated as “probabilistic,” with no guarantee of validity, and courts consider legal challenges to validity a part of the competitive process. By settling, the probabilistic right is turned into a temporary monopoly right that cannot be challenged (potentially until expiry). The CMA therefore found that the agreements assisted GSK in preserving its market power.

The right to legitimately defend patent rights was central to GSK’s arguments around objective justification in the abuse case based on inducement. The CMA rejected these arguments on the basis that the course of dealing was not conduct on the merits and went beyond the legitimate exercise of patent rights to oppose alleged infringements. The parties are awaiting the outcome of the appeals, but the CAT is likely to consider the careful balance struck between discouraging anticompetitive conduct and allowing companies to assert and settle IP litigations.

**Patent settlement infringement decisions and the courts**

As of yet, no private damages action has been brought following the Paroxetine decision, but NHS authorities have brought an action against Servier Laboratories Ltd. (“Servier”) in Secretary of State for Health & Others v. Servier Laboratories Ltd. & Others, based on the European Commission’s 2014 decision in Case AT.39612, Perindopril. NHS filed the claim in 2011 while the Commission’s investigation was still ongoing, so the defendants sought a stay of proceedings due to the substantial overlap. Under EU law, national courts must avoid giving decisions which may conflict with a decision contemplated by the European Commission and must assess whether it is necessary to stay proceedings. In practice, the English court cannot proceed to a substantive hearing until the European Commission’s decision is final, but often, the English proceedings will not be fully stayed, if there is a possibility of the case going to trial, and it would be in the interests of justice to do so.

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672 HC-2011-000064.
The Court recognized that it would not be fair to require Servier to fight simultaneously on regulatory and private fronts, but was not persuaded that there should be a complete stay until any Commission decision became final. The Court gave several reasons for this decision. One reason was that a substantial part of the claim was deceit-based economic tort claims, independent of the pleaded breaches of Article 101 or 102, and the resolution of the claims would be a matter exclusively for the English court.\(^{673}\)

The pleading of such ‘unlawful means’ torts as stated in \textit{OBG Ltd. v. Allan}\(^{674}\) has been an increasingly common approach of claimants in competition damages claims (such as in \textit{Emerald Supplies Ltd. v. British Airways PLC}\(^{675}\) and \textit{W. H. Newson Holding Ltd. & Others v. IMI PLC & Others}\(^{676}\) where the unlawful means were violations of competition law). The arguments of deceit centered on claims that Servier had made dishonest representations to the European Patent Office (“EPO”) and the English courts, and the interference with those bodies’ actions caused loss.

There is no doctrine of fraud under the patent laws in the UK, but for the purposes of a strike-out application heard recently by the High Court, the High Court presumed that the allegation of deceit was correct. However, for the tort to be made out, Servier would have needed to interfere with the claimants’ freedom to deal with the EPO and courts, but no party alleged there any such dealings. The claimants instead sought to argue that it was sufficient that Servier interfered in actions in which the claimants had some sort of economic interest. The argument failed and the Court struck out the tort claims.\(^{677}\)

However, the Article 101 and 102 claims remained, and some interesting arguments have been raised in relation to causation and the NHS’s alleged failure to mitigate.

\textbf{Other issues}

The following issues relate to ongoing investigations that may further define the intersection of IP and competition law in the UK:

- \textbf{Suspected market sharing resulting from trademark agreements.} A recent CMA investigation has established provisionally that two laundry service

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\(^{673}\) Secretary of State for Health & Others v. Servier Laboratories Ltd.&Others[2012] EWHC 2761.

\(^{674}\) [2007] UKHL 21.

\(^{675}\) [2015] EWCA Civ 1024.

\(^{676}\) [2013] EWCA Civ 1377.

\(^{677}\) Secretary of State for Health & Anor v. Servier Laboratories Ltd. & Others[2017] EWHC 2006 (Ch).
suppliers entered a market sharing agreement via a trademark license. The CMA issued a Statement of Objections in January 2017 after the potential Chapter I issue came to the CMA’s attention in the context of two related merger reviews. The outcome of this may be of interest to companies that enter joint ventures, which involve licensing IPRs.

- **Potential non-compete agreement.** As well as being investigated for excessive prices, Actavis, Inc. (“Actavis”) and Concordia International Corp. (“Concordia”) are also under investigation for infringing Chapter I and Article 101, following allegations that Actavis incentivized Concordia to delay its independent entry into the hydrocortisone tablet market. Concordia was the first potential competitor to obtain a Marketing Authorisation, but Actavis maintained its position as sole supplier by appointing Concordia as a distributor with the ability to purchase the tablets at a low price. As a result, the cost to the NHS almost doubled during the relevant period. Unlike similar agreements investigated by the CMA, Actavis purchased the drug as a generic, and there would have been no threat of patent enforcement against Concordia. Here, the documentary evidence and motivation for the agreement is likely to be key.

- **Discounting (rebates) as an abuse of dominance.** CMA issued a Statement of Objections in May 2017 alleging that Merck Sharp & Dohme Ltd. operated an anticompetitive discount scheme for Remicade (active ingredient infliximab). Such scheme could restrict competition by preventing the entry of new biosimilar versions of infliximab. The CMA, in a closure statement in an unrelated investigation, gave some guidance that discounting could constitute an abuse if it is loyalty-inducing and makes it difficult for a competitor to compete for a contestable share of the market. However, this guidance is limited, and it is likely that the analysis of such a scheme in practice will be of greater assistance to those seeking to assess their own schemes for anticompetitive risks.

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678 Statement of Objections issued in March 2017.
The Updated 2017 DOJ-FTC Antitrust Guidelines for the Licensing of Intellectual Property: Modernizing Sound Economic Principles for Antitrust Analysis

Suzanne Munck,679 Frances Marshall,680 Jennifer Dixton,681 & Anupama Sawkar682

Introduction

For more than twenty years, the U.S. Department of Justice Antitrust Division (DOJ) and the U.S. Federal Trade Commission (FTC) (collectively, the Agencies) have relied on their Antitrust Guidelines for the Licensing of Intellectual Property (IP Guidelines) to evaluate the antitrust implications of licensing intellectual property protected by patent, copyright, and trade secret law, and of know-how. The IP Guidelines promote transparency by helping businesses and others understand the circumstances under which the Agencies may challenge a licensing practice as a violation of the antitrust laws. They do not replace the Agencies’ judgment and discretion in antitrust law enforcement. The Agencies will continue to evaluate each case based on its own facts and the law, interpreting the IP Guidelines reasonably and flexibly.

This practice has worked well for the past two decades. Although the economic principles on which the 1995 IP Guidelines are based remain sound, the law and the Agencies’ enforcement and policy expertise have evolved. Therefore, the Agencies worked collaboratively to jointly issue their first update to these IP Guidelines on

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January 12, 2017. The Agencies’ 2017 update did not change the IP Guidelines’ general enforcement approach. Rather, the Agencies modernized the IP Guidelines to reflect intervening changes in statutory and case law. The modernization likewise reflects the Agencies’ relevant policy and enforcement work, such as updates to the Horizontal Merger Guidelines in 2010, which, among other things, assist the Agencies in defining relevant markets in the intellectual property-licensing context.

Like the 1995 IP Guidelines, the updated IP Guidelines start from the proposition that the intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare. The updated IP Guidelines continue to rely on a flexible, effects-based, economic analysis, which addresses harm to competition, not harm to a specific competitor. They also adhere to the 1995 IP Guidelines’ foundational principles. When conducting an antitrust analysis, the Agencies will continue to apply the same standards to conduct involving intellectual property as to conduct involving other forms of property. The Agencies will not rely on a presumption that intellectual property creates market power, and will continue to recognize that intellectual property licensing generally is procompetitive. In some very limited instances, horizontal agreements among competitors may be so plainly anticompetitive that the Agencies will challenge them as per se unlawful. The Agencies, however, will continue to analyze the vast majority of IP licensing restraints—including all vertical restraints—using an effects-based analysis known as the “rule of reason.” Finally, the updated IP Guidelines reinforce the Agencies’ longstanding view that unilateral refusals to license are rarely, if ever, anticompetitive. Indeed, the agencies continue to believe that “antitrust liability for mere unilateral, unconditional, refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections.” The updated IP Guidelines reflect this view, explaining that

685 Id.
686 IP GUIDELINES, supra note 683, § 1.0.
imposing liability “upon a firm for a unilateral refusal to assist its competitors . . . may undermine incentives for investment and innovation.”

Overview of U.S. Antitrust Law

Free and open markets form the basis of a vibrant economy. When sellers compete aggressively in an open marketplace, consumers—both individuals and businesses—benefit from lower prices, higher quality products and services, greater choice, and greater innovation. Antitrust laws promote this vigorous competition and protect consumers from anticompetitive mergers and business practices.

In the United States, the FTC and the DOJ share a competition mission to enforce the antitrust laws. The Agencies coordinate to carry out their missions. For example, in addition to the IP Guidelines, in early 2017, the Agencies jointly issued guidelines addressing international enforcement and cooperation. In 2010, the Agencies revised their joint guidelines for horizontal merger review. In 2007, the Agencies issued a joint report on antitrust enforcement involving intellectual property rights. In 2000, the Agencies issued guidelines for competitor collaborations. This Agency collaboration increases consistency as well as transparency for U.S. businesses and other stakeholders by publicizing the principles the Agencies apply in their enforcement decision-making.

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689 “Antitrust laws . . . are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms.” United States v. Topco Assocs., Inc., 405 U.S. 596, 610 (1972).

690 The DOJ handles all criminal antitrust enforcement. The FTC has separate authority under Section 5 of the FTC Act, which addresses unfair competition and unfair or deceptive acts or practices.


693 2007 ANTITRUST-IP REPORT, supra note 688. The Agencies’ 2007 Antitrust-IP Report, which focused on a variety of conduct including refusals to license, patent pooling, and standard-setting activities, reaffirmed the integral role of the IP Guidelines in the Agencies’ analysis of antitrust and intellectual property issues.

The Agencies’ antitrust enforcement work focuses on concerted action, exclusionary unilateral action, and merger review. This section provides a short primer on these antitrust laws. Section 1 of the Sherman Act governs concerted action.\(^{695}\) It prohibits combinations, contracts, or conspiracies that unreasonably restrain trade in, or that affect, interstate or foreign commerce.\(^{696}\) The Guidelines note that challenged restraints among the parties to an IP arrangement primarily can be horizontal—among actual or potential competitors—or they can be vertical—among parties that hold different positions in the market, such as manufacturers and distributors.\(^ {697}\)

Antitrust law treats some horizontal restraints—such as naked price fixing or market allocation agreements among competitors—as \textit{per se} unlawful. These restraints are assumed to be so devoid of competitive value that they can be judged anticompetitive on their face. The vast majority of IP licensing activity, however, is evaluated under the rule of reason. The Agencies’ general approach in analyzing a licensing restraint under the rule of reason is to examine whether the restraint is likely to have anticompetitive effects. If so, the Agencies then evaluate whether the restraint is reasonably necessary to achieve procompetitive benefits that outweigh the anticompetitive effects.\(^ {698}\) This analysis is discussed in more detail below.

Section 2 of the Sherman Act governs unilateral conduct.\(^ {699}\) It prohibits monopolization, which requires monopoly power in a relevant market, and the willful acquisition or maintenance of monopoly power.\(^ {700}\) It also prohibits attempted monopolization. U.S. law does not challenge monopoly power that results from a superior product, business acumen, or historical accident.\(^ {701}\) As discussed below, the IP Guidelines do not presume that intellectual property creates market power.\(^ {702}\)

Finally, the Agencies review mergers and acquisitions under Section 7 of the Clayton Act.\(^ {703}\) Section 7 prohibits transactions “in any line of commerce or in any

\(^{696}\) Id. ("Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.")  
\(^{697}\) IP GUIDELINES, supra note 683, § 3.3.  
\(^{698}\) Id. § 3.4.  
\(^{701}\) Id.  
\(^{702}\) IP GUIDELINES, supra note 683, § 2.  
activity affecting commerce in any section of the country,” where the effect “may substantially . . . lessen competition, or . . . tend to create a monopoly.” The Agencies will apply merger analysis to “an outright sale by an intellectual property owner of all of its rights to that intellectual property and to a transaction in which a person obtains through grant, sale, or other transfer an exclusive license for intellectual property (i.e., a license that precludes all other persons, including the licensor, from using the licensed intellectual property).” Such a transaction typically would be analyzed, therefore, under the framework described in the Horizontal Merger Guidelines.

Overview of U.S. Intellectual Property Law

The Agencies’ IP Guidelines address the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how. In particular, the IP Guidelines focus on technology transfer and innovation-related issues that typically arise during the licensing of these forms of intellectual property. This section provides a short background on these legal doctrines.

A patent is a set of rights to an invention or discovery granted by the government, to an inventor or assignee, for a limited period. Patents grant the exclusive right to make, use, offer to sell, or sell the patent invention within the United States, and import the invention into the United States. This exclusive right allows a patent holder to sue for infringement anyone who impermissibly uses the patented invention. To gain patent protection, the invention must be novel.

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704 Id.
705 IP GUIDELINES, supra note 683, § 5.7; see also id. at § 3.4 (noting that the Agencies “may also apply a merger analysis to a transaction involving a license that does not fall within the traditional definition of an exclusive license but in substance transfers intellectual property rights and raises the same potential antitrust concern—i.e., the transaction’s effect may be to substantially lessen competition in a relevant market.”).
706 See infra note 73, and accompanying discussion.
707 The IP Guidelines do not apply to trademark licensing. Trademarks are government-granted identifications that distinguish the source, sponsorship, or quality of goods from those sold by others. 15 U.S.C. § 1127 (2006). The same general antitrust principles apply to trademark licensing as to other IP licensing, however, trademark licensing typically raises product differentiation issues, not the technology transfer issues that are the focus of the IP Guidelines.
708 See, e.g., 35 U.S.C. § 154(a)(2), (c)(1) (2012); id. § 173. U.S. patent rights are within the exclusive jurisdiction of federal law. Individual states do not confer patent rights. U.S. patents also are not extraterritorial. If the rights holder seeks protection outside of the United States, he or she must separately apply for patent protection within that country.
709 Id. § 271.
710 Id. If the patent holder proves infringement, it is entitled to damages and may be entitled to injunctive relief and reasonable attorneys’ fees. 35 U.S.C. §§ 283-285.
nonobvious,\textsuperscript{712} useful,\textsuperscript{713} and sufficiently disclosed.\textsuperscript{714} In the United States, there are three types of patents: utility patents, plant patents, and design patents.\textsuperscript{715} Although the Agencies’ antitrust analysis most commonly focuses on utility patents, the IP Guidelines also apply to plant and design patent licensing.

Copyrights protect fixed and tangible “original works of authorship” including published and unpublished literary, dramatic, musical, and artistic works.\textsuperscript{716} “Original” in this context means that the author created the work independently and that it contains (at least) a minimal degree of creativity.\textsuperscript{717}

Trade secret protection applies to information whose economic value depends on it not being generally known. Trade secret protection relies on the rights holder’s efforts to maintain secrecy and has no fixed term.\textsuperscript{718} Although a patent protects an invention from copying, and from subsequent independent creation by others, neither copyright nor trade secret law restricts independent creation by third parties.

Finally, know-how is a general term that refers to the knowledge or expertise necessary to run manufacturing processes or other business requirements. It may

\textsuperscript{712} Id. § 103.
\textsuperscript{713} Id. § 101.
\textsuperscript{714} Id. § 112.
\textsuperscript{715} Utility patents address new and useful processes, machines, compositions of matter, or useful improvements thereof. 35 U.S.C. § 101. Plant patents cover certain new plant varieties that the patent applicant has discovered and reproduced. Id. § 161. Utility and plant patents last for twenty years, measured from the date the patent application was filed. Id. §§ 154–157, 163. Patents are effective over this entire term unless there is: (1) an adverse proceeding by the United States Patent and Trademark Office; (2) a judicial finding of invalidity; or (3) a judicial finding of unenforceability due to inequitable conduct. Design patents cover new, original, and ornamental designs for physical goods, and last for fourteen years from the date the patent was granted. Id. §§ 171-173.
\textsuperscript{716} 17 U.S.C. § 102 (2012). For example, an unrecorded dance performance is not copyrightable because it is not fixed. By contrast, a simple drawing is protected if it meets the low bar for creativity.
\textsuperscript{717} Feist Publ’ns v. Rural Tel. Serv., 499 U.S. 340, 345 (1991). Facts and ideas themselves are not copyright protected, but their compilation may be if it features an original arrangement. Id. at 348, and id. at 350 (quoting Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 547-48 (1985)).
be licensed together with trade secrets or patents. Although each of these doctrines has a different purpose, each creates intangible rights that can promote innovation and facilitate technology transfer through their licensure.

**U.S. Antitrust and IP Laws Work Together to Promote Innovation**

Innovation benefits consumers by bringing to market new products and services that solve problems and improve lives. Innovation and IP rights are vital to the U.S. economy. The U.S. government recently reported that IP-intensive industries support at least 45 million U.S. jobs and contribute more than $6 trillion dollars to, or 38.2 percent of, U.S. gross domestic product.

Traditionally, firms engaged in their own R&D to bring their products to market. Over the past several years, firms have increasingly embraced “open innovation” strategies, recognizing the benefits of acquiring the results of innovation developed by others for use in their own products and services. For example, open innovation facilitates a division of labor between those who focus on R&D and those who focus on production, which can increase the pace of innovation and result in broader, faster distribution of new products to consumers. Open innovation can involve collaboration through joint venture agreements, or technology transfer through licensing or acquisition agreements. Either open innovation model allows firms to leverage external innovation to support their own development.

Intellectual property promotes innovation and technology transfer by establishing enforceable rights for intangible concepts. These rights encourage individuals and firms to take risks and invest in research and development to create new products and services and improve quality. They make it easier for parties to receive compensation for the use of their innovation and create a marketplace for ideas. Intellectual property also guards innovation against the risks inherent in often-complex development processes. The patent system, for example, prevents others from making, using, or selling a patented invention for 20 years, thus protecting against copying that might otherwise drive down prices or otherwise discourage new research and development. The exclusive rights granted by the patent system

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719 See, e.g., Verson Corp. v. Verson Int’l Group PLC, 899 F. Supp. 358 (N.D. Ill. 1995) (addressing know-how licensing dispute.).


722 Id. at 33.

723 Id. at 34.
also permit patent holders to license their patents on an exclusive or non-exclusive basis, encouraging complementary investments and innovation to commercialize the patented invention. The patent system further promotes innovation by requiring public disclosure of patented inventions, which allows follow-on inventors to use the disclosed information to build on an earlier invention.

Antitrust law likewise promotes innovation. Fundamentally, antitrust law protects competition, which creates incentives to produce new, improved, or lower-priced products, to the benefit of consumers. It does so by condemning unreasonable restraints of trade and other conduct that harms competition.

The DOJ and FTC have long recognized the complementary roles that competition and intellectual property law play to enhance consumer welfare and promote innovation. U.S. antitrust enforcers recognize the incentives to innovate created by our intellectual property laws, particularly by the patent system. For example, the Agencies’ 2007 IP Report focused on incorporating careful consideration of the benefits of intellectual property rights into antitrust analysis.\(^\text{724}\) At the same time, invalid patents can discourage follow-on innovation, lead to unnecessary licensing and litigation, reduce incentives to compete, and raise prices. As a result, in 2003, the FTC recommended improving patent quality as a means of balancing exclusivity and competition.\(^\text{725}\) As explained in more detail below, the 2017 update to the IP Guidelines continues to recognize the important role that intellectual property licensing plays in promoting innovation, while balancing the equally strong role that antitrust law plays in protecting a free and open market in which this innovation can prosper.\(^\text{726}\)

**The 2017 Update**

The Agencies sought public comment to evaluate better the important competition issues at stake with the revised IP Guidelines, publishing the proposed revisions for a 45-day comment period in 2016. During this time, the Agencies received more than 20 public comments from practitioners, industry, academics, trade

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\(^\text{724}\) 2007 Antitrust-IP Report, supra note 688.


\(^\text{726}\) The IP Guidelines include references to the Agencies’ reports, business review letters, and enforcement actions that relate to topics addressed in the IP Guidelines. For example, the Agencies refer to their 2007 Antitrust-IP Report throughout the 2017 update, including as support for the new refusal to deal language added to Section 2.1. They also cite the FTC’s 2003 IP Report to support revised language in the Guidelines about the relationship between licensing and innovation. IP Guidelines, supra note 683, § 2.3 n.18.
associations, and non-profit organizations. This public input served to improve the Agencies’ understanding of today’s complex antitrust issues that involve intellectual property rights and to fine-tune the proposed update.

The IP Guidelines are Rooted in Three Foundational Principles

Following the revision, the IP Guidelines remain grounded in three core principles. First, the Agencies will apply the same general antitrust analysis to intellectual property as to other forms of property. This principle means that the Agencies do not need specialized antitrust rules to analyze activity involving intellectual property rights and will not subject intellectual property to greater or lesser scrutiny than other forms of property. Similar to real property, intellectual property creates legitimate rights to exclude. At the same time, intellectual property has unique characteristics that differ from other forms of property. The Agencies will take these unique characteristics into account when conducting their standard antitrust analysis.

Second, the Agencies will not rely on a presumption that intellectual property confers market power to the rights holder. The IP Guidelines state that “[a]lthough the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or

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728 Some commenters suggested more-specific guidance in particular areas. The Agencies concluded that the IP Guidelines’ flexible, effects-based enforcement framework will continue to apply to all relevant intellectual property activities, as they have done for more than twenty years. Press Release, DOJ and FTC Issue Updated Antitrust Guidelines for the Licensing of Intellectual Property (Jan. 13, 2017), https://www.justice.gov/opa/pr/doj-and-ftc-issue-updated-antitrust-guidelines-licensing-intellectual-property.

729 These principles date back to the Antitrust Division’s Antitrust Enforcement Guidelines for International Operations (1988), I.B.5 (Intellectual Property Licensing Arrangements, II. Cases 10-12), reprinted in 4 Trade Reg. Rep. (CCH) at ¶ 13,109.10, ¶¶ 13,109.89-13,109.92 [hereinafter the 1988 Guidelines]. Similar to the 1995 IP Guidelines, Section I.B.5 recognized that “intellectual property (e.g., patents, copyrights, trade secrets, and know-how) is essentially comparable to any other form of tangible or intangible property.” The 1988 Guidelines rejected the notion that such IP rights create monopolies, stating “intellectual property—even a patent—does not . . . necessarily confer an economic monopoly or even market power on its owner.” The 1988 Guidelines also acknowledged the procompetitive benefits of licensing and indicated that most licensing restraints would be evaluated under the rule of reason.


731 IP GUIDELINES, supra note 683, § 2.1 n.12.

732 Id. at § 2.1 (noting that, “Intellectual property has important characteristics, such as ease of misappropriation, that distinguish it from many other forms of property. These characteristics can be taken into account by standard antitrust analysis, however, and do not require the application of fundamentally different principles.”).
potential close substitutes for such product, process, or work to prevent the exercise of market power.” Moreover, if an intellectual property right does confer market power, which must be established through a fact-based inquiry, the IP Guidelines recognize that market power is not, by itself, illegal. The prospect of monopoly profits may be what attracts research interest and risk-taking in the first place.

When the IP Guidelines first issued in 1995, the Agencies recognized that whether intellectual property presumptively conferred market power was unsettled in the courts. In 2006, however, the United States Supreme Court adopted the Agencies’ view that intellectual property does not presumptively confer market power. In a tying case, the Court reasoned that when Congress amended Section 271(d) of the Patent Act in 1988, it made clear that it did not intend the mere existence of a patent to confer market power. As a result, the Court held that “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.” The IP Guidelines now reflect the Supreme Court’s decision.

Third, the Agencies recognize that IP licensing generally is procompetitive. The IP Guidelines state that intellectual property is typically one component among many in a product or process, which derives its value from its combination with complementary inputs. Licensing, cross-licensing, and other transfers of

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733 Id. at § 2.2. See also Makan Delrahim, Deputy Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Contemporary Issues at the Intersection of Intellectual Property and Antitrust (Nov. 10, 2004) (“The fact that an intellectual property owner gains market power is acceptable from the Department’s standpoint. Not only is the acquisition of market power acceptable, we believe it can be desirable. The intellectual property laws purposefully hold out the possibility of market power as an incentive to create new innovative products. This incentive is totally consistent with principled competition in the marketplace.”), https://www.justice.gov/atr/speech/contemporary-issues-intersection-intellectual-property-and-antitrust#N_8_.

734 Id. Section 2.2 also clarified that the Agencies’ enforcement focus is on “anticompetitive conduct” considered harmful under the antitrust laws, not merely “unreasonable conduct” as it was phrased in the 1995 version.

735 1995 IP GUIDELINES § 2.2 n.11.

736 Ill. Tool Works v. Indep. Ink, 547 U.S. 28, 42, 45-46 (2006). The Court also observed this holding was the consensus view in the economic literature and took note of the Agencies’ conclusion in the 1995 IP Guidelines that a patent does not necessarily confer market power. Id. at 45-46. (Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”). See also IP GUIDELINES, supra note 683, § 2.2 n.16.


738 IP GUIDELINES, supra note 683, § 2.2 n.16.

739 Id. § 2.3.

740 Id.
intellectual property can facilitate the efficient integration of technology and production facilities needed to commercialize a new product or service.\textsuperscript{741} The updated IP Guidelines explain that "[l]icensing can allow an innovator to capture returns from its investment in making and developing an invention through royalty payments from those that practice its invention, thus providing an incentive to invest in innovative efforts."\textsuperscript{742}

In addition, the IP Guidelines reflect the Agencies' longstanding view that "antitrust liability for refusal to assist competitors—whether by licensing patents or otherwise—is a rare exception to the ordinary rules of antitrust."\textsuperscript{743} The agencies have consistently expressed the view that "antitrust liability for mere unilateral, unconditional, refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections."\textsuperscript{744} The Guidelines' revision indicates that the Agencies continue to believe that such liability will be rare. Revisions to Section 2.1 caution that imposing liability for refusals to deal may undermine incentives for investment and innovation.\textsuperscript{745} Section 3.1 explains that the Agencies do not require the owner of intellectual property to create competition in its own technology (although the Agencies may require tailored licensing as a remedy in limited contexts, such as mergers).\textsuperscript{746} Consistent with this treatment of unilateral refusals to deal, the IP Guidelines further recognize that "market power [does not] impose on the intellectual property owner an obligation to license the use of that property to others."\textsuperscript{747}

**How The IP Guidelines Apply These Foundational Views**

IP licensing arrangements typically enhance consumer welfare and promote competition. Still, antitrust concerns may arise in the context of licensing. For example, the Agencies may find that specific restraints within a licensing agreement harm competition in one market by restricting access to or significantly raising the price of an input important to competing in a second market. Similarly, the Agencies may find that agreements between actual or potential competitors to merge research and development activities harm competition for the development

\textsuperscript{741} Id.
\textsuperscript{742} Id.
\textsuperscript{744} 2007 Antitrust-IP Report, supra note 9, 27-28, 32.
\textsuperscript{745} IP GUIDELINES, supra note 683, § 2.1.
\textsuperscript{746} Id. § 3.1, n. 26.
\textsuperscript{747} Id. § 2.2.
of new goods and services.\textsuperscript{748} In each case, the Agencies’ analysis will focus on the actual or likely effects of the arrangement, not on its formal terms.

### i. Evaluating Markets and Licensing Restraints

As discussed above, the Agencies analyze the vast majority of IP licensing arrangements under the rule of reason. Section 3.4 of the 2017 IP Guidelines updates the Agencies’ description of their rule of reason analysis to reflect developments in antitrust case law.\textsuperscript{749} This analysis considers both the efficiencies of a particular licensing practice and its potential anticompetitive effects to determine whether, on balance, competition under a particular agreement may be harmed. In so doing, the Agencies consider whether the licensing restraint decreases competition between firms, encourages unlawful coordination among competitors, unnecessarily forecloses market entry, or reduces incentives to innovate in the future.\textsuperscript{750} They focus on harm to competition, not on harm to any individual competitor.

When conducting this rule of reason analysis, the Agencies review how licensing agreements may affect the relevant market. As the IP Guidelines explain in Section 3.2, “if an arrangement appears likely to have anticompetitive effects, the Agencies normally will identify one or more relevant markets in which the effects are likely to occur.”\textsuperscript{751} Although this basic analysis remains unchanged from the 1995 Guidelines, the revised IP Guidelines changed the definition of a relevant market somewhat to more closely align with the 2010 Horizontal Merger Guidelines.\textsuperscript{752} They now state that “[t]he Agencies will typically analyze the competitive effects of licensing arrangements within the relevant markets for the goods affected by the arrangements,” but “[i]n other cases . . . the Agencies may analyze the effects within a market for technology or a market for research and development.”\textsuperscript{753} Thus, the IP Guidelines now apply a more open-ended approach to market definition, clarifying that the types of markets that may be identified in an investigation need not be exclusive, and that the Agencies may consider the effects of a licensing arrangement on more than one type of market.\textsuperscript{754} The IP Guidelines also renamed

\begin{itemize}
  \item \textsuperscript{748}Id. § 3.1.
  \item \textsuperscript{749}Id. § 3.4 ("The Agencies’ general approach in analyzing a licensing restraint under the rule of reason is to inquire whether the restraint is likely to have anticompetitive effects and, if so, whether the restraint is reasonably necessary to achieve procompetitive benefits that outweigh those anticompetitive effects.").
  \item \textsuperscript{750}See id. § 4.1.
  \item \textsuperscript{751}Id. § 3.2.
  \item \textsuperscript{752}See generally 2010 MERGER GUIDELINES, supra note 14.
  \item \textsuperscript{753}IP GUIDELINES, supra note 683, § 3.2.
  \item \textsuperscript{754}Id. §§ 3.1, 3.3.
\end{itemize}
“Innovation Markets” as “Research and Development Markets” (“R&D markets”) to reflect more accurately how these markets have been defined in enforcement actions.\textsuperscript{755}

A rule of reason analysis involving IP licensing issues also requires careful evaluation of the parties’ relationship to each other, considering whether the parties would have been actual or potential competitors in the absence of the agreement. These relationships often are complex. Parties may be horizontal competitors in one market (e.g., a goods market) and in a vertical relationship in another (e.g., a technology market).\textsuperscript{756} Properly evaluating the parties’ relationship allows the Agencies to determine more accurately whether competition may be lessened by a licensing agreement, and the Agencies’ approach here has not changed.

Finally, consistent with changes in the law since 1995, the IP Guidelines expand the application of the rule of reason analysis to price maintenance agreements. This approach represents a change from the \textit{per se} illegal treatment outlined in the 1995 IP Guidelines,\textsuperscript{757} and reflects the Supreme Court’s holding in \textit{Leegin Creative Leather Products, Inc. v. PSKS, Inc.}\textsuperscript{758} that \textit{minimum} resale price maintenance (RPM) agreements should be evaluated under the rule of reason.\textsuperscript{759} \textit{Leegin} overturned the Court’s nearly century-old opinion in \textit{Dr. Miles Medical Co. v. John D. Parks & Sons Co.}\textsuperscript{760} that treated \textit{minimum} RPM agreements as \textit{per se} illegal. Consistent with this holding, Section 5.2 now explains that the Agencies will apply rule of reason treatment to all \textit{vertical} price agreements in the IP context.\textsuperscript{761} The updated IP Guidelines’ approach also accounts for the Court’s ruling in \textit{State Oil Co. v. Khan},\textsuperscript{762} which similarly held that \textit{maximum} RPM agreements should be evaluated under the rule of reason.

Certain \textit{horizontal} agreements—in particular those constituting cartel behavior—will still draw \textit{per se} treatment.\textsuperscript{763} Discerning whether a particular restraint is horizontal

\textsuperscript{755} The IP Guidelines identify a number of significant FTC enforcement actions that relied on R&D markets. Id. § 3.2.3 n.40.

\textsuperscript{756} Id. §§ 3.1, 3.3.

\textsuperscript{757} Compare 1995 IP Licensing Guidelines § 5.2.

\textsuperscript{758} 551 U.S. 877 (2007).

\textsuperscript{759} \textit{IP GUIDELINES}, supra note 683, § 5.2. The IP Guidelines’ new rule of reason approach also accounts for the Court’s ruling in \textit{State Oil Co. v. Khan}, which similarly held that \textit{maximum} RPM agreements should be evaluated under the rule of reason. \textit{State Oil Co. v. Khan}, 522 U.S. 3 (1997).

\textsuperscript{760} 220 U.S. 373 (1911).

\textsuperscript{761} \textit{IP GUIDELINES}, supra note 683, § 5.2.

\textsuperscript{762} 522 U.S. 3 (1997).

\textsuperscript{763} \textit{IP GUIDELINES}, supra note 683, § 5.2.
or vertical will require looking at the structure and function of the agreement. For example, in a recent case brought by the DOJ, the Second Circuit explained that “where the vertical organizer has not only committed to vertical agreements, but has also agreed to participate in the horizontal [price-fixing] conspiracy [among competitors],” courts need not consider “whether the vertical agreements restrained trade, because all participants agreed to the horizontal restraint, which is ‘and ought to be, per se unlawful.’”  

Other Updates Reflecting Additional Guidance and Changes In Law and Policy

In addition to changes addressing the Agencies’ general approach and enforcement analysis, the updated IP Guidelines reflect particularized law and policy changes.

Section 5.5 of the IP Guidelines updates the Agencies’ guidance on patent pooling and now cites related DOJ business review letters and FTC enforcement actions relating to that subject. The DOJ has issued several business review letters stating that it had no present intention to challenge different proposed pooling arrangements due to the safeguards that the entities proposed to put in place to avoid antitrust concerns. Through this process, the DOJ applied the general principles provided in the IP Guidelines. Likewise, the FTC applied the IP Guidelines’ principles in its enforcement action against Summit and VISX. The FTC alleged that the only two firms legally able to make equipment for a certain eye surgery combined their substitute patents in a patent pool, agreed to raise prices for those

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764 United States v. Apple, Inc., 791 F.3d 290. 325-25 (2d Cir. 2015); IP GUIDELINES, supra note 683, § 5.2 n.66 (quoting United States v. Apple).
765 See, e.g., IP GUIDELINES, supra note 683, n. 81.
767 IP GUIDELINES, supra note 5, § 5.5 n.81, 82.
technologies, and shared the licensing proceeds.\textsuperscript{768} The FTC later settled these allegations.\textsuperscript{769}

The IP Guidelines provide updated guidance regarding the Agencies’ antitrust “safety zone,” which the Agencies set forth to provide certainty that can promote innovation and competition. Section 4.3 adheres to the criteria for safety zones found in the 1995 IP Guidelines with one exception relating to R&D markets. The safety zone applies in R&D markets if the “restraint is not facially anticompetitive” and “four or more independently controlled entities in addition to the parties to the licensing arrangement possess the required specialized assets or characteristics and the incentive to engage in research and development that is a close substitute of the research and development activities of the parties to the licensing agreement.” The updated IP Guidelines clarify that “[i]n evaluating close substitutes, the Agencies may consider numerous factors including the following: the nature, scope and magnitude of the R&D efforts of the other independently controlled entities; their access to financial support, intellectual property, skilled personnel or other specialized assets; their timing; and their ability, either acting alone or through others, to successfully commercialize innovations.”\textsuperscript{770} It is worth remembering that the Agencies do not deem an activity anticompetitive merely because it does not fall within the scope of the safety zone described in Section 4.3. In addition, the Agencies modernized the way in which the IP Guidelines address international enforcement in Section 2.1.\textsuperscript{771} The IP Guidelines’ updated language accords with changes in the Agencies’ revised international enforcement guidelines, also issued in January 2017.\textsuperscript{772} The IP Guidelines continue to recognize that IP licensing is often global. They explain that the consideration of whether U.S. antitrust law applies to a particular licensing agreement, or whether a particular remedy is appropriate, will include consideration of whether international comity counsels against enforcement. They further explain that there must be a sufficient nexus to the United States to apply the antitrust principles outlined in the IP Guidelines to the licensing activity.\textsuperscript{773}

Finally, the IP Guidelines now account for statutory changes to IP laws since 1995. For example, the lengths of the protected terms of patents and copyrights have changed, and the Defend Trade Secrets Act of 2016 created a federal private cause

\textsuperscript{768} Id § 5.5 n.81.
\textsuperscript{769} In re Summit Tech., Inc., 127 F.T.C. 208 (1999); In re VISX, Inc., 127 F.T.C. 236 (1999).
\textsuperscript{770} IP GUIDELINES, supra note 5, § 4.3.
\textsuperscript{771} Id. § 2.1.
\textsuperscript{772} 2017 International Guidelines, supra note 13.
\textsuperscript{773} IP GUIDELINES, supra note 683, § 2.1
of action for the misappropriation of trade secrets.\textsuperscript{774} The updated IP Guidelines reflect these developments.\textsuperscript{775} These 2017 revisions brought the IP Guidelines forward twenty years and will allow the Agencies to continue to rely on them to inform their analysis of technology transfer and related issues involving intellectual property.

**Conclusion**

The IP Guidelines facilitate the Agencies’ consistent evaluation of intellectual property licenses and provide transparent guidance to businesses and the public regarding potential antitrust issues that may arise in the licensing context. They have played a leadership role in the development of IP Guidelines in other jurisdictions as well. Indeed, the IP Guidelines serve as a model for foreign competition enforcers who seek to apply a sensible and balanced approach to IP licensing issues. The updated IP Guidelines continue to adhere to the previous Guidelines’ core principles. They continue to focus on a flexible, effects-based, economic analysis that evaluates harm to competition, not harm to an individual competitor. They also continue to support procompetitive licensing activities that can promote innovation.\textsuperscript{776} This economically grounded analysis should serve the Agencies well for years to come and continue to provide certainty to the business community.


\textsuperscript{775} IP GUIDELINES, supra note 683, § 1.0.