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Competition Law Issues in IP Licensing

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ABSTRACT

Intellectual Property is a dynamic field which incentivizes innovation and grants certain rights to IP holders. These rights include the exclusive right to sale and distribution as well. This can lead to creation of monopoly in the markets. Competition law is attracted in such situations which is enforced primarily to ensure that there is no monopoly in the market and therefore, no abuse of dominance in the market. IP rights also include the right to exclusive licensing and such a licensing is necessary to ensure that there is no monopoly in the market but sometimes, IP licensing itself shows anti-competitive elements and therefore, it becomes important to trace the competition law issues that are faced by IP licensing. This paper will analyze how does IP licensing affect the competition in the market in US, EU and India and what are the competition law issues in IP licensing. It is hypothesized that the current framework of IP licensing follows a precautionary approach with regards to competition law with the application being more on a case-by-case basis rather than an absolute principle followed in each case. Therefore, there is need to study this nexus further to develop more efficient guidelines to deal with such cases.

***Keywords**: IP Licensing, Competition Law, Anti-trust Issues, Intellectual Property Rights.*

I. INTRODUCTION

The legal systems of intellectual property rights and competition law are frequently referred to as "friends in conflict." Though they theoretically have different goals, in reality they cooperate to maintain the market's static and dynamic efficiency and promote consumer welfare. From a business standpoint, competition law aims to make a distinction between legitimate business tactics and IPR misuse. A problem is frequently how and when a line is crossed. IPRs may be viewed as monopolies that the government has authorised in order to promote innovation and protect consumers, hence early intervention from competition law disciplines would defeat the whole goal of granting IPRs. On the other hand, some IPR-related behaviour may be more detrimental to market competition than it is to innovation and consumer protection.

The TRIPS Agreement governs how IPR and competition interact on a global scale. Members may take necessary TRIPs-compliant actions to stop the misuse of intellectual property rights by rights holders in accordance with the general considerations in the Preamble and Article

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8(2) of the TRIPS. Article 31 provides for the grant of compulsory licenses under public health, national interest or emergencies or use of anti-competitive practices by patent holders. Article 40 of the TRIPS Agreement deals with anti-competitive practises in contractual licences which allows Members to adopt appropriate measures.

(A) Position in US

The US was the first nation to provide comprehensive antitrust guidelines on Property rights, having introduced antitrust law as early as 1890. The function of intellectual property laws in establishing and defending property rights to promote investment in R&D and the role of antitrust laws in defending consumers from anticompetitive trade constraints are both respected in a reasoned view of antitrust and intellectual property. Up until recently, the U.S. courts and antitrust authorities avoided evaluating this trade-off directly and instead concentrated on determining whether the relevant activity increases a patentee's economic power beyond the bounds of the patent grant. The US Regulators published a list of nine specific licencing practises[2] in the 1970s that it deemed to be anticompetitive trade barriers in licencing agreements. The list quickly earned the moniker "Nine No-Nos." A set of restrictions on patent licencing was included in the now-retracted Nine No-Nos, including those against package licencing, tying, forced grant backs, vertical restraints, etc. Several observers have criticised the Nine No-regulations No's for being too rigid. The Nine No-Nos were criticised on the grounds that they were not economically sound and did not follow US case law[3].

The no-no's can be divided into several groups[4]. The first three practises establish restrictions on the licensee's freedom to use items in ways that are not covered by the patent directly or charge "penalties" for doing so. Package licencing, the fourth practise, can also have similar effect in select rare cases where it functions as a tie. The following discussion of "penalty clauses" aims to assist antitrust policy in addressing these four activities. The fifth method, grant backs, frequently promotes competition but has the potential to hinder innovation, particularly if they are exclusive. Giving the licensee an exclusive licence would be the sixth practise. The latter three methods, which are more related to vertical control (such as maintaining resale prices), are barely touched upon in this article.

In 1981, the Nine No-No’s were done away with and the Antitrust Guidelines for the Licencing

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[2] Wilson 1970

[3] Licensing of IP rights and competition law – Note by the United States, OECD, Directorate for Financial and Enterprise Affairs Competition Committee, DAF/COMP/WD (2019) 4

[4] Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No's Meet the Nineties*, BPEA (1997)

of Intellectual Property were adopted. The US Licensing Guidelines[5] are considered to be more well equipped to deal with IP and competition law concerns rather than the earlier ones. The Guidelines simply represent the approach taken by US agencies to IP concerns and are not legally enforceable. However, the Guidelines are quite important because they make the connection between IP and antitrust crystal obvious. These new guidelines open way for discussions on this nexus between competition and intellectual property. They have also had a significant impact on other countries' competition laws, transferring US legal principles to their systems.

The Licensing guidelines of the US[6] suggest that restrains the technology in a licensing agreement is under “safety zone” if:

- The combined market share of licensee and license is not more than 20%
- The restraint is not ‘per se’ anticompetitive.
- This "safety zone" does not constitute a definitive regulation; rather, it gives market participants some assurance that, barring exceptional circumstances, restrictions on the use of licences would not be challenged in such circumstances.

Refusal to supply is another area of disagreement. The necessary facility doctrine is recognised in many nations and provides a foundation for considering licence denials as anticompetitive. However, in the US, this approach is met with scepticism, and blanket licence denials are typically legal. The 1988 revision further emphasised that unilateral refusals to grant licences do not constitute infringement of a patent. The extent of this exception is debatable, though. The FTC appears to have taken the stance that this clause only pertains to the patent misuse theory and does not offer a general antitrust exemption. In any case, tying, exclusive dealing and conditional refusals are illegal under the competition law[7].

The US Supreme Court allowed patent licences to be used to determine product market prices in General Electric[8]. The Justice Department’s prolonged efforts to get General Electric reversed were unsuccessful. However, the majority of other restrictions concerning patented goods are governed by conventional antitrust laws; for instance, territorial restrictions like location are typically subject to a rule-of-reason. Practises may occasionally be judged according to the per se rule. While it is simple to preserve the distinction between patents and

[5] US Antitrust Guidelines for the Licensing of Intellectual Property, 1995
[6] Id 25.
[7] Erik Hovenkamp, *Tying, Exclusivity, and Standard-Essential Patents*, 19 COLUMBIA SCI. & TECH. L. REV. 79 (2017)
[8] United States v. General Electric Co., 272 U.S. 476 (1926)

products when you have products that integrate a range of patents, there are other situations in which the patent is also a product. In certain situations, it can be difficult to tell the difference between a patent restriction and a product restriction.

(B) Position in EU

The necessity of IP is frequently emphasised in the business sectors of the EU facing complicated difficulties. In 1996, the EU Commission passed its first Technology Transfer Block Exemption Regulation[9]. The Regulation 772/2004[10], which is viewed as a new step in the development of the TTBER due to its flexible and pragmatic approach, replaced the Regulation 316/2014, which then took over and revoked the earlier law. The TTBERs saw significant changes, including the removal of white lists and a significant reduction in the length of black lists. The abolition of the Nine No-in No's the US seems to be the inspiration behind this development. There was a change from a rigid approach that created constricting issues to a liberal approach towards licenses making it easier to share knowledge and help distribute the innovation through technology exchange.

The EU's TTBER is legally binding, unlike the US Guidelines, ensuring its effect in the market and giving businesses a sufficient level of legal security[11]. However, the Commission reserves the right to revoke the benefits of the exemption in specific circumstances or to declare the regulation inapplicable where parallel licencing agreements have 50% share[12]. In *IMS Health GmbH & Co OHG v. NDS Health GmbH & Co*[13], where the failure to licence such an important facility would constitute an abuse of dominant position, the "essential facilities" doctrine was further reaffirmed. It was held that such essential service can be in good, services or intellectual property.

(C) Position in India

Monopolies created by IPR holders are not fundamentally anticompetitive but they can become anticompetitive if the holder seeks to expand those rights or if they otherwise pose a barrier to the creation of new goods and services. Since licencing allows the licensee to integrate complementary production elements, lower costs, and lower the risk of free riding, it is typically thought of as being pro-competitive. Yet, because parties may use them to hide collusive behaviour like market splintering, horizontal licences may give rise to some

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[9] Commission Regulation 240/96 (1996)
[10] Commission Regulations 2349/84 (1984)
[11] Arts. 6 and 7 TTBER
[12] Lang, *The Application of the Essential Facility Doctrine to Intellectual Property Rights under European Competition Law,* Antitrust, Patents and Copyrights, EU and US Perspectives (2005)
[13] KG, [2004] ECR I-5039

competitive problems.

There are no formal "safety zones" mandated by Indian law, and the CCI has not established any specific rules addressing the problem of technology licencing. Section 3 of the Act's structure and tone both suggest a dual-approach. Sometimes the law assumes that the agreement is anticompetitive, and it is up to the parties to show that it is not the case. In some cases, it is the responsibility of the authorities to demonstrate that the agreement is anticompetitive. Moreover, reasonable conditions which are necessary to put in place a stop to infringement of intellectual property rights will not be subject to Section 3 of the Act, according to Section 3(5)[14].

Registering of IPRs is essential to seek the exemption under S. 3(5) as unregistered intellectual property rights are not protected. S. 3(5) contains two exceptions, that is, the right to prevent infringement and the right to impose reasonable conditions to safeguard the rights granted by legislations. The term "reasonable conditions" has does not have a definition and hence, open to interpretation by the CCI. Moreover, Section 140 of the Patents Act of 1970 expressly forbids certain licencing arrangements, such as requiring the licensee to purchase from the licensor or his nominees, preventing him from purchasing from anyone else, restricting his ability to purchase from anyone, and forbidding him from purchasing anything other than the patented item or an item made using the patented process. These terms are deemed invalid by the Patent Act of 1970, making them, in theory, outside the purview of patent rights. In such circumstances, the licencing parties will not benefit from the exemption provided by Section 3(5).

There are various licensing practices such as patent pooling, clause restricting or prohibiting a licensee to use rival technology, fixing price to be sold by the licensee, territorial restrictions, quality restrictions, cross licensing etc which can trigger anti-competitive behaviour. The CCI will either assume that the restraints in question are anti-competitive or look at whether they are having a noticeable negative impact on competition in India, depending on their nature. In *Multiplex Association case*[15], according to the CCI, intellectual property rights do not completely supersede competition law. The Act only waives the prohibition against anti-competitive agreements in specific instances, namely to safeguard the rights granted under the pertinent IPR statutes. According to the aforementioned ruling, what is acceptable or unreasonable would depend on the specifics of each situation.

[14] Licensing of IP rights and competition law – Note by India, OECD, Directorate for Financial and Enterprise Affairs Competition Committee, DAF/COMP/WD (2019)4

[15] Multiplex Association of India v United Producers Forum (2009)

The IPR exemption under Section 3(5) strikes a balance between ensuring a fair and competitive market and exercising the exclusivities allowed by various intellectual property laws. The CCI has provided an illustrative list of actions that may be deemed practices of exclusive licencing agreements, patent pooling, payment of royalties after the patent has expired, etc. to be unreasonable in their advocacy measures making this ex-ante.

The Original Equipment Manufacturers (OEMs) purchased spare components from the Original Equipment Suppliers (OESs) for both assembly line and aftermarket purposes in *Shamsher Kataria v. Honda/Volkswagen/Fiat India and Others*[16]. However, the Director General's examination showed that without first obtaining the OEMs' approval, OESs were unable to distribute spare parts to the aftermarket directly. This is because the OEMs contributed the designs, drawings, technical specifications, technology, and know-how that the OESs used to manufacture the spare parts. The OEMs argued that because the spare components produced by OESs utilised their exclusive intellectual property, they could not be supplied to third parties without their permission. Therefore, these agreements were ‘refusal to deal’ agreements. However, the OEMs cited exemption under section 3(5). The CCI deemed it necessary to take into account whether the right asserted by OEMs is correctly characterised as protecting an intellectual property and whether the conditions of the law granting the IPRs are actually being met.

The OEMs were unable to provide sufficient documentary proof to prove that the appropriate IPRs were granted in India with regard to the various spare components. The IPRs, which the OEMs asserted, are territorial in character and that the holder of an IPR only has that right in the specific country in which it is registered. Therefore, even if the parent company of the OEMs had these rights, they could not be granted to the OEMs in India. It was decided that S. 3(5) would not be applicable here.

CCI made a determination regarding whether the OEMs' request for an IPR exemption meets the requirements of Section 3(5) of the Act's reasonability test. Therefore, it was stated that finished spare components, such as bumpers, bonnets/hoods, automobile gears, fog lights, etc., are what the OESs offer in market and since they are all finished goods, selling them in market does not jeopardise their intellectual property rights. According to the contract between the OEMs and the OESs, the intellectual property needed by the OESs to produce a spare component will be contractually protected, and permitting OESs to sell the finished products in the open market may not have an impact on that contract as such. Additionally, the

[16] 2014 CCI 26

Commission permitted OEMs to impose royalties and fees through contracts for parts for which they had IPRs.

In the case of ***ATOS Worldline India Private Limited vs. M/s Verifone India Sales Private Limited***[17], ATOS supervised the sequence of activities that took place between use of a card and obtaining a printed charge slip at the terminals. On the other hand, Verifone supplied both the terminals and the Software Development Kits needed to make them work. There was a "Purpose Clause" that forbade the licensee from using any information for any application which was compulsory and ATOS claimed that Verifone had abused its position by imposing restrictive conditions. The CCI found that the "Purpose Clause" limited the licensee to utilising it only with products that had been developed by the licensor. As a result, it was determined that the such a clause was limiting and anti-competitive.

The CCI opened an investigation into GMR in the *Air Works v. GMR Hyderabad*[18] when GMR allegedly refused to grant Air Works' licence for establishing and running, an office. While the CCI acknowledged that not every refusal to deal would be in violation of the Competition Act, a refusal to deal in situations where either the input substituted for an entity or it eliminated competition in the market or it is likely to harm consumers would probably be considered an abuse of dominance. According to the CCI, having access to airport and its facilities meets the requirements as a necessary facility for Air Works to offer GMR-controlled line maintenance services, among other third-party services. The CCI noted that the level playing field was affected by Air Works' exclusion and it instructed the DG to look into GMR.

In *Justickets Pvt. Ltd. v. Big Tree Entertainment / Vista Entertainment*[19], allegations of abuse of a dominant position were made by Justickets which provided online platform for tickets alleging that Big Tree had put obstacles in the way of online movie ticketing portals' access to an interface that was created to allow online ticketing portals to integrate with other online ticketing systems. The CCI rejected claims that BookMyShow engaged in anticompetitive behaviour by initially preventing and then postponing access to the application programming interface required to enable the purchase of movie tickets at multiple cinemas. By a majority vote, the CCI determined that it was legal to require the informant to sign a Non-Disclosure Agreement before using Vista's interface because Justickets had also offered rival ticketing software. In light of this, the CCI determined that Vista had a genuine need to take precautions against the informant's potential ability to access confidential data belonging to Vista or other

[17] 2015 SCC OnLine CCI 57
[18] 2019 SCC OnLine NCLT 26982
[19] 2017 SCC OnLine CCI 14

sellers of movie tickets as well as reverse engineer the API.

In *K Sera Sera Digital Cinemas Limited vs. Pen India Ltd. and Others*, the informant who provided digital cinema claimed that Pen India who were the producers of a film, had entered into an anti-competitive agreement with another digital cinema service provider with the intention of providing the film's content to only them and excluding the informant but the opposing party presented claimed piracy issues with the informant in previous arrangements. The CCI remarked that the claims presented by the Opposing Parties were not without merit and had some truth. Determining that the Opposing Parties' decision to forgo exhibiting their films through the Informant's digital service appeared to have been made as a precaution to avoid any potential loss as a result of piracy, the CCI dismissed the case.

In Standard Essential Patent case, that is, *Micromax Informatics Limited vs. Telefonaktiebolaget LM Ericsson*[20], case was filed against Ericsson for their refusal to licence their SEP on FRAND terms to other applicant licensees and abusing their dominant position. The dispute came from Ericsson's purported decision to provide Micromax/Intex/iBall a licence at unfair terms for the SEPs it owned related to 3G and 4G patents. The court made general references to EU cases like Motorola v. Apple and Huawei Ltd. v. ZTE as well as US instances like Rambus Inc. (FTC 2006). The court deduced from these decisions that it was likely that Ericsson's recording order or exorbitant royalty request could result in abuse of dominance.

II. Conclusion

There is a need to strike a balance between the ever-conflicting competition law and intellectual property rights. Although intellectual property rights are essential for advancing a market's growth, it is possible that they could also have an anti-competitive effect. In order to avoid stifling the dynamic incentives of businesses to develop, CCI has maintained a very cautious approach when handling cases where there was a conflict between these two laws. Any IPR holder cannot set any conditions or restrictions in an effort to protect their rights since they must satisfy Section 3(5)'s examination in order to qualify for the exemptions offered therein. Another point to be pondered on is that the exemption does not cover the abuse of dominant position but rather deals with anti-competitive agreements only. But the section for abuse is attracted as whenever such an issue is analysed, abuse of dominance is always a facet to determine competition in the market. Therefore, it can be seen that all the jurisdictions deal with IP licensing on a case-by-case basis rather than a strict approach. A lot of factors are

[20] 2013 SCC OnLine Del 6536

considered for determining if any IP licensing is violative of competition in that relevant market.

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