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Licensing of IP rights and competition law – Summaries of contributions

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This document reproduces summaries of contributions submitted for Item 7 of the 131st meeting of the OECD Competition Committee on 5-7 June 2019.

More documents related to this discussion can be found at
http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm

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Licensing of IP Rights and Competition Law – Summaries of Contributions

This document contains summaries of the various written contributions received for the discussion on Licensing of IP rights and Competition Law (131ST meeting of the Competition Committee meeting, 5-7 June 2019). When the authors did not submit their own summary, the OECD Competition Division Secretariat summarised the contribution. Summaries by the OECD Secretariat are indicated by an *.

Australia

Intellectual property rights will soon be fully subject to competition law in Australia, following the recent repeal of a limited exemption for conduct involving intellectual property licenses or trade marks.

The exemption was limited only to IP licences and assignment conditions that directly condition related to the subject matter of the relevant intellectual property right. The exemption did not include the practices of conduct substantially lessening competition, or engaging in resale price maintenance. Prior to the repeal, there had been very few cases involving alleged breaches of competition law in which the exemption was raised as a defence.

Following the repeal of the provision, conduct involving intellectual property rights will be subject to Australia's competition laws in the same manner as other conduct. This includes cartel conduct and conduct substantially lessening competition (including exclusive dealing).

The Australian Competition and Consumer Commission (ACCC) is preparing guidelines to set out its understanding of the law for the general guidance of intellectual property rights holders, legal practitioners, and business advisers.

Where holders of IP rights contend that the public benefits of restricting use of those rights outweigh the anticompetitive detriments, Australian competition law provides for an authorisation process which provides for legal protection in those circumstances.

BIAC

This paper notes that the creation of Intellectual property (IP) often entails substantial risk and investment. In order to promote competition and maintain incentives to innovate, absent extraordinary considerations, IP creators must not have the scope of their IP rights unduly restricted. Indeed, there is no presumption that exclusion based on IP rights or license agreements of themselves give rise to competition concerns.

While the paper focuses primarily on patents as a form of IP, it should be noted that licensing of other forms of IP, such as copyright, is also an efficient means of technology transfer and development, in addition to being a vehicle to provide incentives for production, distribution and exploitation of other forms of creative works.

Licensing of IP often enables innovators to seek compensation for successful research and development projects that in turn maintain investment incentives, balancing these successes against investments in failed projects. In many industries the licensing of IP (such as the transfer of technology) is essential for businesses. It helps disseminate innovation, lowers barriers to entry and allows companies to integrate and use complementary technologies to which they would otherwise not have access.

It is therefore not surprising that most license agreements are deemed not to restrict competition and, instead, create pro-competitive efficiencies. In fact, it is only in exceptional circumstances that licensing, or licensing-related, conduct may produce anti-competitive effects.

However, any finding of antitrust liability should be based on a robust theory of harm and a detailed analysis of the economic effects of the conduct. That assessment should in addition be firmly based on the notion that intellectual property rights, including standard essential patents (SEPs) do not necessarily confer market power, let alone monopoly power. The investigation into specific licensing arrangements should first and foremost concentrate on interbrand and inter-technology competition.

In its paper, Business at OECD provides detailed views on the respective roles of competition enforcement agencies and courts in the area of IP rights and antitrust, comments on specific clauses commonly included in IP patent licensing agreements, as well as on the standards for abusive acquisition of IP rights and abusive litigation in the area of IP rights. Finally, the paper includes views on the licensing of SEPs.

Canada

Canada's Competition Bureau ("Bureau") recognises the importance of intellectual property and intellectual property rights ("IP rights") in today's knowledge-based economy. As a result, the Bureau has made it a priority to provide clarity on this subject through the Bureau's Intellectual Property Enforcement Guidelines (IPEGs). The IPEGs emphasise that a contravention of Canadian competition law requires more than the mere exercise of an IP right and outline the specific circumstances in which such a contravention could occur. The IPEGs also identify that IP licensing in the vast majority of cases is generally procompetitive, in that it facilitates the broader use of a valuable IP right by additional parties. The Bureau's overall enforcement approach outlined in the IPEGs has been favourably cited by Canadian courts.

The Bureau takes a measured approach in assessing any conduct involving the licensing of IP rights seeking to balance the rights of patent holders with those of licensees particularly in the context of conduct involving patent hold-up and hold-out. The licensing of IP rights in connection with Canadian competition law enforcement has largely occurred in the context of merger remedies which mandate divestiture of assets and associated IP rights. Canadian courts have also consistently recognized that the use of IP rights cannot shield a dominant firm from a finding of anti-competitive conduct. The most recent judgments involve the Federal Court of Appeal and Supreme Court rulings in the Bureau's investigation and prosecution of the Toronto Real Estate Board. Nevertheless, IP licensing in the vast majority of cases is generally procompetitive and therefore the Bureau will continue to carefully evaluate any current and future enforcement action involving IP licensing and IP rights.

Colombia

This contribution analyses the relationship between innovation and competition across a variety of empirical and theoretical assertions that demonstrate the positive effects of this liaison to economic growth. To this effect, we reviewed evidence of the correspondence between Intellectual Property and the levels of competition through a data panel framework.

In addition, we brought into the analysis lessons learned by the Superintendence of Industry and Commerce when deciding *SAYCOs* case so as to identify current and potential challenges related to abuse of dominance in creative economies by incumbents and also to the analysis of the pertinence of the intervention from competition authorities in order to guarantee healthy market dynamics in scenarios where intellectual property rights play a key role.

Egypt

There is an ongoing debate concerning the balance between the importance of Intellectual Property Rights (IPRs) and the protection of competition. Anti-competitive licensing threatens this balance: it can put the undertakings in a dominant position, which they might abuse and therefore harm consumers and competition.

The Egyptian Competition Authority (ECA) tackled this issue in three cases, which concerned broadcasting rights of sports events. Such rights are copyrighted and can be licensed. In the three cases against beIN Sports, The Confederation of African Football (CAF), and The Fédération Internationale de Football Association (FIFA), the licensing conditions put these undertakings in a distinct position that resulted in harm to the effectiveness of competition. ECA has used various remedies to address these concerns and restore competition to the market. In the case against beIN, beIN Sports held a dominant position in the market of broadcasting sports events live through satellite in Egypt. It abused this position when it forced subscribers to switch to a satellite platform it owned in order to access beIN Sports, depriving other satellite platforms from their ability to broadcast essential sports content. In the case against CAF, the latter awarded Lagardere, a broadcasting firm, worldwide exclusivity over the media and marketing rights of all African football tournaments for a period of twenty years. Lagardere sublicensed these rights, to firms such as beIN, for equally long periods, possibly enhancing beIN's ability to further abuse its dominant position, as it had previously. The absence of fair tendering procedures combined with the exclusivity of the license resulted in ECA finding CAF's actions to be harmful to competition and to football in Egypt and in the African continent. Finally, FIFA was also in a dominant position, which it, similar to CAF, abused by anti-competitively licensing exclusive rights to beIN Sports.

These cases serve to show ECA's policy concerning the abuse of dominant position using IPRs. In that light, ECA intends to soon publish guidelines regarding different aspects of competition law, including those relating to IPRs. These guidelines will reflect its precedent set in the cases mentioned above, as well as international best practices.

EU

Under the law of the European Union ("EU"), intellectual property rights ("IPRs") and their licensing are fully subject to competition law. Most notably, this means that Article 101 of the Treaty on the Functioning of the European Union ("the Treaty") – which sanctions anticompetitive agreements and concerted practices –, Article 102 of the Treaty – sanctioning the abuse of a dominant position – and also the Merger Regulation – establishing a pre-notification system for mergers of a "Community dimension" – will be fully applicable to situations or transactions involving IPRs or the licensing thereof.

At the same time, European competition law explicitly recognises the key role that IPRs play in modern societies and innovation insofar as they ensure a widespread distribution of the different technologies and creations protected by IPRs. The recognition of these pro-competitive effects is ensured through the availability of an efficiency defence under all competition law instruments. Building on the presumption that certain types of agreements fulfil the legal requirements for an efficiency defence, the so-called Block Exemption Regulations provide for a legal safe harbour from the applicability of Article 101 of the Treaty. While there exist several of these Regulations that may apply to licensing agreements, Commission Regulation (EU) No 316/2014 – better known as the Technology Transfer Block Exemption Regulation ("TTBER") – and its accompanying Guidelines are the pieces of legislation most commonly used to assess the compatibility of licensing agreements with Article 101 of the Treaty. Under the TTBER, most types of IP licensing agreements will be deemed compatible with Article 101 of the Treaty.

During the last years, the European Commission (also referred to simply as the "Commission") has intervened in a number of instances in which licensing practices in themselves or together with other behaviour constituted an infringement of the competition rules. The main area of enforcement of competition law in the IPR field concerns standard essential patents, and cases concerning patent ambush (*Rambus*), non-honouring of FRAND royalties (*IPCom*) and abusive injunction-seeking (*Motorola* and *Samsung*) have been pursued in this field. European courts have also sided with the Commission's approach, with *Huawei v ZTE* having become a landmark case for the setting of FRAND royalties. The Commission has also pursued a number of enforcement actions relating to the licensing of IPRs other than standard essential patents. Actions outside standard essential patents have mainly involved the application of Article 101 of the Treaty in order to achieve a truly integrated European Single Market as regards film licensing (*Pay-tv*) or the licensing of IPRs for the manufacturing of branded goods (*Nike*). The Commission has also dealt with IPR related issues in proceedings based on Article 102 of the Treaty against *Microsoft*, on which it imposed interoperability obligations with regard to its Windows desktop operating system, and *Thomson Reuters*, which committed to create a new licence following a commitments decision.

India

Intellectual Property Rights/ IPRs provide exclusive rights to the holders to perform a productive or commercial activity. One important way through which IP-protected innovations can diffuse throughout the economy is licensing.

IP licensing agreements are usually vertical agreements (recognized under Section 3(4) of the Indian Competition Act, 2002) that provide for an enterprise operating in the upstream market (licensor) licensing its IPR to another enterprise in a downstream market (licensee). Further, generally the licensor of an IP rights also happens to be a dominant player in the delineated relevant market and thus, the competition assessment for a possible contravention of Section 4 of the Act (abuse of such dominant position) also needs to be undertaken. Such licensing agreements, for the purposes of analysis under the Act (under Section 3 as well as Section 4), are tested on the touchstone of reasonability. The decisive criterion for assessing the anti-competitive agreements (horizontal as well as vertical) amenable to the scrutiny of the Act, is them having an Appreciable Adverse Effect on Competition ('AAEC') in India. Further, the Act provides for a specific exemption under Section 3(5) for agreements falling under Section 3, despite them having an AAEC. Though this exemption does not explicitly applies to unilateral conduct cases falling under Section 4 of the Act, implicitly such analysis is integral to the reasonability test carried out for competition assessment of such cases.

While dealing with the cases concerning IP rights, the Commission/ CCI has applied the aforementioned reasonability test to strike a balance between active competition enforcement and safeguarding of patent rights accorded under the IPR statutes.

Italy

The Italian Competition Authority (AGCM) shares the view that competition's enforcement when IPRs are involved requires to strike a case-by-case balance between static and dynamic considerations in order to ensure that both competition and IPRs policies play their complementary role in fostering innovation and economic growth. Competition policy and IPRs are rather complementary as they are both designed with the common objective to promote innovation and economic growth.

The AGCM contribution, after an overview of the national legal framework on IPRs' licensing, describes the relatively limited enforcement interventions of the Authority in this specific field of IP. It mainly includes abuses of dominant positions consisting in refusals to deal where licensing conditions are a relevant consideration, as well as cases where licensing arrangements have been adopted as a possible remedy to merger and acquisitions raising competition concerns.

These cases show AGCM cautious approach in the field of licensing, with interventions deemed necessary only in exceptional circumstances where the specificities of the case required to impose limitations to the otherwise legitimate power to exclude granted by IPRs. The AGCM believes that antitrust intervention should not, indeed, distort dynamic competition altering firms incentives to invest.

Japan

In Japan, the Antimonopoly Act ("AMA") is applied to actions which seem to be the exercise of IP rights but actually conflict with the intent and objectives of the IP systems.

In order to make its view on competition concerns related to licensing of IP rights clear to the public and promote competition compliance, Japan Fair Trade Comission (JFTC) has been published and continuously revised guidelines on its treatment of the exercise of IP rights under the AMA.

For example, JFTC published the "Patent Pool Guidelines" in 2005, which clarified its principles of the application of the AMA to standardisation activities and associated patent pool arrangements and practices. It indicates that a so-called "patent hold-up" can be a violation of the AMA. JFTC also developed the "Intellectual Property Guidelines" in 2007 and revised it in 2016. The revised Intellectual Property Guidelines clarified that if a holder of SEPs who already declared its willing to grant the Standard Essential Patents (SEPs) under Fair, Reasonable And Non-Discriminatory (FRAND) conditions actually refuses to licence or brings an injunction for the SEPs against a company which is willing to obtain SEPs under the FRAND conditions, such conduct can be considered to be a violation of the AMA.

Legal framework regarding IP systems and lawsuit systems in each jurisdiction have different characteristics, and accordingly, approaches to conduct related to licensing of IP rights taken by competition authorities differ depending on those characteristics. JFTC is fully taking into account those characteristics and responding to the changes in behaviours of IP holders and related business activities.

*Korea**

The purpose of intellectual property law is to promote creativity by giving legal protection on their creation as well as to protect the rights of creators while preventing over-protection of such rights to ensure that the society enjoys the fruits of intellectual creations. On the other hand, competition law is a system that maintains market order and maximizes consumer welfare by prohibiting or rectifying any anti-competitive conduct or system. Accordingly, many countries including Korea apply and enforce competition law when IPRs holders abuse their rights in a way that hinders competitive order.

Article 59 of the Korean Monopoly Regulation and Fair Trade Act (hereinafter referred to as the “MRFTA”) stipulates that the MRFTA does not apply to the legitimate exercise of IPRs. *A contrario*, it means that the MRFTA applies to the unfair exercise of IPRs. The KFTC, in August 2000, established the 'Review Guidelines on Unfair Exercise of Intellectual Property Rights' (hereinafter referred to as “IPR Guidelines”) to provide guidance on how it will assess the unfair exercise of IPRs.

In particular, the IPR Guidelines emphasize that exercising patents related to standard technologies may have anti-competitive effect as such technologies can have a significant long-term impact on the relevant market, and provide examples of unfair exercise of SEPs. However, it clarifies that when expectations of a licensor on suits are recognized as reasonable and rightful, the fact that a licensor lost suits does not constitute a presumption that patent infringement suits were abused.

The most recent IPRs abuse cases are taking place in the field of information and communication technology (ICT). Since the technology life cycle is short and market competition environment changes drastically in the ICT market, promptness is a key factor in enforcing competition law. However, it takes a lot of time to handle cases in the high-tech industry such as ICT since they are often complicated, and require a high level of economic analysis.

Today, most IPRs are registered not only in a specific country or a specific jurisdiction but also all over the world. Consequently, anticompetitive practices involving IPRs can affect the global market. In the case of anticompetitive conduct by global businesses, asymmetries of information and capacity between these businesses and competition authorities can be high. In order to achieve the common goal of restoring competitive order in the market, it is necessary to promote cooperation in enforcement between competition authorities in a consistent manner.

Russian Federation

In order to develop these provisions of international law, many states have determined the procedure for application of the antimonopoly legislation to actions and agreements on the use of exclusive rights to the results of intellectual activity.

In the Russian Federation the situation is different.

Currently, the Law on Protection of Competition stipulates that the requirements of the antimonopoly legislation do not apply directly to actions to exercise exclusive rights to the results of intellectual activity and agreements to grant or alienate rights to use the result of intellectual activity.

Actions and agreements on the use of exclusive rights to intellectual property objects, which lead to the prevention, restriction or elimination of competition in commodity markets, cannot be suppressed effectively by existing antimonopoly measures. This can create unjustified advantages to right holders to the detriment of competition in commodity markets.

Moreover, the exceptions currently contained in Part 4 of Article 10 and Part 9 of Article 11 of the Law on Protection of Competition regarding the use of the result of intellectual activity or means of individualization can create conditions for the unjustified wide application of such provisions to relations concerning the circulation of goods during production (manufacturing) of which the results of intellectual activity were used.

Recently, the FAS has increasingly begun to investigate cases in which defendants attempt to justify the legality of their anticompetitive actions by referring to exceptions related to the exercise of exclusive rights to intellectual property.

Thus, in some cases based on exclusion of Part 4 Article 10 of the Law on Protection of Competition, the FAS is forced to refuse the applicants to consider such complaints.

To solve abovementioned problems, to increase the effectiveness of antimonopoly regulation, as well as to reduce the level of dependence of the Russian Federation on foreign patent holders, to increase the level of economic security of the Russian Federation, the FAS has developed a draft federal law “On Amending the Federal Law on Protection of Competition”.

The adoption of the draft law will make it possible to resolve problematic issues related to the restriction or possible restriction of competition in the exercise of exclusive rights to the IP by the right holders.

Ukraine

In Ukraine, IP rights may fall within the scope of the Law on Protection Against Unfair Competition (PAUCL) and the Law on Protection of Economic Competition (LPEC). In contrast to EU competition law, which mainly focuses on the exercise of IP rights, Ukrainian competition laws concern existence of IP rights as well.

PAUCL stipulates that unlawful use of trademarks, products made by other manufactures, copying of outward appearance of products and comparative advertising as well as dissemination of misleading information, including, the existence of IP rights may be sanctionable as unfair competition.

LPEC prohibits anticompetitive concerted practices which include, inter alia, applying different conditions to equivalent agreements with other undertakings resulting in competitive disadvantage; conclusion of agreements under which other undertakings assume additional obligations whose content or which in terms of customs in trade and other fair customs in entrepreneurial activities have nothing in common with the subject of these agreements. However, agreements on transfer of IP rights or on granting the license to use IP fall under the block exemption to the extent such agreements limit economic activities of the transferee (licensee), unless these limitations exceed the limits of the transferor's (licensor's) legitimate rights.

In a number of notable cases, Ukrainian cassation court ruled that in case of discrepancy between the IP laws and competition laws, the provisions of competition laws shall prevail.

At the end of 2018, the Tax Code of Ukraine was amended by a provision which expressly exempted IP rights out of scope of competition laws and prohibited the Antimonopoly Committee of Ukraine (AMCU) to deal with any related issues. However, that amendment is overridden by the provisions of competition laws as lex specialis, which remained unamended and which specifically cover IP rights issues.

In November 2018, the AMCU adopted Guidelines on concerted practices related to technology transfer agreements (on the basis of Commission Regulation (EU) No 316/2014), the observance of which allows implementation of these concerted practices without the AMCU clearance. Such technology transfer agreements do not require the AMCU's permission if the combined market share of concerned undertakings does not exceed 20% in the horizontal and 30% in the vertical market. While already being in force, the Guidelines have not yet been applied so far.

Under Ukrainian competition laws, only recommendations and fines are available remedies to address anticompetitive practices involving IP rights licensing.

AMCU recommendations are a soft tool aimed at quickly curing a situation of a prima facie anticompetitive nature and are passed by the AMCU on a regular basis both to undertakings and state authorities. While not being formally binding, if the recommendations are not complied with, the AMCU may proceed with initiating an anti-trust case (or continuing investigation of the case) and impose a fine as a result of investigation.

The majority of AMCU's antitrust cases involving IP rights licensing are cases of unfair competition in form of unlawful use of trademarks and dissemination of misleading information. During 2018-2019, numerous (over 70) Ukrainian manufacturers who used "bio", "eco", "organic" labels absent appropriate certificates or other proof, were recommended by AMCU to cease such a misleading practice.

United States

This paper outlines how the United States approaches IP licensing generally. The paper first lays some groundwork by explaining the complementary nature of the U.S. intellectual property (IP) law and U.S. antitrust law. Innovation drives economic growth and benefits consumers by bringing to market new ideas, products, and services that solve problems and improve lives. Innovation and IP rights are vital to the U.S. economy. Antitrust law likewise promotes innovation. Dynamic competition based on innovation, i.e., competition based on the introduction of new or improved products or services, is at the heart of many industries. The policies of the patent laws and antitrust laws are aligned in their mutual aim to foster innovation that creates dynamic competition. Ultimately, IP rights should not be viewed as solely intended to protect their owners *from* competition; rather, IP rights should be seen principally as encouraging firms to engage *in* competition, particularly competition that involves risk and long-term investment.

The paper then describes the analytical framework the U.S. Department of Justice (DOJ) and the U.S. Federal Trade Commission (FTC) (collectively "the Agencies") apply to analyzing the licensing of patents, copyrights, and trade secrets. This framework is structured around three core principles. First, the Agencies apply the same general antitrust analysis to IP as to other forms of property. Secondly, the Agencies do not presume that an IP right confers market power on its holder. Even though a patent confers the right to exclude, often there will be sufficient actual or potential close substitutes to prevent the exercise of market power by the patent holder. Thirdly, the Agencies recognize that IP licensing agreements are generally procompetitive, but, on occasion, antitrust concerns may arise nonetheless in the context of licensing. The Agencies' fact-specific analysis focuses on the actual or likely effects of the licensing terms and conditions. The vast majority of IP licensing arrangements are analyzed under the rule of reason, which considers whether the restraint is likely to have anticompetitive effects and, if so, whether the restraint is reasonably necessary to achieve procompetitive benefits that outweigh the anticompetitive effects.

The paper then provides some examples applying this framework to the analysis of common licensing restraints and arrangements, such as field of use, territorial, or other types of limitations, including in the merger context. It is also emphasized that remedies should be tailored to address the identified harm to consumers, and not be expanded to address other policy goals, e.g., to further industrial policy or to advantage domestic competitors. Crafting tailored remedies is particularly important in the IP context as more jurisdictions are active in this area.