Interface between Competition Law and Intellectual Property Law: A Study of United States, European Union and Indian Law

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Submitted By

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Under the guidance of

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Declaration

I declare that the thesis entitled "Interface between Competition Law and Intellectual Property Law: A study of United States, European Union and Indian Law" for the award of the degree of *Doctor of Philosophy* is the record of bonafide research carried out by me under the guidance and supervision of Prof. (Dr.) Mamata Biswal, Professor of Law, Gujarat National Law University, Gandhinagar, Gujarat. I further declare that this work has not previously formed the basis of the award of any degree, diploma, scholarship, fellowship, title or recognition.

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Certificate

This is to certify that this thesis entitled *"*Interface between Competition Law and Intellectual Property Law: A study of United States, European Union and Indian Law*"* submitted by Silky Mukherjee for the degree of Doctor of Philosophy in Law, is the record of bonafide research carried out by her under my guidance and supervision from July, 2011 to October, 2016. This thesis has not been submitted elsewhere for the award of any other degree, diploma, scholarship, fellowship or other titles in this or any other University of Institution of higher learning.

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Silky Mukherjee

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List of Abbreviations

3GPP	3^{rd} Generation Partnership Project
3GPP-2	3^{rd} Generation Partnership Project 2
AAEC	Appreciable Adverse Effect on Competition
AIR	All India Reporter
AMA	Antimonopoly Act
ANSI	American National Standard Institute
API	Active Pharmaceutical Ingredient
CAFC	Court of Appeals for the Federal Circuit
CCI	Competition Commission of India
CDMA	Code Division Multiple Access
CFI	Court of First Instance
DGIR	Director General of Investigation and Registration
DOJ	Department of Justice
DOT	Department of Telecommunication
DMF	Drug Master File
DRM	Digital Rights Management
DVD	Digital Video Disc
EC	European Community
ECJ	European Court of Justice
ECPR	Efficient Component Pricing Rule
EPO	European Patent Office
ETSI	European Telecommunication Standards Institute
EU	European Union
FICCI	Federation of Indian Commerce and Industry

FRAND	Fair, Reasonable and Non-Discriminatory
GPLA	Global Patent Licensing Agreement
GPRS	General Packet Radio Service
GSM	Global System for Mobile Communications
ICA	Indian Cellular Association
IPCRC	Intellectual Property and Competition Law Review Committee
FTC	Federal Trade Commission
ICA	Indian Cellular Association
IETF	Internet Engineering Task Force
IPAB	Intellectual Property Appellate Board
IPR	Intellectual Property Rights
MRTP	Monopolies and Restrictive Practices Act
NDA	Non-Disclosure Agreement
dNES	Nintendo Entertainment
OEM	Original Equipment Manufacturer
OHIM	Office for Harmonization in the Internal Market
PTO	Patent and Trademark Office
PPIs	Proton Pump Inhibitors
RPM	Resale Price Maintenance
SEP	Standard Essential Patent
SSO	Standard Setting
TIA	Telecommunication Industry Association
TPA	Trade Practices Act

TTA	Technology Transfer Agreements
TTBE	Technology Transfer Block Exemption
TRIPS	Trade Related Aspects of Intellectual Property Rights
UBC	United Brands Company
UHT	Ultra High Temperature
UPDF	United Producers Distribution Films
UN	United Nations
US	United States
UTP	Unfair Trade Practices
WCDMA	Wideband Code Division Multiple Access
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

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Introduction

“The final cause of law is the welfare of society”

-Benjamin Cardozo

Introduction

Intangible properties are considered as valuable properties since they are the creation of skill, labour and human intellect. The inventive thinking led to the creation of inventions which promoted innovations in science and technology. These intangible properties were referred to as intellectual property such as patents, trademarks, copyright, design, trade secret etc. The advantages of Intellectual property led the nations come up with international treaties for the protection of different categories of intellectual property, like the Paris Convention for the Protection of Industrial Property 1883, Berne Convention for the Protection of Literary and Artistic Works 1886, Madrid Agreement 1891. The World Intellectual Property Organization (WIPO) is the global forum for intellectual property services, policy, information and co-operation in modern times as part of the United Nations. At the end these international agreements led to a balanced and effective growth of innovation and creativity for the benefit of the mankind.

On the other hand, competition law takes care of the competition in the market and promotes the competition. Competition law also looks after the monopolistic behaviour of the firms which may result in harm to the consumers. Cartelisation, mergers, refusal to supply, tying agreements, predatory pricing are few of the abuse behaviours the competition law is concerned with. Presently more than 120 countries including India and China have enacted competition law to regulate the markets.[1]

According to Raybould, the concept of monopoly is quite ancient and can be traced to the civilizations of India and Roman Empire B.C. The modern statutes controlling cartels and monopolies, however, first appeared in the United States in 1890.[2] The origin of competition law can be traced in the book of Wealth of Nations by Adam Smith where he argued that those who seek wealth by following their individual self-interest, inadvertently stimulate the economy and assist society as a whole.[3]

Intellectual Property laws generally offer a right of exclusive use and exploitation to provide a reward to the innovator, to provide an incentive to other innovators and to bring into the public domain innovative information that might otherwise remain as trade secrets. Competition authorities regulate near monopolies, mergers and commercial agreements with the aim of maintaining effective competition in markets. This regulation occasionally results in limits being placed on the free exercise of the exclusive rights granted by the Intellectual Property laws.

The number of Intellectual Property related competition cases has been increasing in the recent past. This raises some important questions such as: Why is the exercise of IP subject to the prohibition under competition law? Why, as co-existing systems of law, are they not subjected to a compromise, giving appropriate recognition to each systems of law?[4]

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[1] Richard Whish and David Bailey, Competition Law (Oxford University Press, New York, 2012) 3

[2] D.M. Raybould, Comparative Law of the Monopolies (E. Susan Singleton Ed., 1999) 3-4

[3] Adam Smith, Wealth of Nation, (W. Pickering 1995) 12

[4] Steven Anderman and Ariel Ezrachi, Intellectual Property and Competition Law New Frontiers, (Oxford University Press, New York, 2011) 62

Rationale of Intellectual Property Protection

Intellectual Property is the property created by the intellect of human mind. Intellectual Property is a nonphysical property which stems from, or is identified as, and whose value is based upon some idea. Intellectual property encompasses the protection offered by the legal regimes of various patent, copyright, trademark, designs and trade secrets. Grant of intellectual property is a mode of providing incentive to the inventor of his invention. Further, incentive in the form of temporary monopoly rights encourages inventor to disclose his invention to the public. Moreover, intellectual property rights helps in greater commercialization of inventions.

The justification of intellectual property regime can also be found in Locke's 'theory of property'. Locke states that 'every man has a property in his own person'. Locke claims that an individual labour also belongs to that individual. However, Locke's theory of property is itself subject to slightly different interpretations. One interpretation of the theory is that society rewards labor with property purely on the instrumental grounds that we must provide rewards to get labor. In contrast, a normative interpretation of this labor theory says that labor should be rewarded.[5] The functions of Intellectual Property Rights are first of all, they encourage various kinds of investments. Few firms would invest in Research and Development (R & D) if there is no incentive and others take a free ride on it. Further, national patent offices publishes patent applications and claims, even before the patent expires, the protected invention can be legally used by others for research and development, although not for commercial manufacture or sale.

[5] Justin Hughes, 'The Philosophy of Intellectual Property' (1988) 77 Georgetown L.J. 287 331, 334

Philosophy of Competition Law

The word 'competition' means the process of rivalry among firms and circumstances facilitating such rivalry.[6] Competition Law is a tool for promoting social welfare by deterring practices and transactions that tend to increase market power.[7] The history of competition law can be traced back to the Romans and Medieval monarchs who used tariffs to stabilize prices in the local markets. The English monopoly rights granted to corporations and the opposition to such exclusive rights. In 1624, the Parliament in England had limited the monopoly rights during the period of James I.[8] In the 18th century, in his book Wealth of Nations, Adam Smith had spoken about the cartel problems and that the doctrine of restraint of trade had played a major role in the development of competition law.

The origin of modern competition law can be seen at the end of the 19th century in the United States. Transportation, manufacturing and communication industries developed substantially and started exploiting the economies which led to decreased prices and an unstable market. This led to the enactment of the antitrust laws in the United States since there was a powerful agitation led by business groups and farmers. In 1888, fourteen Anti-trust Bills were introduced in the House of Representatives. In the same year Senator John Sherman introduced a Bill "to declare unlawful trusts and combinations in the restraint of trade and production". Thus the Bill was signed by the President of US, Harrison on 2nd July, 1890. Thus the Sherman Antitrust Act came into force in the year 1890.

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[6] S. Chakravarthy, New Indian Competition Law on the Anvil, RGICS Working Paper Series No. 22, 2001 (New Delhi, 2001), 2

[7] John E. Lopatka & William H. Page, 'Economic Authority and The Limits of Expertise in Antitrust Cases', 90 Cornell L. Rev. 617 (2005)

[8] Leon R. Yankwich, Competition, Real or Soft-or What have you, (American bar Association Anti-trust section, 1952) 125.

Section 1 of the Sherman Act, 1890 made all the trusts illegal which were created for monopoly activities. It prohibits contract, combination or conspiracy in restraint of trade. Later the Clayton Act, 1914 and the Robinson-Patman Act, 1936 came into operation to suppress combinations to restrain competition and attempts to monopolize by individual and corporation. The function of competition law is to increase efficiency and consumer welfare and prevent abusive practices of the market. In the EU, competition was perceived by many as protecting competitors however in the last couple of years the enforcement agency sees it as protecting consumer welfare.[9] In the United States the consumer welfare is kept at priority by the competition authorities.

The TRIPs Agreement, Intellectual Property Rights and Competition Law

One of the main principles of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) negotiated during the Uruguay Round is the recognition of the role of intellectual property protection in fostering economic growth. The agreement has introduced common minimum standards of protection and enforcement of IPRs in the international trading system which is binding for all member countries. The competitive balances sought to be attained by TRIPS are contained in the objectives and principles.

- First, Members may, in formulating or amending their laws, adopt appropriate measures to prevent the abuse of IPRs, restraint of trade or international transfer of technology.

[9] Commission notice, Guidelines on the Application of Article 81(3) of the Treaty, OJ 2004, C 101/97

- Second, is an interpretive principle in favour of adopting measures necessary for prevent monopoly abuse by IPR holders and anticompetitive licensing arrangements, which is put into
- operation by Article 40 (a lex specialis provision to the general provision in Article 8.2), which establishes a regime for controlling such practices.

It is explicitly stated that the protection and enforcement of IPRs should contribute to the promotion of technological innovation and to the transfer and dissemination of technology (Article 7 and 8 of the TRIPS Agreement). IPRs should contribute to the mutual advantage of producers and users of technological knowledge and in a manner favourable to social and economic welfare and to a balance of rights and obligations.

These TRIPS objectives and principles which seek to attain competitive balances are provided in Articles 8(2), 31(k) and 41. These Articles set the framework for the TRIPS Agreement and have been lauded as being consistent with developing country interests.

Article 8(2) provides that:

Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology. This provision specifically prohibits: (i) abuses of IPRs by right holders; and (ii) practices that unreasonably restrain trade; and (iii) practices that adversely affect international technology transfer

Article 40 of TRIPs provide for control of anti-competitive practices in contractual licences:

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.
2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that member.[10]

Article 31(k) provides for remedy of compulsory licensing available to correct unilateral anti- competitive practices.

The WIPO Development Agenda[11] adopted 45 recommendations in 2007 including interface between intellectual property rights and competition issues. They are:

(1) Recommendation No. 7: Promote measures that will help countries deal with intellectual property related anti-competitive practices, by providing technical co-operation to developing countries, especially

[10] TRIPs Agreement, Article 40(1) and Article 40(2)
[11] <http://www.wipo.int/ip-development/en/agenda/recommendations.html> accessed 25 May, 2015

LDCs, at their request, in order to better understand the interface between IPRs and competition policies.

(2) WIPO's legislative assistance in norm-setting activities relating to competition and IPR-related competition flexibilities

(3) Pro-competitive IPR licensing practices

(4) Opportunities within the WIPO for exchanges of information and experience on IPR-related competition issues

Interplay between Intellectual Property Rights and Competition Law

The interplay between competition and intellectual property law have a vital effect on the market. The two laws operate in totally two directions. Intellectual Property Laws provide negative rights granted to the inventor for his exclusive monopoly rights. The negative right provides a stimulus to the inventor and reward him as an incentive for his creativity. The basic aim of intellectual property rights is to stimulate innovation and produce new products and processes. This Intellectual Property can enhance competition in the market. On the other hand, competition regulates and protects the interests of the inventor and of the technologies as a follow-up action to the invented technology by facilitating through licensing procedures.[12]

Competition law maximizes social welfare by condemning monopolies while intellectual property does the same by granting temporary monopolies. The condition is that intellectual property law should provide economically meaningful monopolies. Otherwise, competition law which by itself doesnot condemn the mere possession of monopoly power, but rather

[12] K.D. Raju, *The Intellectual Property Rights and Competition Law- A comparative analysis* (1st edn, Eastern Law House 2014) 45

certain exercises of or efforts to obtain it, might be allowed to interfere with the monopoly.[13]

Under the competition laws, monopoly rights per se are not prohibited but abuse of monopoly rights is prohibited. During this age of globalisation, both intellectual property and competition law are trying to work in tandem together acknowledging their roles and responsibilities in the process of innovation. The duty of the competition law is to see that licensing activities of intellectual property law of a company is not abusive and has a pro-competitive and a favourable effect on the market.

Objectives of the Research

- To study the intricate relationship between Intellectual Property law and the Competition law in the major jurisdictions of U.S.A, EU and India.
- To investigate the conflict between Intellectual Property law and the Competition Law.
- To discover the best possible solution to resolve the conflict between Intellectual Property law and the Competition Law and how India as a developing nation can develop its competition law by taking a lesson from the major trading blocks – EU and U.S.A.

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13 Kumar Jayant and Abir Roy, '*Competition Law in India*' (1st edn, Eastern Law House 2008) 176

Scope and Limitations of the Research

The present research deals with Intellectual Property Rights like patents, trademark, copyright and design. It also deals with intricate relationship between the two disciplines, that is, Intellectual Property Law and Competition Law. It may also be noted that the current research excludes all other forms of Intellectual Property – Geographical Indication and Semiconductor Integrated Circuits Lay-out Design.

Significance and Utility of the Research

The current research tries to figure out the conflict between the two distinct disciplines of law- Intellectual Property Law and tries to show how can the individual rights of the potential actors in the commercial market be prevented from being impaired by the competitive behaviour or practices exercised thereby.

Methodology of the Research

The current research involves the following categories of research:

- Doctrinal methodology
- Analytical methodology
- Descriptive methodology
- Historical methodology
- Case-analysis methodology

Hypothesis

A conflict exists between IPRs and competition policy in major jurisdictions – European Union, United States and India.

Research questions

1. Is there a conflict between Intellectual Property Rights and Competition Law?
2. Whether an interface is necessary between Intellectual Property Rights and Competition Law?
3. Whether United States is more liberal while deliberating on the overlap of Intellectual Property Rights and Competition Law?
4. Whether EU is strict while dealing with the interface of IP Laws and Competition Law?
5. Whether Indian Intellectual Property Rights and Competition law is in consonance with major jurisdictions of United States and European Union?
6. Whether Competition Commission of India is able to deal with the issues of interface between Intellectual Property Rights and Competition laws?
7. Whether India as an emerging economy can draw lessons from the experiences of EU and US in the interface of Intellectual Property Rights and Competition Law?

Sources

The researcher has studied from primary sources such as statutes, case laws, reports and secondary sources including text books, research articles from various law journals and web resources.

Literature Review

Various authors/researchers have done their research work in the area of Interface between Intellectual Property Rights and Competition Law. As a result, a lot of literature in this field can be found in books, journal articles, proceedings, thesis and dissertations, reports and magazines.

Steven D. Anderman in his edited book, "*The Interface between Intellectual Property and Competition Law*"[14], observed that from the early years of the twentieth century, the conflict between the exercise of IPRs and competition policy tended to be exaggerated by judicial and administrative doctrines initially in the U.S.A and later in the European Union. Intellectual Property Laws generally offer a right of exclusive use and exploitation to provide a reward to the innovator, to provide an incentive to other innovators and to bring into the public domain innovative information that might otherwise remain trade secrets. Competition authorities regulate near monopolies, competition in markets. This regulation occasionally results in limits being placed on the free exercise of the exclusive rights granted by Intellectual Property Laws. Intellectual property rights and competition regulation are closely related. The former provides exclusive rights within a designated market to produce and sell a product, service or technology that result from some form of intellectual creation qualifying specific requirements. These inventions and creations are protected by patents,

[14] Oxford University Press, New York, 2011

copyrights, trademarks, trade secrets, or sui generis forms of protection. Thus, IPRs designate boundaries, within which competitors may exercise their rights.

Kumar Jayant and Abir Roy in their book, "*Competition Law in India*"[15] examined that Competition law maximizes social welfare by condemning monopolies while intellectual property law does the same by granting temporary monopolies. The qualification attached to this that the intellectual property law should provide economically meaningful monopolies. Otherwise, competition law which by itself does not condemn the mere possession of monopoly power, but rather certain exercises of or efforts to obtain it, might be allowed to interfere with the monopoly.

Rod Falvey and Foster Neil in their article, "*The Role of Intellectual Property and Technology Transfer and Economic Growth: Theory and Evidence*",[16] says that the potential outcome of Trade Related Aspects of Intellectual Property Rights (TRIPS) that is of particular concern to developing countries is that stronger IPR protection strengthens the market power of Foreign Transnational Corporations, which may lead to reduced sales and higher prices, and which can limit the extent of technology diffusion. In addition enhanced market power may restrict entry and can lower the rate of innovation. Enhanced market power through stronger IPR protection may facilitate other forms of anti-competitive behaviour, including selling practices and licensing restrictions. These include: (a) the cartelization of potential competitors through cross licensing agreements that fix prices, limit output or divide markets; (b) the use of IPR-based licensing agreements to exclude competitors in particular markets by raising entry barriers through tie-in sales or restrictions on the use of related technology;

[15] Competition Law in India (Kolkata: Eastern Law House, 2008)
[16] Review of Development Economics, Volume 10, Issue 4, 2006

(c) the use of IPR protection to predate competitors by threatening or initiating bad faith litigation and opposition proceedings, which may raise market entry barriers particularly for new and small enterprises.

James Langenfied, "*Intellectual Property and Antitrust: Steps toward striking a Balance*"[17], was of the view that although intellectual property and anti-trust laws, may be both "aimed at encouraging innovation, industry and competition", a tension between intellectual property and antitrust policy has always existed. He suggests that there should be more an explicit recognition and accounting of the unique aspects on intellectual property. There should be more economic and policy analysis of the full impact of intellectual property on competition and innovaton.

Valentine Korah in the book "*Intellectual Property Rights and the EC Competition Rules,*"[18] analyses the tension between competition law and IPRs. She looks into the functions of competition law and intellectual property law in the EC.

Steven Anderman and Ariel Ezrachi in their book, "*Intellectual Property Rights and Competition Law*"[19] has discussed the interplay between Intellectual Property Rights and Competition Law in the European Union with reference to Article 101 and Article 102. They have analysed the same through abuse of intellectual property rights, refusals to supply, tying, excessive pricing and exclusionary pricing policies.

Meg Buckley, in his article, "*Licensing Intellectual Property: Competition and Definitions of abuse of dominant position in the United*

[17] Intellectual Property and Antitrust: Steps towards striking a balance 52 Case W Res 91
[18] Hart Publishing, Oxford and Portland, Oregaon, 2006
[19] Oxford University Press, 2011

States and the European Union"[20] observed that whenever intellectual property rights are at odds with competition law, the European Commission favours maintaining access to European Union markets over protecting the intellectual property rights that may block market access.

Jonathan D.C. Turner in his book, "*Intellectual Property and EU Competition Law*"[21], has pointed the interface between both the laws through issues in technology, culture, media and sport and branding.

Shahid Ali Khan and Raghunath Mashelkar in their book, "*Intellectual Property and Competitive Strategies in the 21st century*"[22] has noted regarding the national economic development strategy and encouraging research and development while discussing the interface of both the laws.

Sara M. Biggers, Richard A. Mann and Barry S. Roberts in their article, "*Intellectual Property and Antitrust: A comparison of evolution in the European Union and United States*"[23] analyses the enforcement of competition policy in the US and EU jurisdictions in the backdrop of cases against the Microsoft in both jurisdictions.

Daniel J. Gifford in his article "*Antitrust's Troubled Relations with Intellectual Property*"[24], he argues some key areas where intellectual property clashes with antitrust law and suggests to accord special treatment by the courts.

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[20] 29 Brooklyn J Int'l L 2004

[21] Oxford University Press, 2010

[22] Intellectual Property and Competitive Strategies in the 21st century, Kluwer Law International, 2004

[23] Intellectual Property and Antitrust: A Comparison of evolution in the European Union and United States, 22 Hamline J Pub L & Pol'y, 1999

[24] 87 Minn. L. Rev 1695 2002-2003

Overview of chapters

The **introduction chapter** deals with the brief introduction to the topic of the thesis. It also includes the objective, scope, limitations, significance, utility, research questions and hypothesis. It also deals with the methodology adopted to carry out the research.

The **first chapter** deals with the general overview of Intellectual Property Law and Competition Law. It deals with the nature of Intellectual Property Rights (IPR) and nature of competition policy and the TRIPS Agreement in relation to IPR and competition policy.

The **second chapter** deals with the study of interface between Intellectual Property Law and Competition Law. It mainly discusses the issues like licensing contracts, technology transfer, patent pooling, tying agreements, grant-backs, cross licensing, abuse of dominant position, refusal to license, condition in license agreement fixing prices and block booking where the two distinct disciplines come in conflict with each other.

The **third chapter** discusses the concept of IPR, competition and the interplay between Intellectual Property Law and Competition Law – the position in European Union. European competition law is intended to fulfill two key objectives: First, open, free and fair competition in the common market of Member States. Further, to cross national borders, insofar as they hamper free trade within the Community, with the goal of achieving a single European market for goods and services. These broad objectives are laid down in the European competition rules, specifically Articles 101 and 102. After a brief discussion on Articles 101 and 102, the researcher has tried to show the application of Article 102 to the Trademark law with the aid of decided cases. Later the researcher has dealt with the issue, i.e. the interface between IPR and Competition Law with the help of case laws decided by the European Courts of Justice.

The **fourth chapter** discusses the concept of IPR, competition and the interplay between Intellectual Property Law and Antitrust Laws – the position in the United States of America. It also lays down the guidelines which are issued by the U.S. Department of Justice and the Federal Trade Commission. These Guidelines embody three general principles:

- For the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property;
- The Agencies do not presume that intellectual property creates market power in the antitrust context; and
- The Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.

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

The conflict between IPR and antitrust laws is basically understood under three statutory laws, that is, The Sherman Act, 1890 (Sections 1 and 2), The Clayton Act, 1914 (Sections 2, 3, 4, 7, 7A, 8 and 12) and The Federal Trade Commission Act, 1914 (Section 5). The next section deals with the Lanham Act, 1946 and then discusses the concept of trademark disparagement or dilution with the aid of decided cases. Later the chapter tries to evaluate the actual conflict between IPRs and antitrust laws with the help of cases decided by the American courts.

The **fifth chapter** of the thesis then analyzes the similarities and differences between the US and EU Intellectual Property Law and Competition Law. A comparative study has been made between Article 102 of the EC Treaty and Section 2 of the Sherman Act, 1890 by the researcher through judicial pronouncements.

The **sixth chapter** deals with India's approach to competition law. It first discusses the history of competition law in India, basically the Monopolies Restrictive Trade Practices Act, the SVS Raghavan Committee and then goes on to discuss the provisions of the Competition Act, 2002 mainly Section 3, 4 and 5 respectively. As the Competition Act, 2002 is still in its infancy there have been no such cases regarding competition. But in the case of ***Mahindra & Mahindra Ltd v. Union of India AIR 1959 SC 798***, the Court while deciding the case laid down that it is pertinent to answer the following:-

- whether the facts of the case are peculiar to the business to which the restraint is applied;
- what was the condition applied before and after the imposition of restraint;

- determination of the nature of restraint and its actual or probable effects.

The **final chapter** of the thesis concludes how India can develop and formulate its competition policy by learning a lesson from competition laws prevalent in EU and US. The researcher has also tried to point out that a set of guidelines should be framed for the application of competition laws to intellectual property rights which is in turn an indispensable requirement for maintaining an efficacious balance between IPRs and competition policy. These guidelines may be in the form of broad policy objectives or they may be intricately detailed. The most suitable approach would be to synthesize the best features available in the advanced jurisdictions in order to cater to the Indian requirements.

Chapter I

Intellectual Property Rights and Competition Law: An Overview

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"Intellectual Property Rights and Competition Law are both founded with the purpose of achieving economic development, technological advancement and consumer welfare."

- Jayshree Watal[1]

1.0 Introduction

Intellectual property is the creative work of the human intellect. The main purpose of its protection is to promote the progress of science and technology, arts, literature and other creative works and to encourage and reward creativity. The economic and technological development of a nation will come to a halt if no protection is given to intellectual property rights. Therefore, the contribution of intellectual property is sine qua non for the industrial and economic development of a nation.[2]

The purpose of the Competition law is to avert practices having undesirable effect on competition, to promote and sustain competition in the markets, to protect the interests of the consumers and to ensure freedom of trade carried on by other participants in the markets[3]. The objective of Competition law is to ensure that the process of competition does not entail

[1] *Intellectual Property Rights in WTO and Developing Countries* (2nd edn, Oxford University Press 2001) 2
[2] V.K. Ahuja, *Law relating to Intellectual Property Rights* (2nd edn, Lexis Nexis 2011) 3
[3] T. Ramappa, *Competition Law in India* (3rd edn, Oxford 2014) 1

stronger enterprises in bringing the market operations for their own advantage and thereby causing disadvantage to the consumers.

Intellectual property rights (IPRs) are intended to reward the author or innovator with the fruits of his or her labour which has been derived from the Locke's concept of labour. In a sense, the author of intellectual property is given the legal right to exclude others from enjoying the benefits resulting from his work. The justification behind intellectual property rights is that those who invest time and resources for the development of a new technology, system or device should be rewarded with the exclusive right to profit from their investment. Moreover, without the exclusive opportunity to "exploit the invention" through intellectual property rights, there would be no mechanism through which the owner of the intellectual property right could guard against free riders taking advantage of the innovator's research and development.[4]

Moreover, IPR laws also provide that the protection cannot be for an indefinite period, as after sometime it should be made available to the common masses in their general interest. Even within the IPR period, the intellectual asset may be used without restriction for certain purposes, these not being commercial purposes, for example for the purpose of research and training and educational purposes. Further, in some laws, provision exists for compulsory licensing where under the Indian Patents Act, 1970; a compulsory license may be sought after three years of the sealing of the patent on three grounds:

- non-satisfaction of reasonable requirements of the public,

[4] Meg Buckley, 'Licensing Intellectual Property: Competition and definitions of abuse of a dominant position in United States and European Union', (2004) 29 brook J.Int'l L.797

- non-availability of the patented invention at reasonable price, or
- patented invention not being worked in India.[5]

Tension arises between IPR and competition law because IPR creates market power, even a monopoly, depending upon the extent of availability of substitute products. IPR restricts competition, while competition law engenders it. Hence, competition law takes care of the unreasonable exercise of market power or the abuse of dominant position obtained as a result of the IPR.

The Competition Act, 2002 in India recognizes the importance of IPRs such as patents, copyrights, trademarks, geographical indications, industrial designs and integrated circuit designs. While Section 3 of the Competition Act prohibits anti-competitive agreements, Section 3(5) lays down that this prohibition shall not restrict "the right of any person to restrain any infringement of or to impose reasonable conditions, as may be necessary for protecting any of his rights" enjoyed under the statutes relating to the above mentioned IPRs. This implies that unreasonable conditions imposed by an IPR holder while licensing his IPR would be prohibited under the Competition Act. This provision is not very dissimilar to the laws in other countries. In some jurisdictions, restrictions that have been regarded as unreasonable, and anticompetitive, include - agreements restricting prices or quantities of goods that may be manufactured, or curbing competition between the licensee and the licenser, stipulating payment of royalty after the license period, certain types of exclusivity conditions, patent pooling, tie-in arrangement, so on and so forth.

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[5] Vinod Dhall, "Essays on Competition Law and Policy", <http://www.cci.gov.in/images/media/articles/essay_articles_compilation_text29042008new_20080714135044.pdf > accessed 30 March, 2014

Therefore, in the case of unreasonable restrictive practices by the IPR holder, relief is available to the affected parties under the Competition Act. The Commission can pass a variety of orders including: penalty up to ten percent of the turnover, cease and desist order, direct modification of the (license) agreement, and any other order or direction that it may deem fit.[6]

1.1 Nature of Intellectual Property Rights

(i) Intangible Rights over Tangible Property

The major feature that distinguishes IP from other forms of property is its intangibility. As per Lionel Bently and Brad Sherman, while there are a number of important differences between the various forms of IP, one factor that they share in common is that they establish property protection over intangible things such as ideas invention, signs and information while there is a close relationship between intangible property and the tangible object in which they are embodied[7]

(ii) The role of intellectual property rights in encouraging innovation

Intellectual property rights (IPRs), granted by patents, copyrights, trademarks, etc., play an important role in fostering innovation and supporting economic growth. These rights allow their holders to exclude, for a limited duration, other parties from the benefits arising from new knowledge and, more specifically, from the commercial use of innovative products and processes based on that new knowledge. The ability to temporarily exclude others from the enjoyment of the potential benefits

[6] Supra note 4

[7] Lionel Bently and Brad Sherman, *Intellectual Property Law* (1st edn, Oxford University Press 2003) 1.

deriving from innovation contributes to provide the incentive for individuals and enterprises to allocate financial and human resources in research and development (R & D) and other costly activities to build new discoveries, innovative products and production processes.[8]

In the nonexistence of the legal protection granted by IPRs, rival firms and companies would be entitled to free-ride on the successful results of R & D investments, imitating and thereby exploiting commercially new inventions. IPRs also contribute to promoting the dissemination and commercial application of intellectual property. Firms, in fact, can be expected to be more leaning to transfer new technologies and inventions when a adequate degree of legal certainty regarding the returns from sharing precious innovative ideas is guaranteed. However, even in the absence of IPRs, firms may still be able to exclude competing firms from having access to their innovations. In these cases, IPRs would not be necessary to recover the investments incurred.

However, excluding other firms from sharing know-how is not always possible. Also, a sizeable waste of resources can result from the efforts aimed at maintaining secrecy. In the absence of strong IPRs, an inefficient tendency to allocate resources particularly to those innovative activities which can be more easily kept secret can be expected.[9]

(iii)Incentive to invent

The granting of intellectual property right is a mode of providing incentive to the inventor for his invention. The inventor will not be able to

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[8] Massimiliano Gangi, "*Competition policy and exercise of Intellectual Property Rights*", <http://www.archivioceradi.luiss.it/documenti/archivioceradi/osservatori/intellettuale/Gangi1.pdf > accessed 15 March, 2013.

[9] Ibid

appropriate the full value of his invention because of certain persons who may be enjoying the benefit of the commodity without paying anything for it.

(iv)To encourage disclosure

Incentive encourages the inventor to disclose his invention to the public. In India, patent is granted to the inventor only when he gives the complete details of his invention. This has various advantages, first of all, the information about the intellectual property is useful in the ulterior development of other assets, disclosure increases the economic development of a country and finally the patent office publishes the specification which can be used by others for research and development.

(v) Exhaustion of Rights

Intellectual property rights are generally subject to the principle of exhaustion. Exhaustion basically means that after the first sale by the right holder or by his exhaustion authorization, his right comes to an end and he is not entitled to stop further movement of goods. Thus, once an IP right holder has sold a physical product to which its IPRs are attached, he cannot prohibit the subsequent resale of that product. The right is exhausted by the first consensual marketing. A third party may, after legitimately purchasing these goods, sell them in any of the country-markets. The owner or any one deriving title from him cannot prevent sale of such goods, as the exclusive right to sell goods is ‘exhausted’ by the first sale. Thus he loses all his control over the goods on his first sale and the rights therein are not infringed by further circulation of the product. The principle permits the goods to move through the stream of commerce unhindered by multiple claims to IPRs.

This doctrine is based on the concept of free movement of goods put into circulation by the consent or authority of right holder. The exclusive right to sell goods cannot be exercised twice in respect of the same goods. The right of restricting further movements is exhausted because the right holder has already earned his part, by the act of putting the goods for first sale in the market.

Exhaustion may be either domestic exhaustion or international exhaustion. Under domestic exhaustion, once the goods have been put on the domestic market by the right holder or by third party with his consent, his right is exhausted in the domestic territory. Domestic exhaustion is generally provided for in almost all countries. In international exhaustion when the goods are put into the market, by the right holders or with his consent in any country, the rights are exhausted for other national jurisdictions as well. As per the doctrine, the owner of an IPR who consents to the marketing of his products in one member state cannot use that right to prevent the importation of the products into another member state[10]. The characteristic of non-exhaustion by consumption is an important feature of intellectual property.

(vi) Statutory requirement

IPRs are statutory rights governed in accordance with the provisions of corresponding legislations. To put it differently, intellectual properties are creations of statutes. The protection to the right holder is given to ideas, technical solutions or other information that have been expressed in a legally admissible form and that are, in some cases, subject to registration procedures. Further, subject to the relevant statutory provisions, registration of the work is mandatory in relation to some kinds of IPR as in the case of patents and industrial designs while in relation to some other kinds of IPR,

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[10] J.K. Das, *Intellectual Property Rights* (1st edn, Kamala Law House, Kolkata 2008) 11

registration is optional as in the case of trademarks, copyrights and geographical indications. In respect of certain IPRs, the moment the work is completed; protection automatically springs into, as in the case of copyrights. By continuous use also, IPR can be claimed as in the case of trademarks.

Granting of IPR is strictly subject to all statutory conditions and pre-requisites. As the IPR is conferred by the state, it can be revoked by the state under very special circumstances even if it has been sold or licensed or marketed in the meantime. In this sense, there is no guarantee for an IPR once it is granted; it can be challenged or revoked at any time on several grounds including national security or under the provisions of relevant statutory laws of the land.

(vii) Intellectual property rights and the tradeoff between allocative and dynamic efficiency

IPRs, by granting legal exclusivity, may also grant their holders the ability to exercise market power[11], when similar technologies and products representing practicable constraints are not present. Such exercise of market power can result in allocative inefficiencies where owners of exclusive rights will likely restrict output levels compared to more competitive situations, in the markets for the goods and services incorporating those rights. They will do so in order to maximize their profits. However, it has been observed that IPRs, while ensuring the exclusion of rival firms from the exploitation of patented technologies and derived products and processes, do not necessarily confer market power to their holders. In fact, technologies which can be considered, at least to a sufficient degree, potential substitutes do represent

[11] Market power can be defined as the ability to maintain prices above competitive levels for a significant amount of time and profit from such rise in prices.

effective constraints to the ability of IPRs holders to raise the price of their products above competitive levels. Only when alternative technologies are not available, it can be said that IPRs grant their holders monopolistic positions in relevant markets.[12]

The exercise of exclusive IPRs which lead to a monopolistic behaviour resulting in allocative inefficiencies, in the absence of competing technologies and products, may appear contrary to what is generally perceived in most jurisdictions as the main objective of competition policy that is, the protection of the competitive process to ensure an efficient allocation of resources, lower prices and better consumer preference.

Competition policy, however, recognizes that in some situations, society would be benefitted by allowing for limited market restrictions, monopolistic profits and short-term allocative inefficiencies, when these can be proven to promote dynamic efficiency and long-term economic growth[13]. This trade off which has to be looked into by the competition policy makers is clearly a central issue in the interface between competition policy and intellectual property protection where short-term inefficiencies are expected to be the price that society needs to pay in order to receive the reward of long-term economic growth.

However, competition policy certainly plays an important role in limiting the exercise of market power associated with the IPRs, ensuring in particular that such power is not excessively used as leverage. Thus, competition policy has a role in limiting monopolistic abuses related to the exercise of IPRs. It exercises this role by preventing firms holding competing intellectual property rights from engaging in anticompetitive practices.

[12] Supra note 7
[13] Ibid

1.2 Nature of Competition Policy

The term competition law refers to legislation, judicial decisions, and regulations specifically designed avoiding the concentration and abuse of market power. Competition policy is a broad term, covering all aspects of government actions that affect the conditions under which firms or the companies compete in a particular market. Competition law has emerged as an issue largely because exporting firms in the high-income developed economies argue that anticompetitive practices of competitors in foreign markets hinder their ability to penetrate those markets. Such practices may be largely private in nature and could be facilitated by the absence or weak enforcement of local competition laws.[14]

(i) Role of competition law in effective functioning of markets

The aim of competition law is primarily to protect the processes essential for efficient and effective functioning of markets. Markets are essentially dynamic in nature and experience the birth of new firms and products, the death of inefficient firms and outdated products, and the natural expansion, contraction, and reorganization of firms. Competition law further recognizes that firms compete in both static and dynamic terms, requiring that some balance must be struck between ensuring competitive access and encouraging innovation.[15]

(ii) Preventing Anti-competitive practices

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[14] Keith E. Maskus and Mohammad Lahouel, '*Competition Policy and Intellectual Property Rights in Developing Countries: Interests in Unilateral Initiatives and a WTO Agreement'* (1999) <http://siteresources.worldbank.org/DEC/Resources/84797-1251813753820/6415739-1251814020192/maskus.pdf> accessed 30 March, 2012

[15] Ibid

The fundamental purpose of competition law is to ensure that markets are effectively contestable, meaning thereby that incumbent firms are not able to sustain anticompetitive practices for extended periods of time. Such practices include merging with competitors to attain monopoly, refusing to supply goods or to license technologies on market terms in order to prevent competition, and agreeing with other firms to establish collusive restraints on trade.

(iii) Preventing abuses

Competition law aims at preventing such abuses by establishing conditions or guidelines under which they would be examined for legality which is difficult in reality. For example, published guidelines differ considerably across the United States and the European Union in which practices are viewed as potentially anticompetitive, which practices should be banned outright, and what circumstances should be investigated by authorities for anticompetitive effects.

(iv) Process of rivalry

Competition may be read as the process of rivalry. This is the meaning normally attributed to the word because rivalry is the means by which a competitively structured industry creates and confers benefits and because the event that triggers off the applications of the law is often the elimination of rivalry by merger or cartel agreement. This loosely added word rivalry defeats the very nature of competition. In the US this was realized by the Chicago School and through its writings it destroyed the erstwhile myth of the pre-1980s US antitrust era that concentration is always bad.

(v) State of economic freedom and dispersal of private economic power[16]

In the first half of the last century, the German Freiburg School of ordo liberalism had developed a theory that competition is a process whereby market players participate in the economy without constraints from accumulated private or public power. The goal of competition policy is seen as the protection of the individual economic freedom as an end in itself so that distributive concerns lead this school to use competition law to protect competitors and small and medium sized enterprises.[17]

(vi) State of perfect competition

GJ Stigler[18] says that 'individual buyer or seller does not influence the price by his purchases or sales'. Perfect knowledge, large numbers, product homogeneity and divisibility of output are the ingredients for a competitive market. But Borke clarifies this and says that economic model of perfect competition can never serve as a policy prescription and it is also wrong to assume that markets do not work efficiently if they depart from this model.

(vii) Maximizing consumer welfare

The best definition provided by Chicago school, namely that 'competition' may be read as designating a state of affairs in which consumer welfare cannot be increased by moving to an alternative state of affairs through the intervention of antitrust law and that, conversely, monopoly designates a situation in which consumer welfare could be so improved so

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[16] Eugene Buttigieg, *Competition Law: Safeguarding the consumer interest* (2nd edn, Wolters Kluwer 2009) 5
[17] Richard Whish, *Competition Law* (2nd edn, Butterworths 2003) 19-20
[18] GJ Stigler, *The Theory of Price* (1st edn, Macmillan New York 1966) 87-88

that to 'monopolize' would be to use practices inimical to consumer welfare. Borke claims that this interpretation of 'competition' coincides with everyday parlance as competition for the man in the street implies low prices, innovation and choice among differing products. Competition thus equates with consumer welfare.

1.3 Concluding remark

Intellectual property Law and Competition Law are the two major areas of law governing the market and promoting economic efficiency, consumer welfare, competition, innovation and technology transfer. Intellectual property rights are vital in our society today. Their existence stimulates both investments and development of new ideas, which in turn promotes economic growth. By providing a number of protective forms for various industrial property rights the incentive to invest in research and development naturally will increase, as these investments become more secure and the right owner will reap the rewards for his creative effort and innovation. Intellectual property rights, by their very nature, give a monopolistic status to the holder of the right, and so put some short-term restraints on competition in the market. However, in the long run they promote increased competition since a good deal of innovation on the part of competitors is promoted, which will lead to new, competing and substitutable products on the market.[19] On the other hand the objective of Competition Law is increased efficiency in the market and consumer welfare.

[19] Govaere, I., *The Use and Abuse of Intellectual Property Rights in E.C. Law*, (3rd edn, Sweet & Maxwell London 1999) 5

CHAPTER-II

The Interface between Intellectual Property Rights and Competition Law: Issues

"It is a long standing topic of debate in economic and legal circle: how to marry the innovation bride and the competition groom"

-Mario Monti [1]

2.0 Introduction

Intellectual property rights and competition regulation are closely related. The former provides exclusive rights within a designated market to produce and sell a product, service or technology that result from some form of intellectual creation qualifying specific requirements. These inventions and creations are protected by patents, copyrights, trademarks, trade secrets, or sui generis forms of protection. Thus, IPRs designate boundaries, within which competitors may exercise their rights.[2]

Philip L Williams[3] in his paper "Intellectual Property Rights: a Grant of Monopoly or an Aid to Competition?" stated that intellectual property rights is an important instrument of public policy, designed with the objective

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[1] European Commissioner for Competition Policy, January 2004

[2] Keith E. Maskus and Mohammad Lahouel, '*Competition Policy and Intellectual Property Rights in Developing Countries: Interests in Unilateral Initiatives and a WTO Agreement'* (1999) <http://siteresources.worldbank.org/DEC/Resources/84797-1251813753820/6415739-1251814020192/maskus.pdf> accessed 30 March, 2012

[3] <http://mbs.edu.au/home/jgans/papers/Intellectual%20Property%20Rights%20and%20Monopoly.pdf> accessed 2 July, 2015

of promoting efficient production of creative work so as to serve social rather than individual welfare goals. In principle, IPRs create market power by limiting static competition in order to promote investments in dynamic competition. In competitive product and innovation markets the awarding of IPRs rarely results in sufficient market power to generate significant monopoly behaviour. However, in some circumstances a set of patents could generate considerable market power through patent-pooling agreements among horizontal competitors. In countries that do not have a strong tradition of competition and innovation, strengthening IPRs could markedly raise market power thereby encouraging its exercise.[4] At the outset, licensing activities and patent protection were carried out under strict surveillance of competition law and it was considered that patents are monopolies. R. Posner in his paper, Antitrust Law: An Economic Perspective[5] analyses that not all IPRs are monopolies but acknowledges that some may be in certain circumstances.

The interplay between the Intellectual Property Laws and Competition Law can be traced in the following areas:

2.1 Licensing contracts

The role that competition policy plays in monitoring abusive exploitation of market power in connection with the exercise of IPRs is particularly important in the review of the anticompetitive effects of licensing contracts (regulating the transfer or exchange of rights to the use of intellectual property), containing exclusivity or restrictive clauses.[6] It is commonly agreed that the licensing of intellectual property generally has

[4]Ibid
[5] Chicago, 1976
[6]Govaere, I., *The Use and Abuse of Intellectual Property Rights in E.C. Law*, (3rd edn, Sweet & Maxwell London 1999) 5

favourable effects. It facilitates the diffusion of technological innovation and know-how and their exploitation by firms which may have a greater comparative advantage. Production can be made more efficient and product quality can be enhanced when technologies are used in a complementary manner.

Also, licensing patented technology may increase the return to IPRs holders, increasing therefore firms' incentives to pursue investment in Research & Development. In fact, welfare would be reduced if innovators and IPRs holders were forced to enter into direct production and commercialization and hence not allowed to license their know-how to third parties, facilitated to manufacture and market licensed goods and services.[7]

2.2 Technology Transfer

Nevertheless, the transfer of patented technology may involve excessive and unnecessary restrictions to competition, depending on the specific contractual arrangements and market conditions. An overview of the pro-competitive and anticompetitive effects of four frequently used types of contractual restrictions is listed as follows:

- territorial exclusivities,
- exclusive dealing,
- tying requirements, and
- grant-back requirements.

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[7]Ibid

They are often used as tools to facilitate the transfer of technology. However, under some circumstances, they may also lead to an undue restriction of competition.[8]

2.3 Patent Pools

Patent pools are the aggregation of intellectual property rights which are the subject of cross-licensing; whether they are transferred directly by patentee to licensee or through some medium, such as a joint venture, set up specifically to administer the patent pool[9]. Patent pools have pro-competitive and anti-competitive effects. Pro-competitive benefits generally flow from a licensor's making patented technology available to licensees. Patent pools can have anti-competitive effects when they are used to shield invalid patents or when they include patents that are not complementary and would compete against each other.[10] According to a noted author Resnik,[11] pooling helps companies earn a steady income, recover their investments and reduce risk, which could spur them to further research and innovation.

On the other hand, Krattiger and Kowalski,[12] points at patent pools to a 'potential double-edged legal sword', while while being able to cut through patent thicket blockages, pose a number of risks, mainly from the perspective

[8] Massimiliano Gangi, "*Competition policy and exercise of Intellectual Property Rights*", <http://www.archivioceradi.luiss.it/documenti/archivioceradi/osservatori/intellettuale/Gangi1.pdf > accessed 15 March, 2013.

[9] John Klein, 'Cross- Licensing and Antitrust Law', (United States Department of Justice, 2nd May 1997) <http://www.usdoj.gov/atr/public speeches/1123.htm> accessed 8 December, 2013

[10] Kumar Jayant and Abir Roy, *Competition Laws in India* (1st edn, Eastern Law House 2008), 200

[11] Resnik DB, 'A biotechnology patent pool: An idea whose time has come' (2003), <http://www6.miami.edu/ethics/jpsl/archives/papers/biotechPatent.html> accessed 27 January 2013

[12] Krattiger A Kowalski S P, 'Facilitating assembly of and access to intellectual property: Focus on patent pools and a review of other mechanisms' in A. Krattiger, RT Mahoney, L Nelsen (eds), *Intellectual Property Management in Health and Agricultural Innovation: A Handbook of Best Practices* (Oxford 2007)

of competition. Patent pools are subjected to the per se rule in most jurisdictions, including the United States, Canada, Japan, Germany etc.

2.4 Tying agreements

A 'tie-in' is a commercial arrangement in which the seller of one-product i.e. the tying product conditions its sale on the buyer's purchasing a second product i.e the tied product from a seller or a designated third party. A tying clause should be tested against following factors to determine its validity with competition laws: First of all, the tied item is a separate product or service from the tying item, further, the actual tie exists and not an insubstantial amount of commerce effected.[13]

Tying arrangements are considered as one of the usual practice adopted by the licensing companies. Tying is deemed to be per se illegal or may be analysed under the 'rule of reason' approach.

2.5 Grant-backs

Many firms require their licensee to grant back any improvement made on the subject- matter to them. The result is that effect of grant-back clauses is that they tend to decrease the licensee's incentive to invest. The licensee has to grant back its improvement to the licensor for free. Thus the licensee chooses not to invest his resources for improvement which discourages innovation as it decreases the licensee's own incentive to improve the technology.

Thus grant back clauses tends to limit the licensee's role in any type of improvement in the technology since he shall have to give back any kind

[13] Jefferson Parish Hosp. Dist. No. 2 v Hyde (1984) 466 US 2.

of improvement in the product. This leads to discouragement and thereby restraining innovation and advancement of technological practices.

2.6 Cross-Licensing

Interchange of intellectual property rights between two or more persons is cross licensing. It might be a bar to competition if the technology licensed is substitute rather than complementary in nature. The anti-competitive effects of cross licensing are reduced innovation, increased prices and cut backs in production which is likely to happen when cross-licensing is between competing entities and in that case the competing entities would not exist and they together may create a market power.

Competition regulation aims at restricting attempts to extend exploitation of an intellectual asset beyond the boundaries provided by IPRs. Thus, there is an inherent tension between competition laws and IPRs, particularly if competition laws give emphasis to static market access and IPRs emphasize incentives for dynamic competition. Structured properly, however, the two regulatory systems complement each other in striking an appropriate balance between needs for innovation, technology transfer, and information dissemination.[14] Today, the relationship between the two systems is characterized more by its accommodation than by its conflict. Both pose a divergent path to the same goal.[15]

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[14] Ibid.
[15] Debra A. Valentine, 'Intellectual Property and Antitrust: Divergent Paths to the Same Goal' (Federal Trade Commission, 5 March 1996), <http://www.ftc.gov/speeches/other/speech35.htm > accessed 24 November, 2013

2.7 Abuse of Dominant position

Dominant position is a position of economic strength enjoyed by the enterprise which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers. Some of them are: imposition of discriminatory practices or trading conditions or predatory prices, limiting supply of goods or services, denial of market access, using a dominant position in one relevant market to enter into, or protect, other relevant market. A dominant position in substance means the capacity of an enterprise to act independently of competitive forces prevailing in the market or to affect the relevant market in its favour. A dominant position is acquired by an enterprise over a period of time and factors such as state of technology, barriers to entry, scale of operations, etc., influence the achievement of a dominant position.

2.8 Refusal to supply license

The law of licensing is based on the complementary goals of the intellectual property system and competition law. The Intellectual property rights holder has the exclusive right granted under the law for a limited period of time. Thus the right holder is able to prevent others from exploiting it but he cannot restrain the development and use of a superior technology. This is evident from the fact that intellectual property promotes competition in the market. The issue arises where the refusal of a patented technology prohibits the entrance of a new product into the market and is considered anti-competitive.

The IMS Health case[16] has cautiously inserted three conditions to be satisfied for declaring such a refusal as an abuse of dominant position. They are:

(1) That the refusal to license 'is preventing the emergence of a new product for which there is a potential consumer demand'
(2) That it is 'unjustified' and
(3) That such refusal 'excludes competition in the secondary market'

2.9 Condition in License Agreement Fixing prices

The issue in a license agreement fixing prices is that whether the owner of the patents could entirely control the manufacture, use and sale of its patented product, the right to impose the condition that its sales should be at prices fixed by the licensor and subject to change according to its discretion. In the view of the judiciary, a term would be valid provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. It is to be noted that one of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. Finally, when the patentee licensees another to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods.

2.10 Block booking

Block booking is the practice of renting one motion picture to an exhibitor on condition that it is also rent other features from the same company. The issue arises when each copyrighted film block booked was itself a unique product and that each feature films varied in theme, in artistic

[16] Case C- 418/01, IMS Health [2004] ECR I-5039

performance, in stars, in audience appeal, etc., and that the other party by reason of its copyright had a 'monopolistic' position as to each tying product and thereby trying to impose an appreciable restraint on free competition in the tied product. Further, there were problems when television stations were forced to accept unwanted films which denied access to the other distributors who, in turn, were foreclosed from selling to the stations.

2.11 Concluding remark

To conclude, the objective of this chapter is to locate the conflicting issues of intellectual property protection and competition law in various jurisdictions like the United States, European Union and India. The various issues like licensing contracts, abuse of dominant position, block booking, technology transfer, condition in license agreement fixing prices, tying agreements, grant back conditions and refusal to supply license are the conflicting areas where both the laws appear in interface with one another. Through this chapter, the researcher shall study the areas through judicial pronouncements of the jurisdictions of United States, European Union and India. The researcher shall also find out the means of bridging the gap between the two divergent areas of law and also point out some suggestions which the developed countries like United States and European Union have taken up.

Chapter III

Interplay Between Intellectual Property Rights and Competition Law – Position in the European Union

3.0 Introduction

The European Union Intellectual Property and Competition Law pursue a common aim of improving innovation and consumer welfare. Intellectual property legislation such as patents, copyright, trademark and design rights laws pursue this aim by offering a period of exclusive rights to exploit to IP right holders as a reward and incentive to innovation and R & D investment. The competition policy on the other hand attempts to keep markets innovative by maintaining an access to the market. This chapter studies the intellectual property rights, competition policy and the judicial pronouncements of the interface between intellectual property rights and competition law.

3.1 Intellectual property regimes in Europe

Intellectual property legislation such as patents, copyright, trademark and design rights laws offer a period of exclusive rights to exploit to IP right holders as a reward and incentive to innovation and R & D investment. This part provides an outline of European intellectual property regimes.

3.1.1 Patents

Three layers of patent regime are relevant for understanding patent protection in Europe. First of all, European countries presently maintain national patent regimes. Secondly, the European Patent Convention created a European Patent Office (EPO) to examine patent applications in accordance with the substantive principles established in the Convention, and to grant "European" patent rights. Finally, a Community Patent System under which the central granting authority would grant of a Community wide unitary character.[1] The Community had adopted a directive on patent protection for biotechnology to harmonize the European Patent Standards.[2]

3.1.2 Trademarks

European Trademark law has undergone a tremendous vision of uniform community law. The two instruments are principally responsible for this evolution: a trademark harmonization directive (First Council Directive to Approximate the Laws of the Member States Relating to Trademarks of 1988)[3] and a regulation establishing the Community Trademark regime (Regulation 40/94 of 1993).[4]

The 1988 Harmonization Directive achieved harmonization in national trademark regimes in Europe on substantive issues, such as the definition of a trademark, the grounds of refusal of registration, and use requirements. On the other hand, Regulation 40/94 created a Community

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[1] Agreements relating to Community Patent, done at Luwembourg, Dec 15, 1989. 1989 O.J. (L 401) 1

[2] Council Directive 98/44, July 30, 1988 O.J. (L 213) 13

[3] Council Directive 89/104 of Dec. 21, 1988 to approximate the Laws of the Member States Relating to Trademarks, 1988 O.J. (L.40) 1

[4] Council Regulation 40/94 of Dec 20, 1993 on the Community Trademark, 1994 O.J. (L 11) 1.

Trademark regime, a Community-wide regime that operates in parallel with national systems. For the first period of 10 years, the applicant can file a single application for registration in the Community Trademark Office, Office for Harmonization in the Internal Market (OHIM) in Alicante, Spain. Community trademark registration confers rights throughout the entire European Union which are enforceable in Community Trademark Courts[5].

3.1.3 Copyrights

Copyright harmonizations in EU has been done in the following way: In 1998 green paper of copyright[6] stimulated work on harmonizing the copyright term[7], copyrightability standards for computer software[8], a sui generis intellectual property scheme for protection of informational content of databases[9], rental rights[10] and satellite transmission of copyrighted works[11] and finally copyrights in digital media[12].

The signature of the Berne Convention for the Protection of Literary and Artistic Works[13] was the first attempt to harmonise the copyright law in Europe. The following rights are protected by the European Union Law:

- Right of reproduction for authors, performers, producers of phonograms and films and broadcasting organizations[14]

[5] Regulation 40/94 , Art 91
[6] Green Paper on Copyright and the challenge of technology- Copyright Issues Requiring Immediate Action, COM (88) 172 final
[7] Council Directive 93/98 of October 29, 1993, Directive on Harmonizing the term of protection of copyright and certain related rights, 1993 O.J. (L 290) 9.
[8] Council Directive 91/250/EEC of May 14, 1991
[9] Council Directive 96/9 of March 11, 1996
[10] Council Directive 92/100 of November 19, 1992
[11] Council Directive 93/83 of September 27, 1993
[12] COM(97) 628, 1988 O.J. (C 108)
[13] Berne Convention for the Protection of Literary and Artistic Works is an international agreement governing copyright which was first accepted in Berne, Switzerland in 1886
[14] Copyright Directive Article 2

- Right of communication to the public for authors, performers, producers of phonograms and films and broadcasting organizations[15]
- Right of distribution for authors[16] and for performers, producers of phonograms and films and broadcasting organizations[17]
- Right of fixation for performers and broadcasting organizations
- Right of rental and/or lending for authors, performers, producers of phonograms and films[18], with an associated right of equitable remuneration for lending and/or rental for authors and performers[19]
- Right of broadcasting for performers, producers of phonograms and broadcasting organizations[20]
- Right of communication to the public by satellite for authors, performers, producers of phonograms and broadcasting organizations[21]
- Right of computer program reproduction, distribution and rental for authors[22]

3.1.4 Designs

European nations have distinct regimes for the protection of ornamental aspects of product shape or appearance. There is an effort to create a

[15] Copyright Directive Article 3
[16] Copyright Directive Article 4
[17] Rental Directive Article 9
[18] Rental Directive Article 2
[19] Rental Directive Article 4
[20] Rental Directive Article 8
[21] Satellite and Cable Directive Articles 2 and 4
[22] Computer Programs Directive Article 4

Community Design System.[23] This system includes both unregistered and registered design rights, which operates in addition to national systems of protection in each member state, which are partially harmonized by the Directive on the legal protection of designs.[24]

3.2 Competition Law under the European Union

The European Economic Community was established by the Treaty of Rome in 1957. It has been known as the European Community (EC) Treaty[25]. The original Treaty was amended and consolidated by the Amsterdam Treaty of 1999[26]. As of May 2004, the European Community comprises of 27 Member States.[27]

The main aim of the competition policy in the European Union is the protection of consumers and competition, as opposed to the protection of competitors. In order to achieve this aim, it is important that the internal market of the community should not be distorted, and that the principle of an open market with free competition should be adhered to. Thus, single market integration is a key principle of competition policy.[28]

[23] Proposal for a Regulation on the Community Design of December 3, 1993, 1994 O.J. (C 29) 20, Amended proposal for a Directive on the Harmonisation of member States' laws on protection of industrial design, February 21, 1996, 1996 O.J. (C 142)
[24] 98/71/EC
[25] The European Community (EC) was the first of the three pillars of the European Union (EU) between 1992 and 2009. Created by the Maastricht Treaty (1992), it was based upon the principle of supra nationalism and had its origins in the European Economic Community, the predecessor of the European Union. The Treaty of Lisbon abolished the entire pillar system when it came into effect in December 2009- European Community
[26] The Treaty of Amsterdam amending the Treaty of the European Union, the Treaties establishing the European Communities and certain related acts, commonly known as the Amsterdam Treaty, was signed on 2 October 1997, and entered into force on 1 May 1999; it made substantial changes to the Treaty on European Union, which had been signed at Maastricht in 1992- Amsterdam Treaty
[27] Michael J. Reynolds, 'EC Competition Law, the First Experiences of Modernization' in Vinod Dhall (eds), *Competition Law Today: Concepts, Issues and the Law in Practice* (Oxford Press 2009), 275
[28] Ibid

The principal aims of the European Union require the establishment within the Union of a common market, and this in turn requires the removal of all hindrances to the free movement of goods, persons, services and capital within the territory of the European Union, and therefore across the boundaries of the Member States. Such obstacles may be caused by the trading activities of undertakings which seek to restrict competition and isolate national markets. The institution of a system which ensures that competition within the common market is not distorted in this way is one of the primary activities which the community is charged by the Treaty to undertake.[29]

Thus, the elimination of obstacles to the free movement of goods, services, persons, and capital are given high priority. The creation of the Euro was another important step in allowing price transparency, and price competition, and contributed substantially to the competitiveness of the European economy.[30]

3.2.1 Article 101 (earlier Article 81) of the European Community (EC) Treaty

Article 101 prohibits agreements and other collusive behaviour between undertakings that restrict competition and affect trade between the Member States. Article 101 covers not only agreements but also all types of collusion between undertakings that restrict competition. Undertakings are supposed to compete with each other, and hence not co-operate to influence market conditions to the detriment of competition and ultimately of

[29] Copinger and Skone James, *Copinger and Skone James on Copyright* (3rd Supp, 15th edn, Sweet and Maxwell 2009) 1685
[30] Ibid

consumers.[31] Agreements between undertakings operating on the same market can also be a matter of concern to the competition authorities within the scope of Article 101 of the EC Treaty. The next section will give an overview of the general features of Article 101.

The text of Article 101 is as follows:

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

    a) directly or indirectly fix purchase or selling prices or any other trading conditions;
    b) limit or control production, markets, technical development, or investment;
    c) share markets or sources of supply;
    d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
    e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

[31] Van Bael & Bellis, *Basic Principles in Competition Law of the European Community* (5th edn, Kluwer Law International, 2010), 27

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.
3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
   - any agreement or category of agreements between undertakings;
   - any decision or category of decisions by associations of undertakings;
   - any concerted practice or category of concerted practices;[32]

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.

i. impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
ii. afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Thus the first paragraph sets out the prohibition of certain types of conduct that restrict competition, the second paragraph provides for the automatic nullification as the sanction for violation of this prohibition and the third paragraph sets out the conditions for an exemption from the prohibition.[33]

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[32] Dr. Duncan Curley, 'Innovation, intellectual property and competition - A legal and policy perspective, The Stockholm Network Experts' Series on Intellectual Property and Competition', (The Stockholm Network Expert Series on Intellectual Property and Competition Law, 2006) <www.stockholm-network.org/.../d41d8cd9-Experts%20Series%20-%20 Curley- formatted%20 with%20cover.pdf.> accessed 18 March , 2012

[33] Supra note 31, 28

3.2.1.1 Article 101(1): The Prohibition of Agreements and Other Concerted Action

Article 101(1) of the European Community has laid down the prohibition of agreements and other concerted action elaborately which are discussed below:

3.2.1.2 Conditions of Prohibition

For the prohibition of Article 101(1) to be applicable there has to be:

- some form of agreement or other type of concerted action between two or more independent undertakings;
- which, by object or effect, appreciably restricts or is intended to restrict competition within the common market; and
- which may affect trade between Member States.

3.2.1.3 Meaning of an 'Undertaking'

Article 101 only applies to agreements and concerted practices between two or more independent 'undertakings' and decisions by associations of 'undertakings'. The definition of the term 'undertaking' is critically important in this regard, as it directly determines the scope of Article 101. The EC Treaty does not give any guidance on this point, but the term has been considered quite extensively by the European Courts and the Commission.

The basic definition, which has been used by the Courts and the Commission in various cases, was stated in Höfner (Klaus) and Elsner (Fritz) v. Macrotron GmbH[34], where the Court of Justice held that 'the concept of an undertaking includes every entity engaged in an economic activity regardless of the legal status of the entity and the way in which it is financed.

3.2.1.4 Forms of Prohibited Conduct

Article 101(1) of the EC Treaty applies to agreements, decisions and concerted practices. An agreement may be oral. It need not be legally binding, but can consist of an informal understanding between parties. It may also exist, for the purposes of Article 101(1), in terms of a compromise of legal proceedings brought by the owner of an industrial property right for the enforcement of such right.

Article 101 is not limited in application to situations where undertakings enter into an agreement with each other, but also applies when undertakings act in concert through the intermediary of an association. In this case, the association itself as well as each member company may be liable for an infringement of Article 101(1). The word 'decision' has also been given a broad meaning and has been interpreted to include non-binding recommendations whenever compliance with the recommendation by the members of the association would have an appreciable effect on competition.

A concerted practice is a form of coordination between undertakings which, does not amount to a full-fledged agreement; but which enables the undertakings involved to foresee with greater certainty the conduct which their competitors will adopt on the market and thus eliminates or reduces the natural uncertainty inherent to competition. The EC rules of competition

[34] [1991] ECR I-1979.

require each economic operator to determine independently the commercial policy which it intends to adopt on the market. This means that there must be no coordination between undertakings to replace the uncertainty about their future conduct, as this would reduce the risk of taking commercial decisions in a competitive environment.

The purpose of including concerted practices in the scope of Article 101 is to avoid the possibility of undertakings evading its application by cooperating against less formal means than a full-fledged agreement. For a concerted practice to exist following elements are thus required to be fulfilled:-

- there must be a form of co-ordination or practical cooperation between undertakings;
- this coordination needs to be achieved through a direct or indirect contact between the undertakings concerned; and
- the object or effect of the contact must be to influence the conduct of the undertakings concerned on the market.

3.2.1.5 Object or effect of preventing, distorting, or restricting competition within the common market

Agreements and concerted practices will fall only within Article 101(1) if, among other things, they have as their ‘object or effect the prevention, restriction or distortion of competition within the common market’. In addition, according to established case laws, the prevention, restriction or distortion of competition must be ‘appreciable’.

1) Restriction by object:

An agreement may be restrictive of competition under Article 101(1) either by its object or by its effect. Restrictions of competition by object are ‘those that by their very nature have the potential of restricting competition. The assessment of whether an agreement includes restrictions by object is based on a number of factors which are as follows:-

- The terms of the agreement;
- The context in which the agreement is applied;
- The actual conduct and behaviour of the parties on the market.

2) Restriction by effect:

According to the Commission, for an agreement to be restrictive by effect, it must be capable of affecting competition to such an extent that negative effects on prices, output, innovation, or the variety or quality of goods and services can be expected on the relevant market with a reasonable degree of probability. While determining whether an agreement has such an effect, the agreement must be considered in the context in which it is to be applied. For this purpose, ‘account should be taken of the actual conditions, in which the agreement functions, particularly in economic context in which the undertakings operate, the products or services covered by the agreement and the actual structure of the market concerned. As a result, in order to determine whether there is restriction of competition by effect it is often necessary to define the relevant market and assess the parties’ position on the market.

Examples of the types of restrictions that fall within Article 101(1) are given in sub-paragraphs (a) to (e) of Article 101(1). These restrictions, which are often known as the “hardcore" restrictions, can be broadly summarized as terms fixing selling prices or conditions, limiting or controlling production, sharing markets, applying dissimilar conditions to equivalent transactions and tying the other party to extraneous obligations. However, this list is expressly not exhaustive.[35]

3.2.1.6 Article 101(2) of the EC Treaty: The Nullity Sanction

An agreement which contravenes Article 101(1) is automatically void under Article 101(2). The only agreements falling under Article 101(1) that are not affected by Article 101(2) are those which have been declared inapplicable under Article 101(3), or which fall into a category of agreements which, pursuant to Article 101(3), has been prescribed as exempt from the prohibition of Article 101(1) pursuant to a block exemption.[36]

Notwithstanding the nullity sanction under Article 101(2), if the four conditions of Article 101(3) are fulfilled, then the agreement or practice in question is exempt from the prohibition contained in article 101(1). This may be presumed to be the case if the agreement is covered by a block exemption.

3.2.1.7 Article 101(3) of the EC Treaty:-Exemption from the Prohibition

Article 101(3) is fundamentally aimed at ensuring that agreements and practices which may be found to have restrictive elements under Article 101(1) are not condemned when they generate overriding efficiency gains. Article 101(3) may be thought of as a balancing mechanism by which the agreement's pro-competitive benefits are weighed against its restrictive effects.[37] Under Article 101(3), Article 101(1) can be "declared inapplicable"

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[35]Supra note 29, 1687
[36] Id, 1692
[37]Supra note 31, 84

to an agreement or category of agreements if it satisfies each of four conditions, which are as follows:-

a) It may contribute to an improvement in the production or distribution of goods or services, or to technical or economic progress;
b) A fair share of the resulting benefit is passed on to consumers;
c) The restrictions are indispensable to the achievement of the aims of agreement; and
d) The agreement does not eliminate competition in a particular sector.

These conditions are cumulative in that all must be satisfied before the benefit of Article 101(3) may be claimed. They are also exhaustive, in that the objectives of other Treaty provisions may only be taken into account to the extent that they are subsumed under the four conditions.

3.2.1.8 Fostering innovation and preserving incentives to innovate - a closer look at Article 101

If an agreement falls under Article 101(1) there is an important legal consequence, which is set out in Article 101(2). An agreement (or a term of an agreement) that falls within the ambit of Article 101(1) is automatically void. This could have serious practical implications for the parties to an agreement, because the contract may then be unenforceable. Article 101(1) (b) expressly prohibits agreements between companies that limit or control "production, markets, technical development or investment".

The European Commission has nevertheless recognized that activities such as cooperation in the conduct of innovative research, technology transfer and the licensing of IPRs between firms can assist in the development and exploitation of risky new technologies, thereby enabling more and better products to be brought to market and allowing greater consumer choice. Thus, even if agreements for the carrying out of research and development or the licensing of IPRs fall under Article 101(1), these agreements often have pro-competitive benefits. The pro-competitive effects can be taken account of by means of Article 101(3), which [if the conditions of Article 101(3) are satisfied] nullifies Article 101(1).[38]

In order to avoid firms having to check every contract for the impact of Article 101(1) and the possibility of exemption under Article 101(3), the European Commission has used its power to issue block exemption regulations and guidance instructions. These documents allow companies to check their business contracts against prevailing EU policy under the competition rules. Not only are they helpful documents that explain and clarify EU competition policy, but they are also extremely useful from a legal perspective. If a contract complies with the terms set out in a block exemption, it is legal and enforceable and the detailed competition rules often do not need to be considered further. The block exemptions are therefore said to provide protection to certain contracts.[39]

Two block exemptions need to be examined in order to draw out from them the European Commission's policies towards innovation and the effect of competition rules. Firstly the block exemption for research and development agreements: Commission Regulation (EC) No. 2659/2000 (the 'R&D block exemption').[40] Secondly, the block exemption for technology licensing agreements between two parties (including licenses of patents,

[38] Supra note 32
[39] Ibid.
[40] The full text of the R&D block exemption is available on DG Competition's website at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32000R2659:EN:HTML> accessed 30 March , 2014

know-how and software copyright). This block exemption is Commission Regulation (EC) No. 772/2004, also known as the Technology Transfer Block Exemption Regulation (for present purposes, the 'IPR licensing block exemption').[41] The Research & Development Block exemption is an attempt to realize that R & D block exemption leads to a technologically enhanced products thereby looking into the concerns of consumer welfare.

The IPR Licensing Block exemption is another area in which the European Commission has sought to formulate a pro-innovation policy under Article 101 is IPR licensing and technology transfer. This leads to better and effective licensing which has a favorable effect on technology leading to innovation and better products for the consumers.

Although the IPR licensing block exemption provides a broad exemption from Article 101(1) for many types of licensing contracts that are entered into by two parties yet there are certain conditions that must be fulfilled. In order for an agreement to come within the block exemption's benefit, the contracting parties' market shares must be below certain percentage thresholds. Assessment of the parties' market shares may involve defining the relevant market and analyzing economic data. Two economic markets must be examined: the market for the products which are to be made pursuant to the IPR license agreement and the market for the granting of IPR licenses for technology. Undertakings with more than a 30% individual share of a relevant product market or a relevant technology market are unable to take advantage of the block exemption. If two undertakings are competitors on a relevant product market, or a relevant technology market, their

[41] The full text of the IPR licensing block exemption is available on DG Competition's website at <http://eur-lex.europa.eu/LexUriServ/site/en/oj/2004/l_123/l_12320040427en00110017.pdf.> accessed 30 March , 2014

combined market share must be less than 20% in order to come within the block exemption.[42]

Through these block exemption policies, the European Commission tries to maintain healthy competition in the market. Although the above statistic is not a very easy procedure yet the Commission's policy is to watch out innovative practices in the market leading to more innovation and consumer welfare. Through the above paragraphs, it can be seen that it is the abuse of the market under Article 102 of the EC treaty which is prohibited.

3.2.2Article 102 (earlier Article 82) of the EC Treaty General Provision

Whereas Article 101 in essence deals with agreements between undertakings, Article 102 regulates unilateral behaviour by single undertakings. Article 102 prohibits the abuse by an undertaking of a dominant position within the common market or a substantial part of it, where that abuse may affect trade between Member States. It should be noted at the outset that Article 102 does not prohibit dominance. In the words of the Court of Justice: "A finding that an undertaking has a dominant position is not in itself an abuse but simply means that, irrespective of the reasons for which it has such a dominant position, the undertaking concerned has a special responsibility not to allow its conduct to impair genuine competition in the common market."[43]

Article 102 prohibits undertakings with a dominant position in a particular market from performing themselves in a way that constitutes an

[42] Supra note 32
[43] Supra note 29, 1694.

abuse of their market power[44]. The market shall operate if the dominant players have a role in regulating the market according to their own needs.

When conducting market investigations under Article 102, the European Commission usually defines the relevant market and then determines whether a company is in fact dominant on that market. It often uses market share as the most important factor in deciding whether an undertaking is dominant and sees large market shares (greater than 50%) as evidence of the existence of dominance. The relevant market consists of all products (and/or services) that are regarded as substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use. The text of Article 102 is as follows: "Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States."

Such abuse may, in particular, consist in:

a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
b) limiting production, markets or technical development to the detriment of consumers;
c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.[45]

[44] Ibid
[45] Supra note 32

3.2.2.1 Dominant Position

Article 102 does not define the term ‘dominant position’, but the concept has been clarified by the practice of the Commission and the case law of the European Courts. In United Brands[46], the Court of Justice defined the concept of dominance as a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and, ultimately, of its consumers.

The definition laid down by the Court of Justice in United Brands has become the standard legal test in subsequent applications of Article 102. Notwithstanding the reference in this definition to the dominant undertaking’s customers’, it is clear that Article 102 does not only cover the dominant position of a seller towards its clients but applies equally to undertakings operating on a market for the purchase of products or services as recently recalled by the Court of First Instance in the British Airways case.[47] Article 102 applies both to undertakings whose possible dominant position is established in relation to their suppliers and to those which are capable of being in the same position in relation to their customers.

In practice, there are two key elements in assessing whether an undertaking enjoys such a position of economic strength which are as follows:[48]

(i) Relevant market –

[46] United Brands v. Commission, [1978] ECR 207, [65]
[47] British Airways v. Commission, Case T-219/99 (paras 101-102).
[48]Supra note 29, 1694

The first element is the assessment of the correct relevant market; this element is so important a constituent of the analysis of conduct under Article 102 that an error will vitiate any finding of breach. There are two aspects to the definition of the relevant market:

a) The product market; and
b) The geographical market.

The relevant market comprises those goods (or services), to which the conduct relates and those goods (or services), defined by their nature and their geographical location.

(ii) Dominance-

The obvious case where an undertaking is dominant in a relevant market is where it is unlawful to compete with that undertaking on that market. This point is important in the context of copyright, since the essence of that right is that others are unable to supply copies of a work in which such a right is held, without permission of the right holder.

3.2.2.2 Abuse

Article 102 itself contains a non-exhaustive list of practices that may be considered to be abuses. The list concentrates on those abuses which are likely to be of most relevance. Following are examples of practices that have been considered to be abuses:-

a) Excessive prices-

Although this might be thought to be the most obvious way in which a monopolist might seek to abuse his market power, there are relatively few cases where excessive pricing has been found to be an abuse, even though the setting of unfairly high prices is listed as an abuse in Article 102(a). The principal difficulty is that in the absence of appropriate comparators in order to determine whether a price is excessive, a comparison has to be made with the costs of production, but these costs can be very difficult to determine objectively.

b) Price discrimination-

There are number of cases where it will almost certainly be regarded as an abuse for a dominant undertaking to charge different prices to different purchasers for his product. One is where the favoured purchasers are those that have purchased, or are particularly liable to purchase, from the dominant undertaking's competitors. Another is where discounts are given to dealers who buy all or high proportion of their supplies from the dominant undertaking, or who achieve a large turnover in the dominant undertaking's products. Price discrimination based on the nationality of the purchaser with a view to maintaining national boundaries between markets is very likely to be considered to be an abuse. Differing royalty fees charged by a dominant copyright owner may well constitute price discrimination in the absence of objective justification.[49]

c) Refusal to supply-

It will be an abuse for a dominant undertaking to refuse to supply raw material to a purchaser because that purchaser will use it to compete with the dominant undertaking on another, ancillary market. So for example, it was an

[49] Supra note 29, 1697

abuse for a company dominant in the supply of television listings information to refuse to supply a company that wished to compete with it on the market for weekly T.V. guides; and it was an abuse for a broadcasting company to refuse to accept advertisements showing telephone numbers of a telemarketer that competed with the broadcaster's own telemarketing company.

d) Essential facilities-

An abuse has been found where the owner of an "essential facility"- and thereby dominant in the supply of that facility- refused to grant access to that facility to a potential competitor, or discriminated in price against that competitor. Thus in Magill case, where TV listings information was regarded as "essential" to the publication of weekly TV guides.[50]

e) Miscellaneous abuses-

Other abuses include making the supply of products conditional on the purchase of some other product("tying"); and pricing below the average variable cost of producing a product, or pricing at below average total cost with the intent of eliminating a competitor ("predatory pricing").

3.2.2.3 Co-relation between the dominance and the abuse

Looking into the relationship between dominance and abuse, an undertaking can be found to dominate the market if the abuse has a direct effect on the market, the undertaking attempting to use its position in the dominated market to produce effects in another market, the undertaking has a peculiar nature to protect its position in the dominated market.

[50]Ibid

3.2.2.4 A closer look at Article 102: ownership of IPRs and market dominance

For the purposes of Article 102, mere ownership of an IPR is not sufficient to establish a dominant position. This is because the relevant market will often consist not just of products covered by a particular patent or copyright. It is quite often the case that other products may compete in a market with a product that is protected by IPRs. Broadly, market dominance on the part of an IPR owner will only arise if there are no or only a few non-infringing substitute products available for consumers to buy.[51]

3.2.2.5 Dominant position associated with the trade mark law

The first hurdle to overcome in applying Art.102 to branded products is the question of dominance. Reliance only on the brand owner's trade mark to show dominance in a relevant market will not suffice. The statutory protection from infringement offered by the grant of a trade mark is unlikely to be a serious hindrance to competition.[52]

The law of unfair competition is a broad and wide-ranging area of the law that basically prohibits practices that society deems to be unfair. Two of the aspects of this body of law are trademark infringement and trademark dilution. The legal system encourages hard, but fair, and honest competition in business. It has been seen from certain judicial pronouncements that there were situations where the product first purchased had been repackaged, subject to certain requirements having been met. Among these requirements was that the original condition of the product not being adversely affected

[51] Supra note 32
[52] Thomas Heide, 'Trademarks and Competition Law after Davidoff' (2003), E.I.P.R 25(4), 163-168

and that the consumer receives notice as to who had carried out the repackaging. In addition, the trademark proprietor was to be given notice of the proposed repackaging, and it had to be shown that allowing the proprietor to enforce his trademark rights against the proposed repackager would contribute to the artificial partitioning of the Community.[53]

The applicable principles were eventually set out in Trade Mark Directive 89/104, namely that:

1. The Trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent.
2. The above mentioned paragraph (paragraph 1), shall not apply when there exists legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is impaired after they have been put on the market.

These principles address the situation in which the imported trademarked goods have been repackaged for resale using the trademark that pertained in the Member State in which the goods were originally obtained.[54] In the case of Pharmacia & Upjohn SA v. Paranova A/S[55], a different question was raised by the Danish Courts to the ECJ by reference under Article 234 of the EC Treaty. The issue was whether a parallel importer was entitled to repackage and sell the goods under the trademark which the proprietor used in the importing State for identical goods, even though the proprietor had applied a different mark when it first placed the goods on the market.

[53] Mark R. Joelson, *An International Antitrust Primer – A Guide to the Operation of United States, European Union and Other Key Competition Laws in the Global Economy* (2nd edn, Kluwer Law International) 260
[54] Ibid
[55] [2000] FSR 621

The facts of this case involved a pharmaceutical product. Upjohn marketed the antibiotic clindamycin in the Community using various forms of the trademark “Dalacin”. Paranova purchased the product in France under the name “Dalacine” and in Greece under the name “Dalacin C”, and repackaged them for sale in Denmark under the name “Dalacin”. Upjohn obtained an injunction under Danish law prohibiting Paranova from selling the imported goods under that mark.

The ECJ decided that it was necessary to assess whether the circumstances prevailing at the time of marketing made it objectively necessary to replace the original trade mark by that used in the member state into which the goods are to be imported in order to market them in that state. It is necessary if it is the only way to gain access to the importing state's market. It was rightly contended by Paranova that:

- there was no objective difference between re-affixing a trade mark after repackaging and replacing it with another if the common market would otherwise be partitioned; and
- that it was not necessary to determine whether the registered proprietor intended to partition the common market by selling the same product under different marks in different member states.[56]

The market could be partitioned just as effectively by using different packaging in different member states as by using different trademarks. Re-affixing a trade mark was just as much an infringement of a registered proprietor's exclusive rights as replacing a mark used in one state with that used in another. The route by which the Court came to this conclusion is as

[56] Jane Lambert, ‘Trade Marks, Case Note: Pharmacia & Upjohn DA v Paranova S/A’, <http://www.ipit-update.com/oldnipclaw/nipclaw/tm/upjohn.htm> accessed 12 April, 2014

follows. Its starting point was that the specific purposes of a trade mark are to guarantee:

- the proprietor the exclusive right to use that trade mark for the purpose of putting a product on the market for the first time and therefore to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products which bear it unlawfully; and
- the consumer or end user the identity of the trade-marked product's origin by enabling him to distinguish it without any risk of confusion from products of different origin.

The landmark Microsoft case[57] illustrates the sensitivity of the competition authorities to vertical integration strategies aimed at capturing after markets by incumbent dominant firms in the information technology sector. The Intel case[58]reminds of the limits to dominant firms engaging in anti-competitive discounting designed to create exclusivity in primary markets. On the other hand the Astra Zeneca case[59] raises the issue when a misuse of the patent process amounts to a violation of Article 102 of the Treaty. The Rambus case[60] portrayed the standard setting procedures which is another area of abuse.

[57] Microsoft Corp v Commission Case T-201/04, (2007) ECR II-3601
[58] Case COMP/37.990, Intel Commission Decision of 13th May 2009 (D 2009) 3726
[59] Case T-321/05, Astra Zeneca v Commission, Judgment of the General Court dated 1 July, 2010
[60] IP/09/1897, 09/12/2009

The reconciliation between IPRs and Competition Law have been suggested by the ABA Section of Antitrust Law[61] that the view that competition law should only interfere with innovation/IPRs when social welfare is at risk; the view that concentration and monopoly markets have the edge over competitive markets in terms of innovation owing to greater capital and resources and the view that competition law only concerns itself with consumer welfare when the effects of a proposed action on production and innovation efficiency are neutral or indeterminate.

3.3 Decisions of the European Courts

Article 82 (presently Article 102) of EC competition law regulates undertakings which have been found to occupy positions of dominant market power, such as monopolies. It not only prohibits exploitative pricing or limitations of output, but also concerns itself with the use of market power to damage effective competition in markets by preventing access to markets or driving out existing competition. It has been interpreted to prohibit anti-competitive or 'exclusionary' abuses such as refusal to supply without justification.[62] In a sense, this provision of EU Treaty has been the tool for implementing "compulsory licensing", which can be understood by going through a series of important cases.

3.3.1 Patents

The European Court of Justice through its judgment has evolved and developed the jurisprudence between the interplay of patents and competition

[61] ABA Section of Antitrust Law, Federal Statutory Exemptions from Antitrust Law, (2007) 264

[62] Steven D. Anderman and Hedvig Schmidt, *The Interface between Intellectual Property Rights & Competition Policy*, (3rd edn, Cambridge University Press, 2007) 39

law. An attempt has been made to reflect on the key areas of interface between patents and competition law.

3.3.1.1 Exclusive licensing agreements

An exclusive license means that the licensor shall not practice under the patent and that the licensor shall not grant licenses to any other parties. In Parke Davis v Probel and Centrafarm[63], a third party had marketed a product, which was under patent protection in one member state, on the market of another state without the consent of the right holder. When the third party tried to export the good into the member state where it was protected by a patent, the right holder used his exclusive right as the owner of the patent to keep the goods out. The ECJ was asked in a preliminary question whether the national courts' action, stopping the imports based on the exclusive right the national legislation bestowed upon the holder of the patent, was compatible with the Community rules on competition, i. e. Articles 81 (presently Article 101) and 82 (presently Article 102). In other words: could said articles limit the rights a patent holder had obtained by virtue of national patent legislation? The Court's answer to this was in the negative. Once again the distinction between existence and exercise was made. The ECJ again indicated that there was no interest from a competition law point of view in regulating the national rules for the legal status of intellectual property rights. However, the Court acknowledged that the national provisions may cause problems in connection with the common market and stated: "The national rules relating to the protection of intellectual property have not yet been unified within the Community. In the absence of such unification, the national character of the protection of industrial property rights and the variations between the different legislative systems on this subject are

[63] (1968) ECR 55, Case no. 24/67, judgment of the Court of 29th February 1968

capable of creating obstacles both to the free movement of goods and to competition within the Community.[64]"

3.3.1.2 Abuse of dominant position

Dominant position is a position of economic strength enjoyed by the enterprise which enables it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers.

The KZR Orange Book case[65]concerning CD-Rs. CD technology was developed years ago jointly by the Dutch company Philips and Sony. The technical parameters were laid down in different documents with various colours on the cover, including the CD-Rs. in the so called orange book. Both the companies had agreed to license the Intellectual Property on which their technology was based. However, a number of producers did not obtain the license despite Philips pursuing the manufacturers in the Courts and through custom authorities. The contention of the companies was that their product did not infringe the claim and they were entitled to a compulsory license since Philips conduct amounted to an abuse of dominant position.

In Astra Zeneca AB and Astra Zeneca Plc v European Commission[66], AstraZeneca AB and AstraZeneca plc belong to a pharmaceutical group ('AZ') which is active worldwide in the sector of the invention, development and marketing of pharmaceutical products. Its business is focused, in that field, in particular on gastrointestinal conditions. In that regard, one of the main products marketed by AZ is known as 'Losec', a brand name used in

[64] Parke Davis judgment at para. 71.
[65] KZR 39/06 of 6th May 2009
[66] C-457/10 P, 6th December 2012

most European markets. This omeprazole-based medicinal product, used in the treatment of gastrointestinal conditions linked with hyperacidity and, in particular, to proactively inhibit acid secretion into the stomach, was the first on the market to act directly on the proton pump, that is to say, the specific enzyme inside the parietal cells along the stomach wall, which pumps acid into the stomach.

On 12 May 1999, Generics (UK) Ltd and Scandinavian Pharmaceuticals Generics AB complained to the Commission of AZ's conduct aimed at preventing them from introducing generic versions of omeprazole on a number of markets in the European Economic Area (EEA). By the contested decision, the Commission found that AstraZeneca AB and AstraZeneca plc had committed two abuses of a dominant position, thereby infringing Article 82 EC (presently Article 102) and Article 54 of the Agreement on the European Economic Area, of 2 May 1992 ('the EEA Agreement').

According to Article 1(1) of the decision, the first abuse consisted in misleading representations to patent offices in Belgium, Denmark, Germany, the Netherlands, the United Kingdom and Norway and also before the national courts in Germany and Norway. The Commission considered in that regard that those representations formed part of an overall strategy designed to keep manufacturers of generic products away from the market by obtaining or maintaining SPCs for omeprazole to which AZ was not entitled or to which it was entitled for a shorter duration. The Commission distinguished two stages in that first abuse, the first of which concerned representations made when, on 7 June 1993, instructions were sent to the patent agents through whom SPC applications were filed in seven Member

States, and the second of which referred to representations subsequently made to several patent offices and before national courts[67].

Under Article 1(2) of the contested decision, the second abuse consisted in the submission of requests for deregistration of the MAs for Losec capsules in Denmark, Sweden and Norway, combined with the withdrawal of Losec capsules from the market and the launch of Losec MUPS tablets ('Multiple Unit Pellet System'; a system of tablets with multiple microgranules) in those three countries. In the Commission's submission, those steps were taken in order to ensure that the abridged registration route provided for in point 8(a)(iii) of the third paragraph of Article 4 of Directive 65/65 would not be available to producers of generic omeprazole and they also had the consequence that parallel importers were likely to lose their parallel import licences. It took issue, in particular, with the appellants' strategic implementation of the regulatory framework in order to artificially protect from competition products that were no longer protected by a patent and for which the period of data exclusivity had expired[68].In respect of those two abuses, the Commission imposed on the appellants jointly and severally a fine of EUR 46 million and on AstraZeneca AB a separate fine of EUR 14 million[69]

3.3.1.3 Tie-ins

In tying arrangements, a seller agrees to sell a highly usable product or service on the condition that the buyer also purchases a less important or marketable product or service, irrespective of the fact whether the buyer wants the second product or not.In Hilti AG v Commission[70], Hilti is the

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[67] Ibid. Paragraph 18
[68] Ibid. Paragraph 19
[69] Ibid. Paragraph 20
[70] Case C-53/92 Hilti AG v. Commission [1991] ECR I-667

landmark judgment of tie-ins. There was a complaint that Hilti, the largest European producer of PAF ("powder-actuated fastening") nail guns, nails and cartridge strips was tying the sale of its cartridge strips to sale of its nails. The nail guns were patent protected and the cartridge strips were under copyright protection, but the nails were not covered by any intellectual property right. The Commission also found abuse in the form of excessive and discriminative pricing.

They complained that Hilti was tying the sale of its cartridge strips to sale of its nails. The nail guns and the cartridge strips were patent and copyright protected, but the nails were not covered by any intellectual property right protection. The Commission also establish abuse in the form of excessive and discriminative pricing. Hilti was charging much higher royalties to independent nail manufacturers for them to obtain licenses of right to the cartridge strips. This reinforced the tie-in since it limited the entry of new producers into the markets for compatible nails and cartridges, and so the practices were found to be abusive by the Commission. On the other hand, Hilti contended that for only safety measures did Hilti made nails should be used with the nail guns manufactured by the undertaking.

The CFI remarked that the solution to this claimed safety problem should lie in the adoption of appropriate laws and regulations, not in unilateral measures taken by nail gun manufacturers which have the effect of preventing independent producers from pursuing the bulk of their business. The CFI further observed that Hilti was not prepared to grant licenses for use of cartridge strips voluntarily and when forced to do so, demanded a fee six times higher than would be reasonable, which, the CFI said, was undeniably abusive.[71] Hilti's selective and discriminative policies against its competitors

[71] Case T-30/89 Hilti AG v. Commission [1991] ECR II-1439 at para. 99.

and their customers were deemed illegitimate since Hilti was in a dominant position and as such had a special responsibility.

3.3.1.4 Relevant product market

The relevant product market is defined as "those commodities reasonably interchangeably by consumers for the same purposes and may be used as substitutes[72]."

In Tetra Pak International SA v. Commission (Tetra Pak II)[73], in September 1983 Elopak Italia filed a complaint to the European Commission. According to Elopak, its rival Tetra Pak was trying to oust Elopak from the Italian milk packaging market through abusive, exclusionary practices.[74] Subsequent to the complaint, the Commission conducted an investigation into the alleged conduct, finally reaching a decision in the case on 24 July 1991. Tetra Pak appealed this decision to the CFI and consequently also the appraisal of this court, sending the case to the ECJ for a final judgment. However, both of Tetra Pak's appeals were dismissed by the courts.

Tetra Pak is active in the business of providing equipment for packaging of liquid and semiliquid foods. Liquid and semi-liquid foods, for instance milk, fruit juice, wine, water and soup, can be packaged in a variety of different shapes and materials. The materials most commonly used are paper carton, plastics, glass and aluminium. Carton, Tetra Pak's primary material at the time of the case, can be used for packaging a wide range of liquid or semiliquid foods. It has proven exceptionally successful for packaging these products and also fruit juice, making carton the most

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[72] Korkola v Allpro Imaging, Inc., 2009 U.S. Dist. LEXIS 70727
[73] Case C-333/94 Tetra Pak International SA v. Commission (Tetra Pak II) [1996] ECR I-5951
[74] Ibid, para 5

commonly used material for these foods. The liquid most commonly packed in Tetra Pak cartons is milk. Milk can be divided into two categories: fresh milk and UHT-milk. The former is usually pasteurized, whereas the latter is sterilized. Sterilization is achieved by briefly heating the milk to an ultra high temperature (UHT) under aseptic conditions. This process prolongs the expiration time of the milk and also allows for it to be stored in a non-refrigerated environment.[75] The researcher has discussed some of the key areas of the case:

First of all, the non- asceptive market where Tetra Pak developed its cartons Tetra Pak for packaging milk in paper carton, using a continuous forming, filling and sealing process (form-fill-seal). The cost savings of this technology were substantial, with the milk still being contained in a relatively consumer friendly packaging. In 1963 Tetra Pak introduced its brick shaped cartons, called the Tetra Brik. Gable-top cartons have replaced this. Tetra Rex is Tetra Pak's gable-top variant, facing competition primarily from Elopak's Pure Pak carton.[76] On the other hand asceptive packaging involves Tetra Pak's aseptic technology involves sterilizing the cartons by soaking them in hydrogen peroxide, before the form-fill-seal process. The whole process of sterilization and form-fill-seal takes place in the machine, which acts as a closed, aseptic system.[77] The Commission took into account the following things: Firstly, the two markets for non-aseptic packaging, i.e. the two separate, but linked, markets for non-aseptic machines and its corresponding market for non-aseptic cartons.

Secondly, the two separate markets for aseptic machines and aseptic cartons.[78]Tetra Pak is active in all four of the relevant product markets. Using

[75] Ibid paragraph 8
[76] Tetra Pak Commission decision, Paragraph 15
[77] Ibid. Paragraph 14
[78] Ibid. Paragraph 11

the Commission's definition of the relevant markets, Tetra Pak held in 1985 a market share of 50 % of the nonaseptic market, with Elopak second at 27 % and PKL third at 11 %.69 The remaining 12 % was divided among several smaller producers, none of which individually exceeded a market share of 10 %. With only three major producers, the non-aseptic market was oligopolistic.[79] Thus Tetra Pak was considered dominant in the market.

The Commission also found certain activities of Tetra Pak which were considered to be dominant. First of all, Tetra Pak was selling or leasing its machines coupled with a number of contractual obligations. The tying strategy employed by Tetra Pak was one such obligation and it had several dimensions. Most importantly, the sale or lease of the machine was tied to the purchase of cartons from Tetra Pak. This tie was achieved by Tetra Pak first requiring its customer to use only Tetra Pak cartons in Tetra Pak machines and then by only allowing the customer to obtain supplies from Tetra Pak itself.[80] Further, Tetra Pak was able to ensure both that only Tetra Pak cartons were used and that these were not obtained through other sources, e.g. parallel imports. Tetra Pak also tied its machine sale/lease to an exclusive right to provide maintenance and repair services, effectively barring other firms specializing in providing such services. The exclusive right to supply spare parts was also reserved for Tetra Pak.[81] Finally, the Commission held that using tied sales in such a manner was a violation of article 82 (presently Article 102), since the obligations had no connection to the purpose of the contract itself, i.e. selling or leasing machines.[82]

Tetra Pak contended that only a sole supplier would be able to ensure product liability and health reasons. To this contention the Commission said

[79] Ibid. Paragraph 13
[80] Ibid, Paragraph 115-6
[81] Ibid, Paragraph 107-9
[82] Ibid, Paragraphs 104, 117

that if health was the reason, then Tetra Pak would not have contractual obligations compulsory for the defendants. The Commission reached the decision that Tetra Pak, being an undertaking in a dominant position on the aseptic market, was abusing this dominance in the non-aseptic market. In particular reference to tying, the Commission stated that Tetra Pak's contractual licenses were elimination the other competitior's from the market. The Commission thus held that Tetra Pak's behavior was an infringement of article 82 (presently Article 102) and imposed a fine of ECU 75 million and an obligation to end the infringements. Both the CFI and the ECJ fully upheld this decision, but it is noteworthy that the ECJ expanded on the issue of the "natural link" between machines and cartons. The court held that proving that such a link existed would not automatically make article 82 inapplicable, as the list of abuses in that article is not exhaustive.

3.3.2 Trademark

The European Court of Justice through its judgment has evolved and developed the jurisprudence between the interplay of trademark and competition law. An attempt has been made to reflect on the key areas of interplay between trademark and competition law.

3.3.2.1 Trademark Licensing

A trademark license is an agreement between a trademark owner ("licensor") and another party ("licensee") in which the licensor permits the licensee to use its trademark in commerce.

In Sirena v Eda[83], an American undertaking who owned a trademark of a cosmetic cream had, in 1937, i.e. before the Treaty entered into force, transferred all of its trademark rights as regards the cream in Italy to an Italian undertaking. The Italian undertaking had since then produced and put the cream on the Italian market. The cream in question was since the transaction in 1937 a registered trademark in accordance with Italian law. The Italian trademark holder alleged infringement of its right and tried stopping the distribution in Italy of a cream with the same trademark, imported from Germany. The producer in Germany had a similar agreement with the original American trademark right holder for German territory. There existed in other words a market partitioning due to the divided trademark rights.

One of the questions the Italian court asked the ECJ was whether Articles 81 and 82 were to be interpreted as preventing the proprietor of a trademark lawfully registered in one member state, from exercising his trademarks' national exclusive right, by prohibiting third parties from importing, from other member states, products with the same trademark, lawfully registered in that member state.

The Court answered by saying that an existence of a trademark right in itself will not fall under Article 81(1) (presently Article 101(1)), but the exercise of it might. Agreements dividing markets between undertakings are unlawful according to Article 81(1) (presently Article 101(1)). If two undertakings have, through agreement between themselves or agreements with third parties, divided markets so that borders between member states are created, this will fall under the prohibition of Article81(1) (presently Article 101(1)), overriding national trademark law, if the restrictive agreement affects trade between member states to an appreciable extent. This is also

[83] (1971) ECR 3169

valid for a restrictive practice that arose before the Treaty came into force, provided it produces effects after that date. The judgment in Sirena would then mean Article 81 (presently Article 101) would be applicable no matter how much time had passed since the trademark allocation had taken place. As regards Article 82 (presently Article 102), the ECJ stated in Sirena that an owner of a trademark right is not in a dominant position merely because he can prevent third parties from putting goods bearing the same trademark in circulation on a market of a member state. In that situation, the Court continued, it would be necessary, in order to establish the existence of a dominant position, to also consider, for example, the existence and position of competitors marketing similar or substitutable goods on that market. The Court answered by saying that an existence of a trademark right in itself will not fall under Article 81(1) (presently Article 101(1)), but the exercise of it might. Agreements dividing markets between undertakings are unlawful according to Article 81(1) (presently Article 101(1)). If two undertakings have, through agreement between themselves or agreements with third parties, divided markets so that borders between member states are created, this will fall under the prohibition of Article 81(1), overriding national trademark law, if the restrictive agreement affects trade between member states to an appreciable extent. This is also valid for a restrictive practice that arose before the Treaty came into force, provided it produces effects after that date. The judgment in Sirena would then mean Article 81(presently Article 101) would be applicable no matter how much time had passed since the trademark allocation had taken place.

As regards Article 82 (presently Article 102), the ECJ stated in Sirena that an owner of a trademark right is not in a dominant position merely because he can prevent third parties from putting goods bearing the same trademark in circulation on a market of a member state. In that situation, the Court continued, it would be necessary, in order to establish the existence of a dominant position, to also consider, for example, the existence and position of competitors marketing similar or substitutable goods on that market. A high price level of the good is not enough, the Court stated, to draw the conclusion of the existence of an abuse of a dominant position under Article 82 (presently Article 102), although it could be a determining factor of such a situation.

In Establissements Consten S.A.R.L and Grundig-Varkaufs-GmbH v Commission of the European Community[84], Consten was the exclusive dealer for Grundig's products (and only Grundig's products, no competing brands) in France. In return for only selling Grundig products, Consten was allowed to register Grundig's trademark GINT in France. Grundig sold only to Consten on the French market and made sure the other dealers it supplied with goods outside France undertook not to resell Grundig products in France. When another French distributor, UNEF, parallel imported Grundig goods from Germany into the French market, Consten used its trademark rights to stop the imports. This sole distribution agreement between Consten and Grundig resulted in Consten's absolute protection on the French market from competition byother suppliers of Grundig goods. The Commission reacted and held that this arrangement was incompatible with Article 81 because it effectively resulted in isolating the French market from the rest of the common market.

The ECJ upheld the Commissions views and stated that this kind of behaviour would indeed fall under the prohibitions of Article 81; the exercise of an intellectual property right could not be allowed if it frustrated the Community competition rules. This did not mean however, the Court clearly pointed out, that the enforcement of Article 81 (presently Article 101) would be interfering with the member states' granting of intellectual property rights.

[84] (1966) ECR 299, Cases 56 and 58-64, Judgment of the Court of 13th July, 1966

The ECJ did not in any way prohibit nationally granted intellectual property rights. It emphasised that the fact that exercises of intellectual property rights that would fall under the prohibitions of the competition rules would be pursued by the Commission: "…does not affect the grant of those rights but only limits their exercise to the extent necessary to give effect to the prohibition under Article 85(1).[85]"

3.3.3 Copyright

The European Court of Justice through its judgment has evolved and developed the jurisprudence between the interplay of copyright and competition law. An attempt has been made to reflect on the key areas of interplay between copyright and competition law.

3.3.3.1 Refusal to supply license

In RTE and ITP v. Commission ("Magill")[86], a broader and more flexible approach was adopted. The facts of this case were such that three Irish TV broadcasting stations held copyrights on their individual program listings. Each station published its own TV guide to inform viewers of its program for the following week. Each station also granted a license to daily papers to publish its list of programs one day in advance and the license was granted free of charge.[87]

Magill, a Dublin company, was the compiler of a comprehensive weekly television guide combining the listings of three television companies

[85] Ibid. at para. 345. Article 85 is now Article 81.
[86] Joined cases C-241/91P and C-242/91P, (1995) ECR I-743.
[87] Claude CRAMPES (Université de Toulouse- Gremaq and Idei) David ENCAOUA (EUREQua, Paris I) Abraham HOLLANDER (Université de Montréal), "Competition and Intellectual property in the European Union", <http://idei.fr/doc/wp/2005/crampes.pdf> accessed 15 March, 2013

broadcasting in the UK and Ireland. Since these listings were protected by copyright, Magill inevitably required a license, the grant of which was refused by these companies. When Magill decided to publish an all-inclusive weekly guide for all three stations, they sued for copyright infringement and got a preliminary injunction. The stations subsequently refused to grant licenses to Magill and the company filed a complaint with the European Commission. The Commission concluded that refusal was in breach of Article 82. It ordered the stations to put an end to their abusive conduct by supplying "third parties on request and on a non-discriminatory basis with their individual advance weekly programme listings and permitting reproduction of those listings by such parties".

In the Magill decision, the ECJ set out for the first time circumstances where a refusal to license can be said to constitute an abuse of dominance. They are as follows:

a) preventing the emergence of a new product for which there is a potential demand;
b) a non-justified refusal to license; and
c) the monopolization by the right’s holder of a secondary market by exploiting power in a primary market.

The ECJ held that although “mere ownership of an intellectual property right cannot confer a dominant position”, there was a de facto monopoly over the information produced by the TV stations since they were the only source. The refusal to supply a license was preventing the emergence of a new product for which there was apparently a market demand; and finally there was no justified reason to the refusal. The refusal to license was judged under the heading of the essential facilities doctrine. The ECJ affirmed the grant of compulsory license by the Commission, on grounds of Article 82, and held that copyright itself did not justify a refusal to license in the ‘exceptional circumstances’, where there was a consumer demand for the new product, where the TV companies had a de facto monopoly over the listings by virtue of their scheduling of TV programs, where a license of the listings was an indispensable input for the comprehensive TV guide and where they were not themselves supplying the product to the consumers.

3.3.3.2 Duty to supply where access was essential

In Tiercé Ladbroke v. Commission[88], an association that organizes horse races in France holds the copyright on the sounds and pictures of races. It refused to grant Tiercé Ladbroke - a Belgian bookmaker - a license to rebroadcast French horse races live. The Commission rejected a complaint by Ladbroke and the CFI rejected an attempt by Ladbroke to invoke Magill. The CFI limited the obligations of a dominant actor under Magill by holding that there was no duty to license live rebroadcast of French horse races to a firm that was already the leading provider of betting services in Belgium. But, it also made explicit the obligation of a producer to provide access to an indispensable input. The courts held that there might be a duty to supply where access was essential because there were no substitutes.[89]

[88] Case T-504/93, 1997, ECR II-923

[89] "The refusal to supply the applicant could not fall within the prohibition laid down by Article 86 (now 82) unless it concerned a product or service which was either essential for the exercise of the activity in question, in that there was no real or potential substitute, or was a new product whose introduction might be prevented, despite specific, constant and regular potential demand on the part of consumers "

3.3.3.3 Abuse of dominant position

In Lucazeau et al. v SACEM et al.[90], SACEM, a French collecting society, was involved in a few cases regarding, among other things, the possibility of it abusing its dominant position, the first one being the Basset case. Mr Basset owned a discotheque in France. SACEM asserted that Mr Basset had played works from SACEM's repertoire in the discotheque without paying royalties. Mr Basset claimed the contracts on which SACEM's royalty claims were based were void because they were contrary to national and Community competition law. The Court d'Appeal agreed SACEM had a de facto monopoly and thereby occupied a dominant position on the market in France. Mr Basset claimed SACEM had abused its dominant position, firstly by charging an excessive rate of royalties, and secondly by including in the rate a "supplementary mechanical reproduction fee" (this did not occur in other member states, but was perfectly legal according to French law). The Courd'Appeal referred some questions regarding inter alia the legitimacy of the extra fee to the ECJ for a preliminary ruling. As regards Article 82 (presently Article 102), the ECJ stated that the fact that a copyright-management society utilized the possibilities given to it by national legislation did not in itself constitute abuse of its dominant position. However, the Court went on, the amount of royalties may be such that Article 82 (presently Article 102) could be applied. The case lead the Commission to performing an investigation into the relations between SACEM and foreign copyright-management societies, and whether the fees charged by SACEM were so high SACEM's behaviour would constitute an abuse of its dominant position. In the later cases of Ministère public v. Tournier and Lucazeau v. SACEM[91], the ECJ was referred questions for preliminary rulings from French courts, asking whether certain trading conditions of SACEM's were

[90] Francois Lucazeau v Societe des Auteurs, CompppositeursetEditeurs de Musique (SACEM), Case numbers 110/88, 241/88 and 242/88.
[91] Ibid

compatible with inter alia Article 82 (presently Article 102). SACEM argued the difference in royalty rates compared with other member states was due to different methods of assessment of the rates in different member states, and that if those differences were neutralized, the differences in royalty levels between member states would be minor. The ECJ rejected this, mentioning the Commission's investigations into the royalty rates of 58 different member states had shown the level in France to be many times higher than in any other member state, and so "inequitable". This major difference would, according to the ECJ, be indicative of an abuse of a dominant position, which the undertaking in question would have to be able to justify: "…by reference to objective dissimilarities between the situation in the member state and the situation in all other member states." The ECJ also remarked that the French copyright-management society had a much larger staff and took a considerably larger proportion of the receipts of royalties into SACEM itself, in way of various administration and distribution expenses for example, than any other such society in another member state. In other words, royalties were higher, but the copyright holders themselves did not get paid more. The ECJ suggested this was an indication of the lack of competition on the market in question, taken advantage of by SACEM.

In The Apple iPod iTunes Antitrust Litigation[92], the consumers were individuals and businesses that purchased certain models of iPods from Apple. Apple provided to iPod owners the iTunes software program for loading and managing digital song files on their iPods, as well as for purchasing digital song downloads from Apple. One feature of iTunes and iPods was their use of a digital rights management ("DRM") system unique to Apple, called "FairPlay." FairPlay made certain iPods incapable of playing digital songs downloaded from online music stores other than Apple's iTunes store.

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[92] Case No. 4:05-cv-00037

In July 2004, an Apple competitor in the online music market, third party Real Networks ("Real"), introduced a new version of its own digital-song manager, RealPlayer. Songs downloaded from Real's online music store mimic Fair-Play, and thus made music purchased from Real playable on iPods. Apple is reported to have refused to license Fair Play to other retailers of music downloads and thus prevent iPod users to play downloaded music from other online music stores.

Apple has contended that its decision to design the iPod to work exclusively with iTunes, instead of interoperating with other software, was lawful and that it had no duty to deal with others in enabling or maintaining interoperability with the iPod. Further, according to Apple's motion, the plaintiff's have failed to prove evidentiary basis for causation and damages. The plaintiffs' expert regression does not measure injury or damages from the challenged conduct, and there was no evidence Apple considered Real's digital-song manager a competitive threat when making pricing decisions. The only feature challenged in the iTunes update was the keybag integrity check and it is undisputed that the keybag integrity was only part of a total redesign of Fairplay's security architecture.[93] Finally, Apple also contends that the iTunes updates were genuine product improvements. It noted that the courts have recognized a wide range of cognizable product improvements that immunize product designs from antitrust scrutiny. At trial, Apple presented evidence that the iTunes updates were product improvements that enhanced the security and reliability of iTunes. Apple alleged that it had legitimate business justifications for its design changes. Apple's integration of iTunes and iPod into a system incompatible with competing products was

93 Linda O Brien, 'Apple seeks judgment as a matter of law in iPod iTunes antitrust trial' (Antitrust Law Daily, December 10 2014) <http//:Apple%20seeks%20judgment%20as%20a%20matter%20of%20law%20in%20iPod%20iTunes%20antitrust.html> accessed 6 June, 2015

central to Apple's business strategy of offering distinctive, high quality products to consumers, the company maintained. Apple asserted a legitimate interest in protecting its reputation of its Digital Rights Management (DRM) technology FairPlay so it can obtain additional content rights to movies, television shows, and books. Finally, Apple is subject to contractual obligation to secure record labels' content and a secure DRM is critical for Apple to obtain additional content, Apple argued.[94]

In IMS Health v. NDC Health[95], IMS was the largest supplier of sales data and other information on pharmaceutical services to pharmacies in Germany using a 'brick like' structure, which divided Germany into 1860 areas or 'bricks', corresponding to a particular geographical area. This structure became the 'market standard' for delivery of such pharmaceutical information and was protected by copyright. NDC developed a similar structure, deriving from IMS and the German court prohibited NDC from using any structure derived from IMS. On a referral from the German court, the ECJ emphatically reiterated that all the criteria of the "exceptional circumstances," as stated in Magill, must be fulfilled in order for a compulsory license to be granted. In the absence of such exceptional circumstances, the IP owner has the exclusive right of reproduction, and a refusal to grant license even by a dominant undertaking, cannot, of itself, constitute an abuse of Article 82.

The court reasserted that the three cumulative criteria must be met for a refusal to be regarded as abusive. They are as follows:

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[94] Ibid

[95] Case C-418/01, IMS Health GmbH & Co. v. NDC Health GmbH & Co. KG (2002)

- The undertaking which requested the license must intend to offer new products or services not offered by the owner of copyright and for which there is a potential consumer demand.
- The refusal cannot be objectively justified.
- The refusal must be such as to exclude competition on a secondary market.

In this case it was for the national court to determine whether the brick structure constituted an indispensable factor in the downstream supply of regional pharmaceutical sales data. The above cases reflect, to an extent that the American doctrine of “essential facility” has been the channel to enforce “compulsory licensing”, although in a different form.

In Intel v Commission[96], The European Commission found that Intel Corporation infringed Article 82 (presently Article 102) of the EC Treaty by abusing its dominant position on the x86 Central Processing Unit (CPU) market. The allegations against Intel were that at first, Intel gave wholly or partially hidden rebates to computer manufacturers those who use Intelx86 CPUs. Further, Intel had payments directly to computer manufacturers i.e. HP, Acer, Lenovo- to stop delay the launch of specific products containing a competitor’s x86 CPUs and to limit the sales channels available to these products.

The Commission held that consumers ended up with lesser choices due to Intel’s conduct which directly harmed competition and imposed a fine of 1.06 billion and obliged Intel to cease the identified illegal practices, to the extent that they are on- going, and not to engage in the same or equivalent practice in the future.

[96] 2009/C 220/86

The landmark judgment of the interface between Intellectual Property Rights and Competition law is the Microsoft v Commission case[97]. The case originated in 1998 in a complaint filed by Sun Microsystems alleging that Microsoft was refusing to supply it with interoperability information necessary to interoperate with Microsoft's dominant position in the market share of the PC operating system. The market position is protected by the applications barrier to entry in the market by the fact that most of the programmes are written for the Microsoft operating systems. In due course, the Commission also examined the the tying of Microsoft's Windows Media Player to its Windows 2000 version.

After conducting an elaborate investigation, the European Commission decided in the year 2004 that this was an abuse of dominant position under Article 82 (now Article 102). The decision of the Court was that Microsoft had abused its dominant position in the PC operating system by refusing to provide competitiors in the work group server operating system market interface information necessary for their products to interoperate with Windows, and thus compete favorably in the market. Further, the decision made Microsoft to reveal within a period of 120 days transparent information which would as a result allow competitors to interoperate with windows and also to make that information available on reasonable terms. Moreover, the tying of the Windows Media Player product with its Windows PC operating system led to adverse competition in the market. Finally, it led to an order that Microsoft within a period of 90 days should produce a version of Windows which did not include the Windows Media Player.

Microsoft had appealed to the General Court for annulment of the 2004 Commission decision. A whopping 497 million pounds was fined for

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[97] CFI, Case T-201/04, 17th September, 2007

infringing the EC Treaty Rules on abuse of dominant market position by leveraging its near monopoly.[98] The Court held that the conduct hindered innovation in the markets which led to the detriment of consumers. The court held that refusal by an undertaking holding a dominant position to license a third party to use a product covered by an intellectual property right cannot itself constitute an abuse of dominant position within the meaning of Article 82 (now Article 102 of the EC Treaty). Further, the court pointed out that in exceptional circumstance that the exercise of exclusive right by the owner of intellectual property may give rise to such an abuse. Finally, the judgment of the Court was that the Microsoft's conduct was against consumer welfare as it restrained the emergence of a new product in the market and also the bundling into the Windows operating system of software products which is otherwise available on a stand-alone basis had the effect of excluding competitors, thereby leading to reduced consumer choice liable to reduce access to innovative products.

The remedies suggested by the Commission was disclosure of complete and accurate information to non-Microsoft work group servers within 120 days to achieve full interoperability and within 90 days to offer a version of its Windows PC Operating System, without Windows Media Player. Appointing a Monitoring trustee to issue opinions on whether Microsoft has in a specific instance failed to comply with the decision, or on any other issue that was relevant to the decision. A fine of 497.2 million pounds was imposed on Microsoft. It had then applied to the Court of First Instance and in 2007 the judgment confirmed the findings of the Commission. Due to Microsoft's non-compliance with the Commission's decision, the European Commission had imposed a penalty of 899 million pounds.

[98] IP/04/382 and MEMO/04/70

Microsoft's continuous non-compliance led the General Court to give a decision in the year 2012 that non-compliance with an antitrust decision constitutes serious misconduct which the Commission is entitled to sanction in order to compel compliance.

3.3.4 Design

In Keurkoop BV v Nancy Kean Gifts BV[99], the Dutch undertaking Nancy Kean Gifts had a registered design for a ladies handbag at the Benelux design office. The filing date was April 23 1979. The design was similar to an American design filed in the USA on March 28 1979 by another undertaking. In the Benelux system, the first person to file a design will get the protection of the copyright. The handbag Nancy Kean Gifts marketed was produced in Taiwan. In 1980 Nancy Kean discovered that another Dutch undertaking, Keurkoop, was selling handbags that Nancy Kean considered being identical to their registered design. Nancy Kean applied at a district court for an injunction against Keurkoop, to stop them marketing and selling the handbag. Keurkoop stated that it obtained the handbags from a company in Taiwan. It had then imported the bags into Germany, and then re-exported them to the Netherlands. The district court granted Nancy Kean the injunction, prohibiting Keurkoop from dealing in any way with the handbags[100]. Keurkoop lodged an appeal against the injunction with the Gerechtshof. The Gerechtshof found that Nancy Kean was not the author of the design of the handbags and that it had filed the design without the consent of the author. The Gerechtshof referred two questions to the ECJ for a preliminary ruling. One of the questions referred by the Gerechtshof was essentially if the rules of the Treaty were an obstacle to the owner of a nationally protected exclusive right to a design to, relying on national rules,

[99] Case 144/81 [1982] ECR 2853
[100] Nancy Kean Judgment, Para 8

oppose the importation of products with identical design from another member state where their marketing did not infringe the exclusive rights of the owner of the design in the first country.

The ECJ stated that the protection of a design would be rendered meaningless, if the holder of a right in one member state would be stopped by Community rules of free movement of goods from hindering the marketing in that state of products identical to the protected design[101].However, the Court emphasised, restrictions on the free movement of goods as regards prohibitions and restrictions on imports justified on the grounds of protection for industrial property rights must not constitute disguised restrictions on trade between member states[102].

The Court went on to say that the reconciliation between free movement of goods and the consideration of industrial property rights must be: "…achieved in such a way that protection is ensured for the legitimate exercise, in the form of prohibitions on imports which are "justified" within the meaning of the Article 30, of the rights conferred by national legislation, but is refused, on the other hand, in respect of an improper exercise of the same rights which is of such a nature as to maintain or establish artificial partitions within the common market.[103]"

In other words, exercise of intellectual property rights in a way which would counteract the achievement or working of a common market would be deemed improper, and so would national legislation if it did not take into consideration the reconciliation between nationally granted intellectual property rights and free movement of goods. So, the Court made it clear that a right holder cannot rely on national legislation on intellectual property

[101] Ibid, Para 22
[102] Ibid, Para 23
[103] Ibid, Para 24

rights to oppose the importation of a product marketed in another member state with the right holder's consent[104].

In AB Volvo v Erik Veng[105], Volvo held the design right in the UK over front wings for cars. Veng imported panels into UK from Italy and Denmark where they had been manufactured without Volvo's consent. Volvo alleged infringement of its UK registered designs. Veng's defense was that Volvo's refusal to grant license was an abuse of dominant position when Veng was willing to pay a reasonable royalty for license. The question before ECJ was whether refusal to grant license by Volvo was an "abuse of dominant position?" In the proceedings before it, the High Court referred the following questions to the Court of Justice for a preliminary ruling:

1. If a substantial car manufacturer holds registered designs which, under the law of a Member State, confer on it the sole and exclusive right to make and import replacement body panels required to effect repair of the body of a car of its manufacture (if such body panels are not replaceable by body panels of any other design), is such a manufacturer, by reason of such sole and exclusive rights, in a dominant position within the meaning of Article 82 (presently Article 102) of the EEC Treaty with respect to such replacement parts?

2. Is it prima facie an abuse of such dominant position for such a manufacturer to refuse to license others to supply such body panels, even where they are willing to pay a reasonable royalty for all articles sold under the license (such royalty to represent an award which is just and equitable having regard to the merits of the design and all the surrounding

[104] Ibid, Para 24-25.
[105] Case C-238/87 [1988] ECR 6211, [1989] 4 CMLR 122.

circumstances, and to be determined by arbitration or in such other manner as the national court shall direct)?

3. Is such an abuse likely to affect trade between Member States within the meaning of Article 82 (presently Article 102) by reason of the fact that the intending licensee is thereby prevented from importing the body panels from a second Member State?[106]

The ECJ held that “an obligation imposed upon the proprietor of protected design to grant to third parties, even in return for a reasonable royalty, a license for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a license cannot itself constitute an abuse of a dominant position.”

Outlining the circumstances, under which refusal to license may be deemed to constitute “abuse of dominance”, the court said that Article 82 (presently Article 102) may be attracted if an undertaking holding a dominant position involves in abusive conduct such as – “arbitrary refusal to supply spare parts to the 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”. Therefore, the significance of this case lies in determining the boundaries of “compulsory licensing”. It is important that merely a refusal to grant license may not be anti-competitive in nature. Such refusal should be “arbitrary” in

[106] Judgment of the Court of 5 October 1988. - AB Volvo v Erik Veng (UK) Ltd. - Reference for a preliminary ruling: High Court of Justice, Chancery Division - United Kingdom. - Abuse of a dominant position - Refusal by the proprietor for a registered design to grant a license. - Case 238/87.<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61987J0238:EN:HTML#SM> accessed 11 April, 2014

nature, so as to compel involuntary compulsory licensing, in order to mitigate the rigours of abusive conduct.

The conclusion that was drawn from this case was that if a dominant company owns IPRs which enable it to prevent competitors from producing directly competing products; it was not an abuse under Article 82 (presently Article 102) for it to refuse to grant licenses. Dominant undertakings would only commit an abuse of a dominant position within the meaning of Article 82 (presently Article 102) by refusing to license their IPRs if they did something more than merely exercise those rights to prevent the monopoly given to them from being infringed.

3.4 Concluding remark

The relationship between Intellectual Property and Competition Law has undergone changes in the European Union. First of all, it is openly accepted now that incentives to innovation created by Intellectual property rights produce new competitors on existing markets and indeed create new products which open up entirely new markets. Moreover, the licensing of Intellectual property right is more pro-competitive as well as pro-innovative in its effects and helps to ensure that IPRs are more widely diffused throughout the common market. The EC competition authorities also acknowledge that too heavy a regulatory burden on the exercise of IPRs could discourage investment in IPRs in the European Union.

The European Court of Justice's jurisprudence between Intellectual property rights and competition law developed considerably with Volvo, Magill, Microsoft, Intel, Astra Zeneca, Rambus and IMS Health cases. The Court very cautiously had tried to bridge the gap between both the laws. It is the duty also of the government to see that the relationship of the laws is efficiently handled since both the laws aim at societal welfare. An apt example would be the Commission Guidelines on application of Article 101 to horizontal co-operation agreements which provide that intellectual property laws and competition laws share the same objectives of promoting innovation and enhancing consumer welfare. IPRs promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. Therefore, IPR should be in general more competitive and promoting economic inter-penetration in the internal market and encouraging the development of new and improved products or markets and improved supply conditions therefore both intellectual property rights and competition are necessary to promote innovation and censure a competitive exploitation thereof.[107]

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[107] European Commission, 2011/C 11/01, (Official Journal of the European Union, 2011) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:011:0001:0072:EN:PDF> accessed 26 May, 2015

CHAPTER- IV

Interplay between Intellectual Property Rights and Anti-Trust Laws – Position in USA

"Antitrust laws in general……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. And the freedom guaranteed each and every business, no matter how small, is the freedom to compete…."[1]

4.0 Introduction

At the federal structure of United States (U.S.) law, both intellectual property protection and antitrust policy share a common goal of encouraging innovation. This common goal is achieved by different approaches- anti-trust policy by fostering competition and intellectual property rights by granting rights to exclude rivals. This difference is not absolute and in some cases anti-trust law permits some exclusionary strategies and intellectual property law fosters some competition. This chapter examines the intellectual property law, the antitrust law and the judicial pronouncements where there is interplay between the intellectual property and the anti-trust law in the United States.

4.1 The United States Intellectual Property Regime

This part of the chapter sets forth the basic framework for the major intellectual property regimes under the United States Law. The United States

[1] United States v Topco Associates., 405 U.S. 596, 610 (1972)

(hereinafter, called, U.S.) patent and copyright systems derive from the "intellectual property clause" of the US Constitution [2] and the governing statutes are codified in Titles 35 and 17, respectively the United States Code. The federal Trademark system derives from the Commerce Clause and the governing statute is the Lanham Act which is codified in Title 15 of the United States Code.

4.1.1 Patents

The United States has had a patent statute since 1790 and a formal patent examination system since 1836. The 1952 Act, codified in Title 35 U.S. Code is the governing legislation. The United States Court of Appeals for the Federal Circuit and the United States Patent and Trademark Office (PTO) are the two most important institutions in the modern patent system.

4.1.1.1 Patent Duration

Patents endure for a term that begins on the date of patent issuance and ends 20 years from the effective date of filing of the patent application. Patents roughly enjoy 17-18 year term since many patent applications lie pending before the P.T.O.[3]

4.1.1.2. Criteria of patentability

The three major criteria of patentability are: Novelty, utility and inventive step/non-obviousness.

[2] U.S. Constitution, Art.1, Sec 8, Clause 8
[3] Craig Allen Nard & John F. Duffy, 'Re-thinking Patent Laws Uniformity Principle', (2007) Nw. U.L. Rev. 1619, 101

4.1.1.2.1 Novelty

An invention to be patentable, must be new at the time of the of invention by the original inventor, that is, it must not already be known to the public. This is considered as the bedrock of patent law. This requirement had been embodied in earlier statutes like the Venetian Senate's Act[4] and the Statute of Monopolies[5] which have emphasized on the word 'new' and the requirement of novelty has formed part of the patent law.In U.S., Section 102 of the US Code speaks about the condition of novelty. According to Section 102, a patent may be granted for an invention which is new and which does not form part of the state of art. To determine whether a product or process is within the patent statute's meaning of the word "new" requires comparing the claimed product or process with the products or processes of the relevant prior art.

In In re Hall[6], the question was whether the availability of published version of a German language doctoral dissertation stored in Frieburg University, prior to the filing date of application would bar patentability of an invention on the ground of prior publication. There was no evidence that the dissertation was indexed in the library catalog prior to the filing date. Even if it was cataloged, the question was whether the presence of a single cataloged thesis in one University library would constitute sufficient accessibility of the public. The librarian had testified that that the procedure for the accession of the book was followed. The Court rejected the patent claim on the ground that the printed bar is grounded on the principle that once an invention is in the public domain, it is no longer patentable by anyone.

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[4]Venetian Patent Act 1474

[5]Statute of Monopolies was an Act of the Parliament of England as the first statutory expression of the English patent law

[6] 781 F. 2d 897 (Fed. Cir. 1986)

4.1.1.2.2 Utility

The next pre-requisite is the concept of utility i.e. the purpoted invention must be capable of industrial application which must perform some function of positive benefits of the society. The purpose of utility requirement is to assure that society obtains a "quid pro quo" in the form of substantial utility and specific benefit in currently available form before granting a monopoly to the invention. Section 101 of the US Code restricts patentable inventions to those only which are useful fulfilling the Constitutional mandate.[7] Section 101 of the U.S. Code requires that a process, machine, manufacture or composition of matter or improvement thereon to be useful. The Code specifically requires that the specification of a patent application teach a person with ordinary skill in the art to which the invention pertains to make and use the invention.

In Brenner v Manson[8], in this case the patent was denied by the U.S. Courts on the ground of failure to disclose any utility for the chemical compound produced by the process. The statutory requirement of usefulness of a product cannot be presumed merely because it happens to be closely related to another compound, which is known to be useful. The court added that until the process claims has been reduced to the production of a product, which is useful, the metes and bounds of patent monopoly cannot be precisely delineated.

4.1.1.2.3 Non-obviousness

In the U.S., Section 103 of the U.S. Code precludes the grant of a patent "if the differences between the subject matter sought to be patented

[7] Article 1(8) of the U.S. Constitution: To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries

[8] 383 U.S. 519, 148 USPQ (BNA) 689 (1966)

and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains". Thus, patentability is to depend, in addition to novelty upon the "non-obviousness" nature of the 'subject-matter sought to be patented' to a person having ordinary skill in the pertinent art.

In the 1950s, the Supreme Court looked into the importance of 'non-obviousness'. It denied a patent for applying an old method of making wood cabinet knobs, finding the process lacked that degree of skill and ingenuity which constitutes essential elements of every invention.[9]

In Graham v John Deere Co.[10], the interpretation of the non-obviousness requirement of patentability under Section 103 should be made after making factual inquiries. The test for determining non-obviousness as spelled out in this case consisted in determining the scope and extent of the prior art, ascertaining the differences between the prior art and the claims at issue and finally resolving the level of ordinary skill in art. The case revolved on the conflict was on the validity of single patent on a "Clamp for Vibrating Shank Plows". The invention, a combination of old mechanical elements, involves a device designed to absorb shock from plow shanks as they plow through rocky soil and thus to prevent the damage to the plow. The patent was invalid under Section 103 of the U.S. Code.

4.1.1.3 Infringement of patents

In U.S. pursuant to its Constitutional power under Article 1, Section 8, Clause 8, a limited monopoly is granted through patent rights just like other countries. In the U.S., the Patents and Trademarks Office governs the

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[9] Hotchkiss v Greenwood 52 U.S. 248 (1851)
[10] 383 U.S. 1 (1966)

process of issuing patents. It starts with the patent-seeker filing an application with the details of the invention and ends with the grant of the patent. Patentee is given the right to exclude others from making, using or selling the patented invention for twenty years after filing the application. On issuing the patent, the PTO makes public the record of its proceedings, including every detailed element of the invention. One method of patent infringement is by equivalents, under which the product or process that does not literally infringe upon the express terms of a patent claim may sometimes found to infringe if there is equivalence between the elements of the accused product or process and the elements of the patented invention.

The modern element of the doctrine of equivalents was established in the case of Graver Tank & Manufacturing Co. v Linda Air Products Co.[11] The Court stated that the doctrine of equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case. Consideration must be given to the purpose for which an ingredient is used in a patent, the qualities it has when combined with other ingredients, and the function which it intended to perform. Another factor is whether persons reasonably skilled in the art know about the interchangeability of an ingredient not contained in the patent. The Court held that even though there is no literal infringement, the interchanging of manganese for magnesium constituted infringement under the doctrine of equivalents because manganese and magnesium were known in the art to be interchangeable. Thus though a substituted elements of a competitor did not fall within the literal elements of a patent claims, a patentee can invoke the doctrine of equivalents to proceed against the producer of a different device. The only thing is that the device performed the substantially same function in a different way.

[11] 339 U.S. 605 (1950)

4.1.1.4 Defenses in case of patent infringement

The Patent regime always tries to maintain a balance between the public interest of advancing technological progress and of the interest of the patentee in extending his control over the market. Thus, certain experimental uses of patented inventions had been exempted from the patent infringement liability.

In an Appeal case of Roche Products Inc.,[12] the defendant being a generics drug manufacturer, apprehended the marketing of a drug covered by the plaintiff's patent, once the patent term expired. But the procedural formalities for obtaining marketing permission from the Food and Drugs Authority were really tedious to the defendant, Bolar Pharmaceuticals Co. Hence they applied to the marketing authorities prior to the expiry of Roche's patent terms. The defendant purchased some amount of active material and conducted clinical tests with it for the purpose of collecting data required for the approval of the generic drug. Roche filed an infringement suit against Bolar.

The defense of Bolar which was based on experimental use exception was rejected by the Court of Appeal. The Court looked in to the experimental use of the use defence as being narrow and limited to exceptions which are not in any way motivated by commercial interests. Later, the Congress enacted the Drug Price Competition and Patent Term Restoration Act in 1984. The Act provided for a limited exemption from patent infringement liability for those who make use or sell a patented invention solely for uses reasonably related to development and submission of information.

[12] 733 F. 2d. 858, Fed. Cir

4.1.1.5 Remedies in case of patent infringement

The patent statute provides a remedial options including compensatory damages, enhanced damages, preliminary and permanent injunctive relief, and attorney fees.

4.1.2 Trademarks

The United States Code defines trademark as any "word, name or symbol or device or any combination thereof adopted and used by an manufacturer or merchant to identify his goods and distinguish them from those manufactured and sold by others".[13]

United States has protected trademarks under state common law since colonial times, but in the year 1870 that Congress first attempted to establish a federal trademark regime. The statute of 1870 purported to be an exercise of Congress' Copyright Clause powers. The Supreme Court struck down the 1870 statute in the Trademark cases[14]. Pursuant to its Commerce Clause powers, the Congress passed a new Trademark Act and subsequently revised the Trademark Act in 1905.

4.1.2.1 Overview of Trademarks

The Lanham Act, 15 USC S 1051-1129, provides the statutory authority for the federal trademark system. Sec 43(a) of the Lanham Act is the "unfair competition" provision is routinely used to vindicate rights in unregistered marks, using standards equivalent to those used in trade mark infringement cases involving registered trademarks.

[13] 17 USC S 506
[14] 100 U.S. 82 (1879)

4.1.2.2 Trademark Duration

Trademark rights at common law may endure for as long as the trademark in question continues to serve as [15]distinctive source indicator for the underlying goods or services. The Lanham Act registrations may endure indefinitely assuming that the registrant complies with formal requirements for evidencing continued use and for renewal.

4.1.2.3 Acquisition of rights

There are three pre-requisites for a trademark protection. First of all, the subject must be distinctive. Secondly, the subject matter must be the subject of an existing or prospective trademark use finally, the subject matter must be non-functional.

Distinctiveness is the measure of the capacity of the subject matter to indicate source, and for this reason is the paramount protectability requirement. In Lanham Act, the word "use in commerce"[16] means the bonafide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. The basic objective of functionality is to police the boundary between trademark and patent protection. The Lanham Act does not define functionality but there are few references in the Act.[17] According to the Re-statement of Unfair Competition, a design mark is functional if:The design affords benefits in the manufacturing, marketing, or use of the goods, or services with which the design is used, apart from any benefits attributable to the design's significance as an indicator of source, that are important to effective competition by others namely,

1. Generic

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[15] 15 USC S 1058 (a) (requirement for filing a continued-use affidavit six years after registration); 15USC S 1059 (a) (requirement for a renewal filing ten years after registration)
[16] 15 USC S 1127
[17] 15USC S 1052 (e), 15 USC S 1064 (3), 15 USC S 1115 (b) (8), 15 USC S 1125 (a) (3)

2. Descriptive
3. Suggestive
4. Arbitrary/fanciful[18]

4.1.2.4 Enforcement of Trademark rights

S 43(a) of the Lanham Act[19] is referred to as the "unfair competition" cause of action. S 43 (a) (1) (A) is invoked when the unauthorized use of an unregistered mark is likely to cause confusion as to source, sponsorship, or affiliation. Sec 43 (a) (1) (B) provides liability for false or misleading statements in commercial advertising.

4.1.2.5 Defences

Trademark and unfair competition litigation centers largely around the existence of likely confusion, compliance with distinctiveness and functionality requirements. But sometimes the litigants have invoked the "fair use" defense in good faith[20]. Fraudulent procurement is another defense.[21] In United Phosporus Ltd v Midland Fugimant, Inc[22], the court propounded the following theory that there should be a false representation of material fact, the registrants knowledge or belief that the representation is false, further the intention to induce action or refraining from action in reliance on the misrepresentation, moreover, reasonable reliance on misrepresentation; and finally damages proximately resulting from such reliance. Other defences are licensee estoppel whereby a trademark licensee is precluded from challenging the validity of the licensed marks[23]

[18] Abercrombie & Fitch Co. v Hunting World 537 F. 2d 4 (2d Cir. 1976)
[19] 15 USC S 1125 (a)
[20] K P Permanent Make up Inc v Lasting Impression I, Inc., 125 S. Ct. 542 (2004).
[21] 15USC S 1064(3); 15 USC S 1115(b)(1)
[22] 205 F.3d 1219 (10th Cir, 2000)
[23] Seven Up Bottling Company Co. v Seven-Up Co., 561 F. 2d 1275, 1279 (8th Cir. 1977)

4.1.2.6 Assignment and Licensing of Trademark

The area of assignment and licensing of trademark involves commercial arrangements between franchisors and franchisees; between manufacturers and distributors and retailers. The law on antitrust implications of various trademark licensing is less developed as compared to patent law.

4.1.2.7 Remedies

A whole range of remedies is provided for infringement and unfair competition matters. Injunctive relief[24], damages options including the possibility of treble damages and, in exceptional cases attorney fees[25], orders for destruction of infringing goods and criminal penalties in certain situations.[26]

4.1.3 Copyrights

The development of copyright law in the United States was rooted in both utilitarian and natural right discourses. The provisions of laws passed by the colonies after the revolution embodied the concept of property right in a person's intellectual labour and securing this property right as natural right.

4.1.3.1 Evolution

The framers of the Constitution in Article I, Section 8 clause 8 provided that the congress were "to promote the progress of science and useful arts by securing for limited time to authors and inventors the exclusive right to their respective writings and discoveries".The first United States Statute was enacted in 1790. It provided for:

[24] 15 USC S 1116
[25] 15 USC S 1118
[26] 18 USC S 2320

- Protection of the author or his assigns of any book, map or chart, upon publication, for 14 years
- Privilege of renewal for another 14 years if author was alive

4.1.3.2 Duration of copyright

In U.S. the copyright extends for the life of the author plus 70 years[27], whereas for works published earlier, copyright extends for a first term of 28 years and a renewal of 67 years, subject to certain conditions.[28]

4.1.3.3 Enforcement of rights

The copyright statute defines the enforceable limits of copyright in terms of a series of exclusive rights and limitations to those rights. The exclusive rights include rights of reproduction[29], adaptation[30], distribution, performance[31], display, and transmission of digital sound recordings.[32]

4.1.3.4 Infringement

Indirect infringement is one where courts have recognized contributory and vicarious copyright infringement [33]

4.1.3.5 Compulsory Licences

Compulsory licensing practices are among the panoply of equitable remedies theoretically available for the anti-competitive exploitation of

[27] 17 USC S 302
[28] 17 USC S 304-305
[29] 17 USC S 106 (1)
[30] 17 USC S 106 (2)
[31] 17 USC S 106 (4)
[32] 17 USC S 106 (1)-(6)
[33] Sony Corp v Universal City Studios, 464 US 417 (1984); Fonovisa, Inc v Cherry Auction, Inc 76 F.3d 259 (9th Cir. 1996)

intellectual property rights. S 119 allows for compulsory license for certain satellite retransmissions of copyrighted works to the public[34]

4.1.3.6 Defences

The available defences in copyright and antitrust interface are fair use, reverse engineering and fraudulent procurement.

4.1.3.6.1 Fair use

Section 107 of the copyright statute entails four factors that guide fair use determination. The factors are:

1. the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. the nature of the copyrighted work;
3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole;
4. the effect of the use upon the potential market for or value of the copyrighted work.

4.1.3.6.2 Reverse Engineering

Fair use doctrine shields reverse engineering of copyrighted computer software. In Sega Enterprises Ltd. v Accolade, Inc[35] Accolade purchased a Sega GENESIS video game console and cartridges. It disassembled Sega's copyrighted software, studied the disassembled code to discover interface specifications, and developed GENESIS- compatible game software. The

[34] 17 USC S 119
[35] 977 F. 2d 1510 (9th Cir. 1993)

court observed that this activity might be considered as fair use if certain conditions were met.

4.1.3.6.3 Fraudulent procurement

To show fraudulent procurement in the copyright context, the proponent must identify a factual misrepresentation that is material to registrability, and that is carried out with the intent to deceive the Copyright Office.

4.1.3.6.4 Remedies

Copyright owners may seek damages award measured either by the copyright owner's actual damage (plus any additional profits earned by the infringer) or statutory damages.[36] Statutory damages amounts range from $750 to $30,000 in the actual case. The statute also provides for discretionary awards of costs and attorney's fees.[37]

4.1.4 Industrial Design

The U.S has no Unitary Body of Statutory Law established for the protection of design. Design protection is provided under the U.S. design patent, trademark and copyright laws.

[36] 17 USC S 504
[37] 17 USC S 412

4.1.4.1 Design Patents

Patents for design are commonly termed as ‘design patents’ and are granted to protect ornamental appearance of articles bearing the design. A ‘design’ to be patentable must be new, original and ornamental design for an article of manufacture. A U.S. design will allow the owner to exclude others from making, using, offering to sell or selling in the U.S.., or importing into the U.S. an article of manufacture bearing the patented design, during a term of 14 years from the date of issuance of the design patent. The provisions of the statutory U.S. Patent Law, Title 35 of the United States Code relating to patents for utilitarianism inventions will apply to U.S. Patents for ornamental designs.

4.1.4.2 Trademarks for designs

Protection of trademarks and trade dress arises from the law of unfair competition. A trademark having a three dimensional design is a form of trade dress, namely a product configuration mark. Product configuration trade dress may be protectable as a trademark or under broader principles of unfair competition law, provided the trade dress has developed secondary meaning such that the significance of the trade dress to ordinary consumers is to indicate the source of the product. In Wal-Mart Stores, Inc. v Samara Brothers Inc.,[38] the court stated that in order to show that the product configuration trade dress has developed a secondary meaning, it may be useful to show success in sales, significant advertising expenditures, consumer recognition of the product and a lengthy and exclusive period of use of the trade dress in the market place.

[38] 529 U.S. 205, 54 USPQ 2d. (B.N.A.) 1065

4.1.4.3 Copyright

Copyright law can be used to protect product designs since protectable works include non-utilitarian design features of useful article. A design for a useful article is protectable by U.S. Copyright Law only to the extent that a design is physically or at least conceptually separable from its utilitarian aspects. Original, ornamental aspects of a design that are clearly separable from its functional aspects will be protected under Copyright Law, which effectively limits the use of the copyright for industrial designs to a small group of products which are non-functional e.g., toys, jewellery, fabric designs.

4.2 The United States Antitrust Law

Capitalism benefits consumers when and only when there is competition. Firms compete with each other to provide consumers with choices by lowering prices and improving their respective products or services. Competition is the glue that keeps firms and consumers mutually benefiting each other.[39]Without competition there is no choice and consumers become vulnerable to corporate greed and incompetence. Antitrust law, or competition law, ensures capitalism works for consumers by addressing the temptations of firms to merge with, collude with, or destroy their competitors instead of outperforming them.

[39] When there is only one firm in the market, or when several competing firms collude together to offer the same products at the same prices, the market is not competitive. Without competition, consumers have little or no choice in the products and services they purchase. Without alternatives to choose from, consumers are forced to heed to the will of the dominant firm as to what products or services the firm will supply and at what price. In this system, the dominant firm benefits, but the consumer does not- Kelly Everett, *Trust Issues: Will President Barack Obama Reconcile the Tenous Relationship Between Antitrust Enforcement Agencies*?, 29. J. Nat'l Ass'n Admin. L. Judiciary 727.

Antitrust law was developed in the United States during the late nineteenth century to protect consumers who were made vulnerable and exploited by monopolistic railroad companies that pushed out competitors to fix rates and drive up rail prices on their respective customers. Congress recognized the need for further regulation and enacted the Sherman Act (Act) in 1890 with its primary goal being to protect the welfare of consumers. The Act and subsequent antitrust laws were passed not to protect the individual competitors from each other, but to protect competition itself.[40] In this section, the conduct involving intellectual property rights under the US antitrust laws and situations in which the assertion of intellectual property rights may give rise to an antitrust violation, with an emphasis on recent enforcement actions and court decisions that implicate these principles has been described and thus analyzed.[41]

In her research, the researcher found that he interchange between antitrust and intellectual property laws has always presented disturbing problems. Antitrust laws prohibit monopolies while intellectual property laws grant legal monopolies. Intellectual property rights confer on owners the right to exclude others from using the owner's intellectual property (subject to limitations that vary among the statutes). The objective of Intellectual property law is to grant a monopoly to encourage advances in various technology and is not much concerned about prices while antitrust policy generally prohibit monopolies in order to enhance economic efficiency. The two laws are at logger heads with each other. The Antitrust Division of the Justice Department ("DOJ") and the Federal Trade Commission ("FTC")

[40]Brown Shoe Co. v. United States, 370 U.S. 294, 320 (1962). The Court in Brown Shoe held that the goal of the Act was to protect competition, not individual consumers.

[41] Raymond A Jacobsen Jr and Stefan M Meisner, McDermott, Will & Emery, 'Recent developments in antitrust and intellectual property law', <http://www.mwe.com/info/pubs/antitrust0504.pdf> accessed 07 April, 2013

have focused substantial enforcement efforts in the areas where intellectual property rights and the antitrust laws overlap.[42]

There have been efforts made by the Department of Justice and Federal Trade Commission to watch out the activities of these two complementary systems of laws. The US antitrust laws consist of several key statutes. When intellectual property is involved, the most relevant statutes are Sections 1 and 2 of the Sherman Act and Section 5 of the FTC Act.

4.2.1 The Sherman Act, 1890

The basic U.S. antitrust law continues to be the Sherman Act. The legislative history of the 1890 enactment speaks of the popular concern aroused by the condition of the U.S. economy at that point of time where a relatively small number of corporations and individuals had accumulated vast amounts of wealth; corporate organizations indifferent to public interests were being established in large numbers; damaging business combinations known as 'trusts' were increasing in number and hence were suppressing competition. It was seen that these accumulations of corporate wealth and power would have been applied to injure and oppress the general public, unless protective measures were being taken to protect public interest.[43] The U.S. Congress acted immediately in an effort to curb the business excesses and abuses, while not damaging the competitive process itself.

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[42] Fraser Trebilcock Davis & Dunlap, P.C., 'Interplay Between Antitrust and Intellectual Property Laws' The Association Antitrust Update Website, available at <http://antitrustupdate.com/Articles/AntiTrustIp.html>, accessed 08 April, 2014

[43] Mark R. Joelson, *An International Antitrust Primer – A Guide to the Operation of United States, European Union and Other Key Competition Laws in the Global Economy* (2nd edn, Kluwer Law International) 11

4.2.1.1 Purpose of the Sherman Act, 1890

The purpose of the act was to oppose the combination of entities that could potentially harm competition, such as monopolies or cartels. In another sense it has sometimes been said that the purpose of the Sherman Act is not to protect competitors, but rather to protect competition and the competitive behaviour. The U.S. Supreme Court in Spectrum Sports, Inc. v. McQuillan[44] had laid down that the purpose of the Sherman Act is not to protect businesses from the functioning of the market; it is to protect the public from the failure of the market. The law directs itself not against conduct which is competitive, even severely so, but against conduct which unfairly tends to destroy competition itself."[45]

The wording of the Sherman Act's two substantive sections reflects the statute's intended remedial policies in very general terms. Section 1 of the Sherman Act prohibits "every contract, combination or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal."[46] Under this provision some agreements in restraint of trade, such as price fixing cartels and market allocation agreements are treated as illegal per se. Most agreements, however, are judged under the rule of reason, which calls for evaluation of purpose, power and competitive effects.[47]

Section 2 of the same Act has two key features (1) possession of monopoly power in the relevant market[48] and (2) the willful acquisition or maintenance of the power as distinguished from growth or development as a consequence of a superior product, business acumen or historic accident.[49]

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[44] 506 U.S. 447, 458 (1993)
[45] Sherman Antitrust Act
[46] Section 1, Sherman Act – "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."
[47] Supra note 43
[48] Aspen Skiing Co. v Aspen Highlands Skiing Corp. 472 US 585, 597 (1985)
[49] US v Grinnel Corp. 384 US 563, 570-71 (1966)

However, under this provision, claims of monopolization and attempts to monopolize are always judged under the rule of reason. Sherman Act violation, initially a wrong punishable by a fine not exceeding $5000 and/or imprisonment not exceeding one year, is now a felony punishable by a fine not exceeding $10,000,000 for a corporation or $350,000 for an individual and/or by imprisonment not exceeding three years. Under the Criminal Fines Improvements Act of 1987, alternative fines may be imposed which equal twice the financial gain to the violator or twice the loss to the victim resulting from the crime.

The Sherman Act can be enforced both civilly as well as criminally. Civil suits may be brought by the government and by the private aggrieved parties. Only the U.S. Department of Justice is authorized to seek criminal penalties. The Department has brought criminal prosecutions in the case of the most serious Sherman Act violations, principally price fixing or market division among competitors. With respect to such hard core violations, the Department has not hesitated to pursue the imposition of very heavy fines, even where the perpetrators were foreign companies and their executives.

4.2.1.2 Violations "Per se" and violations of the "Rule of Reason"

The violations of the Sherman Act fall into two categories:

- Violations "per se":

These are violations that meet the strict characterization of Section 1 ("agreements, conspiracies or trusts in restraint of trade"). A per se violation requires no further inquiry into the practice's actual effect on the market or the intentions of those individuals who engaged in the practice.[50] Conduct characterized as per se unlawful is that which has been found to have a "'pernicious effect on competition' or 'lacks any redeeming virtue'"[51] Such conduct "would always or almost always tend to restrict competition and decrease output."[52] When a per se rule is applied, a civil violation of the antitrust laws is found merely by proving that the conduct occurred and that it fell within a per se category.[53] Conduct considered per se unlawful includes horizontal price-fixing,[54] horizontal market division, and vertical minimum resale-price-fixing or price maintenance.[55]

Per se offenses are those for which there is no justification. As the Supreme Court has expressed it: “There are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use.”[56]

The kinds of activities which are most generally found to be per se antitrust offences, and are most likely to be criminally prosecuted, include:

- Horizontal price fixing;
- Vertical price fixing (sometimes referred to as “resale price maintenance”);
- Bid rigging;

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[50] Sherman Antitrust Act

[51] Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36, 58 (1977) (quoting Northern Pac. Ry. v. United States, 356 U.S. 1, 5 (1958)).

[52] Broadcast Music, Inc. v. CBS, 441 U.S. 1, 19-20 (1979).

[53] White Motor v. United States, 372 U.S. 253, 259-60 (1963) (a per se rule forecloses analysis of the purpose or market effect of a restraint);

[54] United States v. Trenton Potteries Co., 273 U.S. 392, 397-98 (1927)

[55] Sherman Antitrust Act

[56] Northern Pacific Railroad Co. v. United States, 356 U.S. 1, 5 (1957)

- Market division (customer or territorial allocation);
- Boycotts (concerted refusals to deal);
- Tying arrangements.

All of the per se offences, as concerted activity in restraint of trade, are violations of section 1 of the Sherman Act.[57] The per se rule against price fixing began to emerge in the earliest decisions interpreting the Sherman Act,[58] and it was fully crystallized in Socony-Vacuum case[59] when the Supreme Court held: "Under the Sherman Act a combination formed for the purpose and with the effect of raising, depressing, fixing, pegging, or stabilizing the price of a commodity in interstate or foreign commerce is illegal per se."[60]

The above decisions are clear indication of the fact that any form of market abuse shall come within anti-competitive behavior. Concerted behavior is an attempt to come under anti-competitive conduct.

As the Supreme Court stated in Broadcast Music v. Columbia Broadcasting System in 1979: "The Court has held that certain agreements or practices are so 'plainly anti-competitive' that they are conclusively presumed illegal without further examination."

➢ Violations of the "rule of reason":

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[57] Sherman Antitrust Act
[58] United States v. Joint Traffic Association, 171 U.S. 505 (1898); United States v. Trans-Missouri Freight Association, 166 U.S. 290, 331 (1897)
[59] United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 223 (1940)
[60] Gregory J. Werden, '*Competition, Consumer Welfare and The Sherman Act*', Sedona Conference Journal Fall, 2008, U.S. Department of Justice, Antitrust Division Washington, DC9 Sedona Conf.J.87

The rule of reason was established by the landmark Standard Oil and American Tobacco cases.[61]A few years later, in Chicago Board of Trade[62], the Supreme Court explained that, under the rule of reason, "the true test for legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition." The Court has never departed from this basic interpretation, [63]and its modern decisions consistently hold that the Sherman Act protects the competitive process whatever the implication may be.[64]

The rule of reason applies to agreements the lawfulness of which must be evaluated in terms of their overall competitive effect, taking into account the following:

- commercial setting of the transaction,
- the nature of the restraint and
- the reasons offered in justification.

4.2.1.3 Contracts, Combinations and Conspiracies

The terms of Section 1 of the Sherman Act referring to "contracts", "combinations" or "conspiracies" can be differentiated, although they have often been used interchangeably by the U.S. Courts in antitrust cases to differentiate the concert of action which is a prerequisite to the statute's application. Contract normally means a formal agreement entered into by parties setting forth each party's rights and obligations. Combination more generally refers to a union of activity on the part of two or more persons. Conspiracy is usually defined in law as a combination designed to

[61] Standard Oil Co. v. United States, 221 U.S. 1 (1911); Am. Tobacco Co. v. United States, 221 U.S. 106 (1911)
[62] Board of Trade of the City of Chicago v. United States, 246 U.S. 231, 238 (1918)
[63] Cal. Dental Assoc. v. FTC, 526 U.S. 756, 780 (1999)
[64] Ibid

accomplish an illegal purpose or to carry out a legal purpose by illegal means.

It is critical to understand that the existence of a "contract, combination or conspiracy" for purposes of the Sherman Act is not dependent upon there being found a written agreement to have been entered by the parties.[65]

Section 2 of the Sherman Act prohibits certain "anticompetitive" or "exclusionary" conduct by single competitors,[66] but after a century of litigation, the scope and meaning of exclusionary conduct under section 2 of the Sherman Act remains poorly defined. Nevertheless, Section 2 jurisprudence makes clear that single-firm conduct is evaluated with respect to its impact on the competitive process.[67]

The objective of Section 2 of the Sherman Act does not ipso facto prevent the status of being a monopoly. It is the abuse of monopoly power which shall come within the purview of monopolization. There are certain factors which fall within the said section like a firm has an intention to monopolize, a practice which harm the competitive process and the nature of the conduct is critical.

4.2.1.4 Refusal to deal

The United States antitrust law prohibits certain business practices adversely affecting competition in the market. The US provision on the subject is contained in 35 USC Sec 271 (d) which provides that: No patent owner otherwise entitled to relief for infringement or contributory

[65] Supra note 43, 15
[66] United States v. Microsoft Corp., 253 F.3d 34, 79 (D.C. Cir. 2001)
[67] Gregory J. Werden, 'Competition, Consumer Welfare and the Sherman Act', (2008) DC, 9 Sedona Conf. J.87

infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

(1) derived revenue from acts which, if performed by another without his consent, would constitute contributory infringement of the patent;
(2) licensed or authorized another to perform acts which, if performed without his consent, would constitute contributory infringement of the patent;
(3) sought to enforce his patent rights against infringement or contributory infringement;
(4) refused to license or use any rights to the patent;
(5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of the license to rights in a another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

4.3 The Clayton Act, 1914

The Clayton Act was enacted by Congress in 1914 because of the fact that certain defects and omissions in the Sherman Act had to be remedied if the competitive system was to retain its spirit. Notwithstanding the sweeping and apparently all-inclusive prohibitions of the Sherman Act, new legislation was thought necessary both because of the judicial refusal to find certain conduct to be violative of that law and because of the recognition of anti-competitive conduct that had not been considered detrimental before. In short, the Clayton Act patched up what were felt to be specific gaps in the Sherman Act prescribing certain conduct that had proved to be anti-competitive in practice.

The Clayton Act also has been extended over the years to include additional provisions deemed necessary to supplement the U.S. antitrust regime. The major substantive sections of the Clayton Act dealing with price discrimination, exclusive dealing, and mergers were all designed to reach in their incipiency acts or practices that might eventually lead to adverse competitive effects. Except in the area of per se violations, the Sherman Act is not deemed violated unless actual and substantial adverse competitive effects have already been proved. With the Clayton Act, on the other hand, illegality can be found in a conduct that results in reducing competition.[68]

Section 2 of the Clayton Act, which was amended by the Robinson-Patman Act in 1936, is a prohibition directed at price discrimination, discrimination in granting promotional allowances, services and facilities. It has been widely criticized as a deterrent to aggressive competition, but it has survived, largely as a shield for small business.

Section 3 of the Clayton Act governs product distribution arrangements and makes it unlawful to lease, sell, or contract for sale of products, "on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller" where the effect of such arrangement " may be to substantially lessen competition or tend to create a monopoly in any area of commerce."

Section 4 of the Clayton Act is a provision which authorizes private civil suits by persons injured in their business or their property by antitrust violations to recover treble damages and the costs of the suit, including reasonable attorney's fees. Section 4A gives similar rights to the U.S.

[68] Ibid

government where it has been injured by an antitrust violation. Under section 4C, state attorney generals are similarly authorized to bring civil damage suits against antitrust violators in the name of the state or on behalf of the natural persons residing in the state.

Section 7 of the Clayton Act is the very important provision applying to corporate mergers and acquisitions. It is designed to arrest monopoly and other restraints on competition. The prohibition is directed at any acquisition "where in any line of commerce or in any activity affecting commerce in any section or area of the country, the effect of such acquisition may be substantially to reduce competition or to tend to create a monopoly". Section 7A of the Statute[69] requires that the parties planning acquisitions of stock or assets which meet certain thresholds of financial significance give notice thereof to the Department of Justice and the Federal Trade Commission in advance and then observe specified waiting periods to enable the authorities to review the competitive implications of the proposed transaction.

Section 8 of the Act prohibits, with certain exceptions, a person from serving as a director or officer of two competing corporations if the corporations meet certain size and competition thresholds. The Federal Trade Commission is required to revise those thresholds annually, based on the change in the gross national product.

Section 12 of the Act provides that any suit under the antitrust laws against a corporation may be brought in the judicial district where it is an inhabitant and also in any U.S. judicial district. Sec 15 (a) permits any person….injured in his business or property by reason of anything forbidden in the antitrust laws to sue therefore and to recover the threefold the damages by him sustained, and the cost of suit, including a reasonably attorney's fees.

[69] 1976 amendment

4.4 The Federal Trade Commission Act, 1914

The Federal Trade Commission Act (“FTC Act”), enacted in 1914, created the Federal Trade Commission (“FTC”), an administrative agency independent of the executive branch. The FTC is composed of five Commissioners, who are appointed by the President with the advice and consent of the Senate. The FTC’s several functions include the following:

1. the preparation of studies and reports to inform the Congress and the public on competitive developments in the marketplace,
2. the investigation and adjudication of business conduct to determine whether it is in conformity with the laws enforced by the Commission, and
3. the promulgation of rules and guides applicable to conduct in particular industries.

The heart of the Commission’s areas of responsibility is found in Section 5 of the Federal Trade Commission Act, which declares unlawful, first, “unfair methods of competition in or affecting commerce” and “unfair or deceptive acts or practices in or affecting commerce”. The Supreme Court has held that “unfair methods of competition” includes both conduct that violates the Sherman Act and the Clayton Act and other conduct that, though not violating the standards of those statutes but violating their spirit or policy. In addition the Commission’s authority over deceptive acts and practices enables it to perform a consumer protection function, particularly against misleading advertising and other deception aimed at consumers by business.

4.5 The Lanham Act and Unfair Competition

The Lanham Act 1946, is a piece of legislation that contains the federal statutes of trademark law in the United State. The Act prohibits a number of activities, including trademark infringement, trademark dilution and false advertising. Where the Lanham Act, in general, focuses primarily on obtaining, maintaining, and enforcing trademark and service mark rights, Section 43(a) has frequently been referred to as a federal unfair competition provision. Section 32 of the Lanham Act provides a cause of action against any person who shall "use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive". Section 43(a), in part, states "Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which

(i) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(ii) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities or geographic origin of his or her or another person's goods, services or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act."

Although originally not clearly encompassing the use of mark that is likely to cause confusion, Section 43(a) developed into a provision that covered infringement of unregistered marks and trade dress in effectively the same manner as Section 32 covered registered marks. With the Trademark Law Revision Act of 1987, Section 43(a)(1)(A) was revised to provide explicit protection for the likelihood of confusion consistent with the then developed case law, and now states:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or an combination thereof which is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person shall be liable in a civil action by any such person who believes that he or she is or is likely to be damaged by such act.[70]

With that amendment, the protection recognized by the courts for unregistered marks and trade dress became explicit. The current version of Section 43(a) provides a comprehensive standard for interpreting likelihood of confusion. It has long been recognized that trademark rights are not rights in gross. Rather, they primarily involve the right to prevent public deception. The public's interest is primary. The trademark owner's interest comes second and is defined by the primary interest. Put another way, the trademark owner’s rights are protected so that the public is not deceived, and the scope of the trademark owner’s rights are (or should be) exactly equal to the scope of rights necessary to prevent deception of the public.[71]

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[70] Mark V.B. Partridge, ‘Likelihood of Confusion: Understanding Trademark Law’s Key Principle’, <http://www.pattishal.org/pdf/LikelihoodofConfusion.pdf>, accessed 14 April, 2013

[71] Ibid

4.6 Framework for analysis of use of intellectual property rights under US antitrust laws

The Department of Justice (DOJ) and Federal Trade Commission (FTC) have made a synopsis of the guidelines[72] of the interface between Intellectual Property Law and Competition Law. The guidelines enunciate the antitrust enforcement policy of the agencies with respect to the licensing of intellectual property protected by patent, copyright, and trade secret law. The primary purpose of the guidelines are to minimize, and reconcile where possible, the inherent conflicts between antitrust and the intellectual property laws.

The guidelines are as follows: First of all, it has been made clear that Intellectual Property Laws per se is not excluded from the scrutiny of the antitrust authorities and certain properties of Intellectual property may have anti-competitive conduct. Further, it is wrong to presume that Intellectual property rights per se shall have market power from the point of view of antitrust. Finally, licensing of Intellectual property have favourable effects on the market since licensing, cross licensing or even transferring of intellectual property increases the motivation for creation and thereby resulting in enhanced research and development.

The DOJ and FTC have been employing the Rule of reason approach while deciding the cases between both the laws.

[72]U.S. Department of Justice and the Federal Trade Commission, 'Antitrust Guidelines for the Licensing of Intellectual Property', <http://www.justice.gov/atr/public/guidelines/0558.pdf> accessed 18 March, 2013

4.7 Decisions of the U.S. Courts

In order to understand the interplay between IPRs and anti-trust law in the United States, it is essential to delve into the conflicting areas of anti-trust cases involving intellectual property.

4.7.1 Patent

The U.S. Courts through their judgments has evolved and developed the jurisprudence between the interplay of patents and competition law. An attempt has been made to reflect on the key areas of interface between patent law and competition law.

4.7.1.1 Abuse of dominant position

Abuse of dominant position is the position of economic strength enjoyed by the enterprise which enable it to prevent effective competition being maintained on the relevant market by giving it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers.[73] FTC v Dell Computer[74] case highlights the abuse of standard setting initiatives by IP holders. In the present case Dell held patents for VL-bus, a computer component for transferring instructions between computer's CPU and peripherals. Under the rules requiring disclosure, the standard setting organization compelled Dell to disclose its patents, but Dell certified that the proposed standard did not violate its IPRs. However, once the standard was adopted, Dell asserted infringement of its patent by the standard. The FTC alleged that the conduct amounted to an

[73] United Brands Company and United Brands Continental BV v Commission of European Communities [1978] EUECJ C-27/76 (14th February, 1978)
[74] 121 F.T.C. 616 (Federal Trade Commission 1996)

'unfair method of competition' under Section 5 of the FTC Act. The commission's complaint specifically charged that industry acceptance of the new standard was delayed, and that uncertainty surrounding acceptance of the standard raised the cost of implementing new design. Other firms avoided using the new bus because they were concerned that the patent dispute would reduce its acceptance as a standard. The enforcement action was settled, with Dell agreeing not to enforce its undisclosed patents.

4.7.1.2 Exclusive Licences

An exclusive license provides the licensee the promise that the licensor will not practice under the patent, and that the licensor will not grant licenses to any other parties. In a case [75] exclusive license occurs when a license prevents the licensee from licensing, selling, distributing, or using competing technologies. In Federal Trade Commission v Mylan Lab., Inc[76], Mylan was the second largest generic drug manufacturer along with three other companies in the generic drug industry. The Federal Trade Commission had lodged a complaint against them. The charges were restraint of trade, monopolization, and conspiracy to monopolize the markets for generic lorazepam and clorazepate tablets, two widely used anti-anxiety drugs. Mylan had sought and obtained ten-year exclusive licenses for Profarmaco'd Drug Master File (DMFs) for the active pharmaceutical ingredient (APIs) for both lorazepam and clorazepate tablets. Therefore Mylan was able to prevent other generic drug manufacturers from gaining access to the raw materials needed to market competing products. In return for these exclusive licenses, Mylan offered to pay Profarmaco, Cambrex and Gyma, a percentage of Mylan's gross profits on sales of lorazepam and clorazepate tablets. Mylan

[75] Tampa Electric Co. v Nashville Coal Co. 365 US 320 (361).
[76] No. 1: 98CV03114 (TFH)

raised its prices for generic clorazepate and lorazepam tablets after obtaining exclusive licenses from Profarmaco and Gyma. Finally the Federal Trade Commission got a cease and desist order against Mylan as well as sought a restitution to the tune of $120 million.

4.7.1.3 Condition in License Agreement Fixing prices

In United States v General Electric Co[77], General Electric company held three patents to cover completely the making of modern electric lights with tungsten filaments. It licensed the Westinghouse Company to make, use, sell lamps under the patents owned by the former. The license provided that the Westinghouse Company would follow prices and terms of sale from time to time fixed by General Electric and observed by it, and that Westinghouse would, with regard to lamps manufactured by it under the license, adopt and maintain same conditions of sale as observed by General Electric in the distribution of lamps manufactured by it. The question before the Honourable Supreme Court was that whether the Electric Company as the owner of the patents could entirely control the manufacture, use and sale of tungsten incandescent lamps, in its license to the Westinghouse Company, the right to impose the condition that its sales should be at prices fixed by the licensor and subject to change according to its discretion.

The Court observed that such a term would be valid provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. The Court further said that one of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. Finally, when the patentee licensees another to make and vend on his own account, the price at which his licensee

[77] 272 US 476 (1926)

will sell will necessarily affect the price at which he can sell his own patented goods.

4.7.1.4 Fixing prices for products processed by the licensee

In United States v Univis Lens Co.[78], Univis Lens Co. was the owner of a number of patents and trademarks relating to multifocal lenses. It incorporated Univis Corporation, acquired the majority stock in the corporation and transferred its interest in the trademarks and patent to the Corporation. The issue in the case was that whether the condition imposed by the patentee fixing the sale price to be charged by the licensee on making the finished lenses was legally enforceable. The Univis Lens Co. was licensed to manufacture lens blanks as was stated in the specifications of one of the patents in the Corporation and then to the designated licensees of the Corporation and then pay to the Corporation an agreed amount of royalty. There were some other classes of licensees-wholesalers, finishing retailers and prescription retailers. The work of the wholesalers by the terms of the licenses was to purchase the blanks from the Lens Company, to finish them by grinding and polishing, and sell them to prescription licensees only at prices fixed by the Corporation. On the other hand, the finishing retailers could purchase the blanks from the Lens Company, grind and polish them and adjust the lenses, in frames or supports, to the eyes of the customers and they were bound to sell the finished lenses to the consumers at prices prescribed by the Corporation. For the prescription retailer the license required that he sell the finished lenses only to consumers and only to prices prescribed by the Corporation.

The United States government contended that when the patents were only for the structure of the lens blanks there could be no stipulation by the

[78] 316 US 241 (1942)

Corporation of the sale prices of finished lenses which the wholesalers and finishing retailers processed from the blanks. The District Court had held that there could be no restriction on the price at which a prescription retailer may sell the lenses. The Supreme Court upheld the decision of the District Court that a patentee could not, after the sale of the patented article, control the price at which it may be sold and that the price-fixing term, with the three classes of licenses was violation of the Sherman Act.

4.7.1.5 Patent pooling

Patent pooling is an agreement among patent owners to license a set of their patents to one another or to third parties. In United States v New Wrinkle, Inc[79], In this case, the US Government filed a civil suit charging the defendants with successfully conspiring to fix uniform prices and to eliminate competition in the wrinkle finish industry in the country by means of patent license agreements, in violation of Section 1 of the Sherman Act. When the District Court dismissed the case, an appeal was made to the Supreme Court.

One of the defendants and another company, each claiming superiority of the patents held by it for manufacture of wrinkle finish enamels, varnishes and paints, entered into an agreement for forming a new company called New Wrinkle Inc., to which they assigned their patents, accepting shares in that new company in exchange for the assignment of their patents. New Wrinkle licensed patents to manufacturers of the products covered by the patents, fixing the minimum prices at which the licensees might sell. The license agreements empowered New Wrinkle to change the prices and other terms with due notice as provided in those agreements. New Wrinkle advised the licensees of the terms and conditions of the sale and the ‘agreed upon prices’ of the products covered by the licensed patents, which

[79] 342 US 371 (1952)

the licensees were assured was necessary ‘in order to establish minimum prices throughout the industry.’

New Wrinkle did not manufacture the products covered by the patents, but was only a licensor of rights under patents. Its defence was that engaging exclusively in the activity of licensing of patents was not commerce and Section 1 of the Sherman Act did not apply to it. It furthered contended that licensing of patents was a matter governed by patent laws.The Supreme Court said that price control under the patent licences was an essential part of restraint of interstate trade in enamels, varnishes and paints, even though the isolated act of contracting for the licences was wholly within a single state. Reversing the decision of the district court, the Supreme Court ruled: ‘An arrangement was made between patent holders to pool their patents and fix prices on the products for themselves and their licensees. The purpose and result plainly violate the Sherman Act.

In In re Summit Tech., Inc&Visx, Inc. No 9286 [80], Summit Technology Inc&Visx, Inc were charged by the Federal Trade Commission regarding their pooling of patents related to photo refractive keratectomy or PRK. This is a form of eye surgery that uses lasers to reshape the cornea and frees many people from the need to wear glasses or contact lenses.The Food and Drug Administration (FDA) had given to only Summit and Visx to market PRK equipment. Summit and VISX licensed most of their PRK Patents to a shell entity named Pillar Point Partnership. This partnership then licensed the full portfolio of patents back to Summit and VISX. Summit and VISX sold or leased PRK equipment to eye doctors and sub-licensed the doctors to perform PRK procedures. The patent pooling arrangement required Summit and VISX to pay the partnership $250 fee easch time a PRK procedure was performed. In turn, Summit and VISX, charged each of their

[80] FTC 24th March 1998

respective sub-licences a $ 250 per-procedure fee. The patent pooling in fact made each firm pay the amount of the pool to Summit and VISX.

The Commission found that the pooling had completely eliminated competition from the market since the exclusive nature of the agreement restricted the access of other firms to PRK technology by reducing each party's incentive to license PRK technology to other firms. At the end, Summit and VISX agreed to discontinue the pooling.

4.7.1.6 Tying Agreements

Tying agreements are common types of anti-trust problems. Tying arrangements are those where a seller agrees to sell a highly usable product or service only on the condition that the buyer also purchases a less important or marketable product or service, irrespective of the fact whether the buyer wants the product or not.[81]In Eastman Kodak v Image Technical Services[82], Eastman Kodak, known as a camera and film company, was also in the business of selling photocopiers and micrographic equipment. Kodak also provided parts and service for the equipment it sold. After an initial warranty period, customers could obtain service through either an annual service contract (that included all required parts) or on a time and materials basis. In 1985 or 1986 (according to the Supreme Court's decision), or as early as 1975 with respect to copier parts (according to the district court), Kodak implemented a policy of selling parts only to customers that obtained service from Kodak or that self-serviced their own equipment. ISOs, which had sprung up to service Kodak equipment in the early 1980s, were ineligible to buy parts under this Kodak "parts policy." As a result, ISOs had difficulty obtaining parts to provide service, some ISOs were forced out of business,

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[81] Northern Pacific Railway Co. v United States 356 US 1, 5-6 (1978)
[82] Eastman Kodak v Image Technical Services Inc., 504 US 451 (1992)

and some equipment owners that preferred ISO service were forced to obtain service from Kodak instead. Eighteen ISOs filed suit against Kodak in the Northern District of California in 1987, alleging violations of Section1 and Section 2 of the Sherman Act. The core Section 1 claim was that Kodak had unlawfully tied the availability of Kodak parts to the purchase of Kodak service. This conduct also formed the basis for a Section 2 claim that Kodak had monopolized a service aftermarket.

The Court concluded that Kodak has failed to demonstrate that respondents' inference of market power in the service and parts markets is unreasonable, and that, consequently, Kodak is entitled to summary judgment. It is clearly reasonable to infer that Kodak has market power to raise prices and drive out competition in the aftermarkets, since respondents offer direct evidence that Kodak did so. It is also plausible, as discussed above, to infer that Kodak chose to gain immediate profits by exerting that market power where locked in customers, high information costs, and discriminatory pricing limited and perhaps eliminated any long term loss.

4.7.1.7 Refusal to license

In Intergraph Corp. v. Intel Corp.[83], Intel Corporation (Intel) manufactures high performance computer microprocessors which are sold to producers of computer-based devices. These producers, called original equipment manufacturers (OEMs), use these microprocessors in products designed for a variety of uses. Intergraph Corporation (Intergraph) is an OEM that designs, produces, and distributes computers that produce computer-aided graphics. Intergraph owns and uses patents for "Clipper" technology which is used in high performance microprocessors.

[83] 3 F. Supp. 2d 1255 (N.D.Ala. 1998), reversed, 195 F.3d 1346 (Fed. Cir. 1999).

In 1993, Intergraph ceased using its Clipper microprocessors in favor of Intel microprocessors. In 1994, Intel designated Intergraph a "strategic customer." As such, Intergraph was entitled to certain benefits, including access to proprietary information and products subject to non-disclosure agreements. In late 1996, Intergraph charged certain Intel OEM customers with infringing its Clipper technology patents by using Intel microprocessors containing the technology. Intel and Intergraph engaged in negotiations to resolve the claims. Intergraph rejected all of Intel's proposals. As negotiations soured, Intel ceased to provide the special benefits reserved for strategic customers.

Intergraph sued Intel for infringement of the Clipper patents. Intergraph sought a preliminary injunction to prevent Intel from infringing the Clipper patents. Intergraph amended its complaint to charge Intel with violating antitrust laws. The district court found that Intergraph was likely to prove that Intel was a monopolist. The district court also held that, as such, it had violated sections 1 and 2 of the Sherman Act[84].The Federal Circuit granted leave to appeal. The Court vacated the preliminary injunction order because Intergraph did not demonstrate a substantial likelihood of success to establish an antitrust violation by Intel. The Court also held that the district court's determination that Intel had used its intellectual property to restrain trade was erroneous. The Court held that antitrust laws do not destroy a patentee's right to exclude others from patented property. The Court reasoned that while patent law does not immunize the patent holder from antitrust laws, the antitrust laws do not nullify the patentee's right to retain sole use and access to its patented property. The Federal Circuit held that the jury must consider the patent laws pro-competitive effects and statutory protections. To this end, the Court adopted a rebuttable presumption that a

[84]Ibid

monopolist's desire to prevent others from having access to its protected work is a valid business reason for any immediate harm to consumers.

The Federal Circuit also held that the district court erred because, while it recognized that there must be an anticompetitive intent, it ignored the fact that there was no competition between Intel and Intergraph. To state a claim invoking the Sherman Act, there must be a competitive relationship to force access to the property of another. Here, Intergraph only sought preferential treatment with respect to access to samples and technical assistance. The Court stated that the owner of proprietary information is under no obligation to provide such treatment or to provide such proprietary information.

In the realm of IP monopoly, the federal circuit in Intergraph case, trimmed the ambit of "essential facilities" doctrine by holding that only when the facility owner and the user compete in a downstream market that requires access to the facility, will the doctrine apply. In this case, the plaintiff Intergraph argued that Intel had an affirmative obligation to continue supplying it with chips, technology and interoperability information because Intel products were the de facto industry standard and thus essential facility to do business in the industry. Intel dominated the market with well over 80 percent share of microprocessor chip sales, thus Intergraph asserted that the refusal to deal was monopolizing conduct in violation of Sherman Act.[85] However, the court held that Intel and Intergraph were not competitors and since they did not compete in downstream market, a compulsory license could not be granted.

[85] Section 2 of Sherman Act makes any attempt to monopolize any part of interstate or foreign trade a criminal offence.

4.7.2 Trademark

The U.S. Courts through their judgments has evolved and developed the jurisprudence between the interplay of trademark and competition law. An attempt has been made to reflect on the key areas of interface between trademark law and competition law.

4.7.2.1 Tying arrangements

The main ingredient of tying arrangement is that it denies competitors free access to the tied product market, not because the party imposing the arrangement has a superior product in the market, but because of the power exerted by the tying product.In Siegel v Chicken Delight[86], Chicken Delight has licensed several hundred franchisees to operate home delivery and pick-up food stores. It charged its franchisees no franchisee no franchise fees or royalties. Instead, in exchange for the license granting the franchisees the right to assume its identity and to adopt its business methods and to prepare and market certain food products under its trademark, Chicken Delight required its franchisees to purchase a specified number of cookers and fryers and to purchase certain packaging supplies and mixes exclusively from Chicken Delight.

In order to establish that there exists an unlawful tying arrangement plaintiff's must demonstrate: first that the scheme in question involves two distinct items and provides that one (the tying product) may not be obtained unless the other (tied product) is also purchased. Further, the tying product possesses sufficient economic power appreciably to restrain competition in the tied product market. Finally, whether there exists any special justification for the particular tying arrangement in question. The District Court gave the

[86] 448 F.2d 43 (9th Cir. 1971)

judgment that Chicken Delight name, trademark and method of operations was "a tying item in the traditional sense", the tied item being the cookers and fryers, packaging products, and mixes. Chicken delight urges one to hold that its trademark and franchise licences are not items separate and distinct from the packaging, mixes, and equipment which it says are essential components of the franchisee system. To determine whether an aggregation of separable items should be regarded as one or more persons for tie-in purposes in the normal cases of sales of product the courts must look into the function of the aggregation.

Where one of the products sold as part of an aggregation is a trademark or franchise license, new questions are injected. In determining whether the license and the remaining items in the aggregation are to be regarded as distinct items which can be traded in distinct markets consideration must be given to the function of trademarks. The burgeoning business of franchising has made trademark licensing a widespread commercial practice and has resulted in the development of a new rationale of trademark as representations of product quality. It is apparent that the goodwill of the Chicken Delight trademark does not attach to the multitude of separate articles used in the operation of the licensed system or in the production of its end product. The researcher analyses that the District Court was not in error in ruling as a matter of law that the arrangement involved distinct tying and tied products.

While looking into the economic power, Chicken Delight points out that while it was an early pioneer in the fast food franchising field, the record establishes that there has been a dramatic expansion in this area, with the advent of numerous firms, including many chicken franchising systems, all competing with each other. The District Court ruled that Chicken Delight's unique registered trademark, in combination with its demonstrated power to impose tie-in, established as matter of law the existence of sufficient market power to bring the case within the Sherman Act.

In Tominaga v Shephard[87], Defendant El Centro is a California corporation and is the franchisor of "Pizza Man-He delivers" and "Chicken Delight" franchises in Los Angeles and Orange Counties. There are currently forty-five Pizza Man and Chicken Delight franchisees in the Southern California area. Defendant Vance Shephard is the president of El Centro. El Centro has registered its Pizza Man and Chicken Delight service marks with the United States Patent and Trademark office. Plaintiff Milton Tominaga does business as P.M. Distributors in the Los Angeles area, and is a wholesome distributor of ingredients for prepared foods and restaurant supplies. He is an authorized distributor of food and packaging products to El Centro's franchisees. Tominaga owned a franchised store from 1975 until 1985. From 1982 to the present, he supplied various Pizza Man franchisees with ingredients and supplies. In 1985, Tominaga sold his Pizza Man store, according to his affidavit, because defendant Shephard told him he would become the exclusive distributor for Pizza Man ingredients and supplies.

El Centro franchisees entered into franchise agreement with El Centro in order to obtain licenses to operate Pizza Man stores and to utilize the service mark. Under the franchise agreement a franchisee is not limited to purchasing food products and supplies from any distributor. Also, under the standard form franchise agreements, each El Centro franchisee is obligated to package all goods sold to the public in approved Pizza Man packaging unless such packaging is unavailable, in which case written permission must be obtained from El Centro. Each franchisee is further required to prepare its menu and use ingredients in accordance with the methods and specifications set forth in the Pizza Man Operations Manual.

[87] 682 F. Supp. 1489 (C.D. Cal. 1988)

Plaintiff's argument is that the relevant market is the "Pizza Man franchising" market. This market definition is erroneous as a matter of law. No reasonable argument can be made that Pizza man possesses the power to force potential franchisees to purchase the tied product rather than sell a different brand of fast food (the tying product). The Court concluded that El Centro's ability to "coerce" its franchisees to purchase a product it may not wish to purchase, and its claimed ability to raise prices because of the franchisees sunk investment, does not show the market power in the fast food franchising market.

4.7.3 Copyright

The U.S. Courts through their judgments has evolved and developed the jurisprudence between the interplay of copyright and competition law. An attempt has been made to reflect on the key areas of interface between copyright law and competition law.

4.7.3.1 Licensing Restrictions

In Atari Games Corp. v Nintendo of America Inc[88], Nintendo's home video game system called as the NES includes a monitor, console, and controls. The console is a base unit into which a user inserts game cartridges. These cartridges contain the various game programs for the NES. As dictated by the program on the cartridge, the console controls an image on a video monitor, often a television set. In response to this video display, the user interacts with the system by manipulating the controls. Thus, by operating the controls in response to the video image, an individual plays the game on the cartridge in the NES console.

[88] 897 F 2d 1576

Nintendo designed a program called as the 10NES to prevent the NES from accepting unauthorized game cartridges. Both the NES console and authorized game cartridges contain microprocessors or chips programed with the 10NES. The console contains a "master chip" or "lock." Authorized game cartridges contain a "slave chip" or "key." When a user inserts an authorized cartridge into a console, the slave chip in effect unlocks the console; the console detects a coded message and accepts the game cartridge. When a user inserts an unauthorized cartridge, the console detects no unlocking message and refuses to operate the cartridge. Nintendo's 10NES program thus controls access to the NES.

Atari first attempted to analyze and replicate the NES security system in 1986. Atari could not break the 10NES program code by monitoring the communication between the master and slave chips. Atari next tried to break the code by analyzing the chips themselves. Atari analysts chemically peeled layers from the NES chips to allow microscopic examination of the object code[89]. Nonetheless, Atari still could not decipher the code sufficiently to replicate the NES security system.

In December 1987, Atari became a Nintendo licensee. Atari paid Nintendo to gain access to the NES for its video games. The license terms, however, strictly controlled Atari's access to Nintendo's technology, including the 10NES program. Under the license, Nintendo would take Atari's games, place them in cartridges containing the 10NES program, and resell them to Atari. Atari could then market the games to NES owners.

[89] The Semiconductor Chip Protection Act of 1984 permits, in some limited circumstances, reverse engineering to reproduce a mask work. 17 U.S.C. § 906 (1988). This Act, while supporting reverse engineering to help disseminate the ideas embodied in a mask work, does not apply in this case. Atari did not reproduce or copy Nintendo's chip or mask work. In fact, Atari used an entirely different chip. Atari instead allegedly copied the program on Nintendo's chip. Therefore, the 1984 Act does not apply.

Nintendo limited all licensees, including Atari, to five new NES games per year. The Nintendo license also prohibited Atari from licencing NES games to other home video game systems for two years from Atari's first sale of the game.

In early 1988, Atari's attorney applied to the Copyright Office for a reproduction of the 10NES program. The application stated that Atari was a defendant in an infringement action and needed a copy of the program for that litigation. Atari falsely alleged that it was a present defendant in a case in the Northern District of California. Atari assured the "Library of Congress that the requested copy [would] be used only in connection with the specified litigation." In fact, no suit existed between the parties until December 1988, when Atari sued Nintendo for antitrust violations and unfair competition. Nintendo filed no infringement action against Atari until November 1989.After obtaining the 10NES source code from the Copyright Office, Atari again tried to read the object code from peeled chips. Through microscopic examination, Atari's analysts transcribed the 10NES object code into a handwritten representation of zeros and ones. Atari used the information from the Copyright Office to correct errors in this transcription. The Copyright Office copy facilitated Atari's replication of the 10NES object code.

Atari developed its own program called as the Rabbit program to unlock the NES. Atari's Rabbit program generates signals indistinguishable from the 10NES program. The Rabbit uses a different microprocessor which operates much faster. Thus, to generate signals recognizable by the 10NES master chip, the Rabbit program must include pauses. Atari also programmed the Rabbit in a different language. Because Atari chose a different microprocessor and programming language, the line-by-line instructions of the 10NES and Rabbit programs vary. The Rabbit gave Atari access to NES owners without Nintendo's strict license conditions. Atari contended that they had developed the Rabbit program through reverse engineering which the Court dismissed. The District Court granted an interim injunction stating that Nintendo had a protected expression in the 10NES program. Atari had unauthorized verbatim copies of the Nintendo program. The district court did not err in determining that Nintendo is likely to show successfully that Atari infringed the 10NES copyright by obtaining and copying the source code from the Copyright Office. Nintendo is likely to prove that Atari's Rabbit program is substantially similar to the 10NES program and that the similarities relate to protected expression. Nintendo is also likely to overcome Atari's assertion of copyright misuse as a defense. Atari presents no arguments to rebut the presumption of irreparable harm that arises upon a showing of likelihood of success on the merits. The Court also held that the "the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition".

4.7.3.2 Unilateral refusal to license copyright

In A & M Records, Inc v Napster, Inc[90], Plaintiffs are engaged in the commercial recording, distribution and sale of copyrighted musical compositions and sound recordings. The complaint alleges that Napster, Inc. ("Napster") is a contributory and vicarious copyright infringer. In 1987, the Moving Picture Experts Group set a standard file format for the storage of audio recordings in a digital format called MPEG-3, abbreviated as "MP3." Digital MP3 files are created through a process colloquially called "ripping." Ripping software allows a computer owner to copy an audio compact disk ("audio CD") directly onto a computer's hard drive by compressing the audio information on the CD into the MP3 format. The MP3's compressed format allows for rapid transmission of digital audio files from one computer to

[90] 239 F 3d 1004; 1026-27 & n. 8 (9th Cir 2001)

another by electronic mail or any other file transfer protocol. In order to copy MP3 files through the Napster system, a user must first access Napster's Internet site and download the MusicShare software to his individual computer. Once the software is installed, the user can access the Napster system. A first-time user is required to register with the Napster system by creating a "user name" and password. If a registered user wants to list available files stored in his computer's hard drive on Napster for others to access, he must first create a "user library" directory on his computer's hard drive. The user then saves his MP3 files in the library directory, using self-designated file names. He next must log into the Napster system using his user name and password. His Music Share software then searches his user library and verifies that the available files are properly formatted. If in the correct MP3 format, the names of the MP3 files will be uploaded from the user's computer to the Napster servers. The content of the MP3 files remains stored in the user's computer. Once uploaded to the Napster servers, the user's MP3 file names are stored in a server-side "library" under the user's name and become part of a "collective directory" of files available for transfer during the time the user is logged onto the Napster system. The collective directory is fluid; it tracks users who are connected in real time, displaying only file names that are immediately accessible.

Two necessary things are important for infringement (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106[91]. Plaintiffs have sufficiently demonstrated ownership. The record supports the district court's determination that as much as eighty-seven percent of the files available on Napster may be copyrighted and more than seventy percent may be owned or administered by plaintiffs.

[91]Infringement occurs when alleged infringer engages in activity listed in § 106

On Fair Use, Napster contented that it did not directly infringe on the copyright of A & M Records. Napster identifies three specific alleged fair uses: sampling, where users make temporary copies of a work before purchasing; space-shifting, where users access a sound recording through the Napster system that they already own in audio CD format; and permissive distribution of recordings by both new and established artists. The district court considered factors listed in 17 U.S.C. § 107[92], which guide a court's fair use determination. The district court first conducted a general analysis of Napster system uses under § 107, and then applied its reasoning to the alleged fair uses identified by Napster. The district court concluded that Napster users are not fair users. First of all, the district court expressly said that downloading of MP3 files does not constitute a transformative medium. The court further went on to say that Napster users had done a commercial activity since a host user while downloading and sending the file to a non-user will not do it for personal activity and the users were able to get it for free for which they would have to pay. Moreover, the district court determined that plaintiffs' "copyrighted musical compositions and sound recordings are creative in nature . . . which cuts against a finding of fair use under the second factor." Further, the district court determined that Napster users engage in "wholesale copying" of copyrighted work because file transfer necessarily "involves copying the entirety of the copyrighted work." Further to add, to ensure fair use the marketability of the product should not be affected. But in the Napster case, it reduces audio CD sales among college students and it "raises barriers to plaintiffs' entry into the market for the digital downloading of music."

[92]These factors are: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the "amount and substantiality of the portion used" in relation to the work as a whole; and (4) the effect of the use upon the potential market for the work or the value of the work. See 17 U.S.C. § 107

Another contention of Napster was 'sampling' and 'space shifting' as fair use, which the District court nullified. The appeals court agreed with the district court's conclusion that the use of Napster results in at least two forms of harm to the music industry: the loss of sales of compact disks and a heightened barrier to entry by the music industry into the market for electronic delivery of music. The court noted that market harm could include not merely damage to the present market, but also to future markets that the copyright owner may seek to exploit. Taking into account the Audio Home Recording Act 1992 as contended by Napster, the court stating that the Audio Home Recording Act is "irrelevant" to the action because: (1) plaintiffs did not bring claims under the Audio Home Recording Act; and (2) the Audio Home Recording Act does not cover the downloading of MP3 files. On the other hand, Napster's potential liability for contributory and vicarious infringement renders the Digital Millennium Copyright Act[93] inapplicable per se.

The Court held that one of the characteristic of copyright is the right to curb the derivative market by refusing to license the copyright. Although it is likely that unilateral refusal to license copyright may give rise to misuse of claim but the broad assumption is that the desire to exclude is a presumptively valid business justification.

4.7.3.3 Block booking

Block booking is the practice of renting one motion picture to an exhibitor on condition that it is also rent other features from the same company. In United States v Loew's[94], In this case the United States brought separate civil antitrust litigations against six major distributors alleging that

[93] Digital Millennium Copyright Act, s 512
[94] 371 US 38 (1962)

each defendant had in selling to television stations, conditioned the license or sale of one or more feature films upon the acceptance by the station of a package or block containing one or more unwanted or inferior films.

The Court went on to say that each copyrighted film block booked was itself a unique product and that each feature films varied in theme, in artistic performance, in stars, in audience appeal, etc., were not fungible and that the defendant by reason of its copyright had a 'monopolistic' position as to each tying product and thereby trying to impose an appreciable restraint on free competition in the tied product. Moreover, television stations were forced to take unwanted films which denied access to the other distributors who, in turn, were foreclosed from selling to the stations. Further, 25 contracts found to have been illegally block booked involved payments ranging from $60,800 in the case of Screen Gems to over $2,500,000 in the case of associated artists. The stations were forced to accept the substantial portion of the licensing fees represented the cost of inferior films. This shows the anticompetitive measures use to destroy the legal and economic distinctiveness of the copyrighted product. Finally, the appellants had also entered into a number of illegal contracts to make it improper to enter injunctive relief. The Court had held that tying arrangements were illegal and in violation of Section 1 of the Sherman Act.

4.8 Concluding remark

Antitrust law and Intellectual property law are complementary to each another. On one hand intellectual property rights protects an abstract right which is intangible in nature and on the other hand antitrust law protects the market from illegal monopoly and subsequent exploitation. It is important that the antitrust law and the Intellectual property law become interdependent for protecting the public good. Although the conflict between IPR and

Antitrust becomes strident in the United States yet it is the duty of the Federal Trade Commission to see that both the laws are not at logger heads to one another. Since Intellectual property is more of a private right and Antitrust is more of increasing the societal welfare, both the laws should aim to promote public good.

CHAPTER – V

A Comparative Study of EU and US Intellectual Property Law and Competition Law through Judicial Pronouncements

"The aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition."[1]

5.0 Introduction

This chapter focuses on the comparative study of the United States and European Union approaches of Intellectual Property Law and Competition Law through judicial pronouncements. The US adopted the Antitrust Guidelines for the Licensing of Intellectual Property in 1995, taking a systematic economic effects-based approach to evaluating intellectual property licensing agreements.[2] A year later, the European Commission adopted its current Technology Transfer Block Exemption ("TTBE")[3], which focuses more heavily on a structural approach to examining technology licensing agreements. In its recent work revising the TTBE and in drafting a

[1] Atari Games Corp. v Nintendo of America, Inc 897 F2d 1572 (1990)

[2] Commission Regulation (EC) No. 240/96 of 31 January 1996 on the application of Article 85 (3) of the Treaty to certain categories of technology transfer agreements, 1996 O.J. (L 31) 2

[3] Commission Regulation (EC) No.../2004 of [...] on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, at http://europa.eu.int/comm/competition/antitrust/legislation/licensing_arrangements/en.pdf. accessed 6 June, 2015

new document, the Technology Licensing Guidelines[4], the Commission has moved away from that structural approach, embracing an economic effects-based model.

5.1. Similarities and differences between Article 102 of the EC Treaty and Section 2 of the Sherman Act

Article 102 of the EC Treaty and Section 2 of the Sherman Act are often regarded as similar provisions since they are both meant to prohibit unilateral conduct which influences a certain market, and have the effect of impairing trade between member states. In both the cases the conduct becomes relevant when a certain degree of economic power is involved and in both cases the conduct, although generally adopted by a single undertaking, can also be pursued by more than one firm. Nonetheless, despite these apparent commonalities, several differences can be traced among the two provisions.[5]

A first relevant difference can be found where the European competition laws do not punish conduct aimed at obtaining a dominant position. A finding of dominance is the fundamental point for assessing unilateral abuses; therefore, whatever the means and the strategies implied to achieve it, the mere attainment of a position of dominance in itself will not punished. Only the abuse of such position can trigger liability under article 82: hence, no attempt claims can be pursued in Europe; not even in the case that clear evidence is provided that the company has engaged in the practice with the specific intent to damage a competitor or competition in general.

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[4] Commission Notice, Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, at http://europa.eu.int/comm/competition/antitrust/legislation/licensing_arrangements/guidelines_e n.pdf. accessed 6 June, 2015

[5] Emanuela Arezzo, 'Intellectual Property Rights at the Cross Road Between Monopolization and Abuse of Dominant Position: American and European Approaches Compared' (Spring 2006), J. Marshall J. Computer & Infi. L.455

Indeed, a second substantive difference between the two doctrines is given by the fact that European assessment of unilateral conduct does not take intent into account. [6]

The European Union is more responsible in dealing with the abuses since the firms take up the plea that the abusive nature was undertaken in order for to protect its own interests and thereby make minimal any form of disadvantage coming to it. On the other the researcher found that the United States while dealing with these cases takes up the plea that this abuse was not deliberately done but to pass on the advantageous effects onto the consumers and their ultimate intention was never to harm the consumers.

The researcher through a brief analysis of the cases found that Article 102 of the EC treaty has a reformist attitude. In the sense, that if the abusive conduct has a scope of showing that the abuse was done in order for the welfare of the consumers at large, the abuse may be forgiven. The European Competition authorities seek to balance the abuse of competition and consumer welfare. So there is an approach of concern for both the markets and the consumers. On the other the American case laws directly point to consumer welfare approach rather than having an equal concern for the markets.

5.1.1. EU Takes Cautious Approach on Refusal to License

The approach of the European Commission and European Court of Justice towards refusal to license is very vigilant approach. The IMS health judgment [7] was concerned about refusal of licensing data collection on

[6] Ibid.

[7] IMS Health Care GmbH &Co. K.G. v NDC Health GmbH & Co. K.G. Case C-418/01; [2004] ECR I-5039

pharmaceutical sales and prescriptions, copyrighted '1860-brick structure'. The Court said that mere refusal to license cannot in itself constitute an abuse of dominant position. First of all, access to IP protected product or service must be indispensable to carry on a business provided three conditions are satisfied:

(1) The refusal must prevent emergence of new product for which there is potential consumer demand;
(2) It must be unjustified; and
(3) It must exclude a competition on a secondary market[8]

The European Microsoft decision indicates that the Commission is making it more difficult for dominant companies to refuse to license their IP rights. In September 2007, the European Court of First Instance (CFI) affirmed the Commission's findings that Microsoft had abused its dominant position. Microsoft has since announced that it will not challenge this decision and will comply with the remedies and pay the fine of more than EUR 497 million ($728 million).

The Commission found that Microsoft abused its dominant position by refusing to license "interoperability information" to competitors in the work group server operating system market. This interoperability information would enable competing work group server operating systems to function compatibly with Microsoft Windows dominant domain architecture. The Commission found this "interoperability information" was indispensable to enabling non-Microsoft group servers to compete on an equal footing with Microsoft. Without this information, there was a danger that competition would be eliminated in the group server market where Microsoft already had 60 percent market share. Most controversially, the Commission concluded

[8] Ibid, Para 38

that the refusal to provide this information limited technical development to the prejudice of consumers. The Commission thus emphasized that lack of access to Microsoft's IP rights would restrict innovation and competition in the work group server market. The Commission added that Microsoft failed to show that disclosing its IP rights would have a significant effect on Microsoft's incentives to innovate.[9] Citing European case law, the Commission set out three conditions that must be met for a refusal to license to be an abuse of dominant position which are as follows:

1. the refusal must relate to a product or service indispensable to the exercise of an activity on a neighboring market;
2. the refusal must be of such a kind as to exclude any effective competition on that market;. And
3. the refusal must prevent the appearance of a new product for which there is a potential consumer demand.

The Commission concluded that Microsoft's refusal to license its interoperability information met each of these three conditions by restricting competition in the group server operating systems market. According to the Commission, the limiting of technical development in the group server operating systems market was sufficient to meet the "prevention of the appearance of a new product" standard. In Microsoft, the Commission and the CFI arguably increased the liability for companies that refuse to license IP rights in the EU by allowing the .limiting of technical development in the group server market to meet the standard for "preventing a new product" in this market. In some previous refusal-to-license cases a narrower "preventing a new product" standard had been applied.[10]

[9] McDermott, Will and Emery, 'IP Licensing and Competition Law – Divergence Between the European Union (EU) and United States', <http://www.mwe.com/info/news/wp1008a.pdf> accessed 30 March, 2015
[10] Ibid.

Finally, in IMS Health, the European Court of Justice (ECJ) denied the Commission's refusal to deal claim because the company that was not granted a license was attempting to use that license to create services that were the same as services already being provided. However, in Microsoft, the CFI rejected Microsoft's argument that competing software providers were not creating new products, but merely wanted to use Microsoft's IP to duplicate Microsoft's work group server operating system software that was already on the market.

In Bronner[11] case, the refusal to deal involved the dominant firm's own method of reaching consumers, a clearly complementary market for daily newspapers. Finally in the Volvo[12] case where the design right prevented all substitution because the design of the front wing coincided with its function, to provide a wing with the correct shape to fit in the design of the car, the European Court of Justice clearly said that refusal to license as such does not constitute a dominant position.

5.1.2 United States takes a more lenient approach on Refusal to License and Microsoft's Licensing Practices

The United States seems to have adopted a more lenient approach to the refusal to license issue in general, and specifically in relation to Microsoft. In the United States even where a patent owner has a monopoly in a relevant market, its refusal to license a patent to others will not generally provide the basis for holding that the patentee has been abusive.[13] In other words, the authorities take the view that IP rights create a rebuttable

[11] Bronner case C-7/97, [1998] ECR I-7791
[12] [1998] ECR 6211
[13] SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2nd Cir. 1981)

presumption that a refusal to license is permissible (absent illegal tying, fraud on the Patent and Trademark Office). In Trinko[14], the Court recognized that "firms may acquire monopoly power by establishing an infrastructure that renders them uniquely suited to serve their customers" and "compelling such firms to share the source of their advantage may lessen the incentive for the monopolist, the rival or both to invest in those economically beneficial facilities".

Generally speaking, the U.S. courts have held that a monopolist's unilateral refusal to license technology, which has been legitimately protected by patent or copyright, is not a violation of antitrust law. Accordingly, in the U.S. case against Microsoft, the DOJ did not directly challenge Microsoft's refusal to license its IP rights. It is true that, in the area of licensing, the DOJ did successfully challenge Microsoft for putting restrictions on its Windows licenses, which prevented computer manufacturers from installing competing internet browsers. As a result of this ruling, Microsoft agreed to a conduct remedy that included a requirement for it to share its operating system code with competitors for five years, from November 2002 until 2007. Portions of this remedy have been extended and may be extended further, potentially until 2012.[15] Despite this, the U.S. remedy in Microsoft has been widely criticized for being too weak and poorly enforced- it included no fine and no structural remedies.[16] In Aspen Skiing Co v Aspen Highlands Skiing Corporation[17], the Court observed that "Although even a firm with monopoly power has no general duty to engage in a joint marketing programe with a competitor, the absence of an unqualified duty to cooperate does not mean that every time a firm declines to participate in a particular cooperative

[14] Verizon Communications v. Law Offices of Curtis V. Trinko, 540 U.S. 398, 408 (2004)
[15] Parts of the remedy, including the requirement for Microsoft to share its Windows protocols with competitors have been extended until 2009; and states are currently petitioning to extend this remedy until 2012.
[16] Supra note 9
[17] 472 US 585, 601 (1985)

venture, that decision may not have evidentiary significance or that it may not give rise to liability in certain circumstances"

The Court held that a jury could not hold the firm liable under Section 2 of the Sherman Antitrust Act because its refusal to deal with its rival "suggested a willingness to forsake short term profits to achieve anti-competitive end" and that the jury concluded that there were no "valid business reasons" for petitioner's refusal to deal with respondent. The conclusion was strongly supported by the petitioner's failure to offer any efficient justification for its pattern of conduct.

In Data General Corporation v Grummen Support Corporation,[18] the computer manufacturers refusal to license copyrighted diagnostic software to its competitor's and consequent monopolization of a service market for its own product. The Court has held that copyright holder's right to exclude others is a presumptively valid business justification. The court said that while the exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from use of its copyrighted work is presumptively valid business justification for any immediate harm to consumers.

In Image Technical Services, Inc v Eastman Kodak Co.,[19] the Court said that if there is an evidence of anti-competitive intent on the part of the IP holder in refusal to license there may be a rebuttal. Finally in CSU v Xerox[20], the Court observed that in an exceptional circumstance, a patent may confer the right to exclude competition altogether in more than one antitrust market.

[18] 36 F 3d 1195 (9th Cir 1997)
[19] 125 F 3d 1195 (9th Cir 1997)
[20] 0062, October 11, 2000

5.1.3 Tying practices in European Union and United States

Tying practices in European Union and United States differ in their legal framework. Under Art 102 of the EC Treaty a behaviour that conditions the conclusion of contracts to the acceptance by the other parties of supplementary obligations, which, by the nature or according to commercial usage, have no connection with the subject of such contracts, can be punished as an agreement in restraint of trade pursuant to Article 81.1(e) or as an abusive conduct under article 82(d) of the EC Treaty.

In tying cases it may happen that the buyer is required to purchase a distinct product in condition to purchasing another distinct product. In European Union the bulk of tying cases has developed under the category of abuse of dominant position.[21] Tie-ins and bundling have been an important consideration in various cases relating to practices of the Microsoft Corporation. In a case initiated in the early 1990s (the so-called "Licensing Case"), the U.S. Department of Justice and Microsoft entered into a consent agreement to settle the Department's allegations that Microsoft had violated antitrust laws by engaging in certain contractual practices with computer manufacturers. A central allegation made by the Department was that Microsoft: "used monopoly power to induce personal computer (PC) manufactures into anticompetitive, long-term licenses under which they must pay Microsoft not only when they sell PCs containing Microsoft's operating systems but also when they sell PCs containing non-Microsoft operating systems. These anti-competitive long-term licenses have helped Microsoft maintain its monopoly. By inhibiting competing operating systems' access to PC manufacturers, Microsoft's exclusionary licenses slow innovation, raise

[21] NV Nederlandsche Banden Industrie Michelin v. Commn., ECR 3461 (1983); Hilti v. Commn., ECR 11-1439 (1991); Tetra Pak Intl. SA v. Commn., ECR 11-755 (1994); Tetra Pak Intl. SA v. Commn., ECR 1-5951 (1996); Commission of the European Communities, Commission Decision.

prices, and deprive consumers of an effective choice among competing PC operating systems" [22]

The researcher found in a latter case initiated in 1998, the Department of Justice alleged that Microsoft, by bundling Windows with Internet Explorer, was excluding Netscape and other potential entrants from the browser market and was extending its monopoly in personal computer operating systems into internet browsing software. The case ended in 2001 with a settlement between the Department and Microsoft which, among other obligations, imposed on Microsoft a requirement to provide software developers with the interfaces needed to inter-operate with the operating system, allowing them to effectively compete with Microsoft.

A number of aspects of the case are of interest. First, as Professor and former Judge Robert Bork had candidly pointed out Microsoft's bundling of its browser to the Windows operating system appeared to be intended directly at excluding Netscape - which otherwise could have developed a competing operating system – from the market. For this reason, Professor Bork, who is not normally considered an advocate of activist antitrust policy except perhaps with respect to horizontal cartels, concluded that the case was much different from a pure bundling one and that Microsoft's bundling strategy was indeed dangerous to competition. Although Bork’s arguments were not fully reflected in the 2002 Final Judgment, they were instrumental in suggesting that the Microsoft's practices in this case were anticompetitive[23]. Therefore, the case also shows that pure bundling, even by a quasi-monopolist, may nonetheless also provide consumer benefits (i.e. the convenience of purchasing complementary products as a package). In practice, it can be

[22] U.S. v. Microsoft, ‘Competitive Impact Statement’, Civil Action No. 94-1564, July 27, 1994

[23] Alberto Heimler, ‘Competition law enforcement and Intellectual property rights’, <http://ssrn.com/abstract=1105326 > accessed 4 January, 2016

difficult to calculate these benefits and, more importantly, to assess how large they are in relation to the exclusionary effects[24]. On the other hand, in the United States tying cases has emerged under Section 1 of the Sherman Act, as arrangement in restraint of trade and/or under Section 3 of the Clayton Act which expressly regulates exclusive dealing and tying arrangements.

The above distinction explains why conducts that in Europe are shaped as abuses of dominant position as for example Microsoft's tying of the Media player middleware to Windows operating system – have been framed in the United States as violation of section 1 of the Sherman Act[25]. Most of the American cases regarding intellectual property rights have been framed as violations of both sections 1 and 2 of the Sherman Act, as tying cases and attempting to monopolize[26]. In some circumstances, courts have even framed the conduct as tying plus both monopolizing and attempting to monopolize claims[27]. The US proceedings relating to bundling of the Windows operating system and the Internet Explorer browser triggered wide discussion on the exclusionary effects of bundling. In the following years, possibly as a consequence of that discussion, antitrust authorities in a number of other jurisdictions initiated cases against Microsoft. For example, pure bundling between the Windows operating systems and the "Media Player" function was deemed abusive in the 2004 European case.[28] In that case, the European Commission determined that Microsoft was dominant in the tying market of operating systems and that there were no economies flowing from integration

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[24] Ibid

[25] Comparing the European Microsoft case, COMP/C-3/37.792, with U.S. v. Microsoft Corp., 253 F.3d 34 (D.C. Cir. 2001)

[26] The most relevant American cases dealing with the interplay between antitrust and intellectual property rights have been framed as tying cases, under either section 1 of the Sherman Act or section 3 of the Clayton Act, and attempt to monopolize under section 2 of the Sherman Act. See Ill. Tool Works Inc. v. Indep. Ink Inc., 126 S.Ct. 1281 (2006); U.S. v. Microsoft, 87 F. Supp. 2d at 30 (D.D.C. 2000); Eastman Kodak Co. v. Image Technical Services, 112 S.Ct. 2072 (1992); Intergraph Corp. v. Intel Corp., 195 F.3d 1346 (Fed. Cir. 1999).

[27] Supra note no 5

[28] European Commission Case No COMP/37.792 Microsoft , March 24, 2004

with the tied media player market because "distribution costs in software licensing are insignificant [and] a copy of a software programme can be duplicated and distributed at no substantial effort". On the other hand, the Commission argued, "the importance of consumer choice and innovation regarding applications such as media players is high"[29]. On this basis, the elimination of competition in media players was considered to produce negative effects on consumers on the media player market.

The important aspect of the European case considering abusive the bundling of the windows operating system and media player is that the Commission did not prohibit it. It is not the integration of media player and the operating system that was the problem. The problem was the refusal to offer a version of Windows without media player[30]. There is no question that under the EC case law Microsoft or any other dominant firm will be able in the future to bundle new products into existing ones. What they will be obliged to do under the Community case law is to offer a disintegrated version of that new bundle, leaving the choice on what to buy to consumers. Furthermore such mandatory disintegration promotes innovation in the market for these new features; since consumers will always prefer a cheaper and higher quality bundle should competitors develop one.

The researcher points out that fact that nobody is buying the version of Windows without Media Player is not convincing enough. It merely implies that competition has not yet delivered anything more appealing than Microsoft's media player. Keeping the prices low for the consumers to buy the bundled product is not the solution. It is the duty of the agencies to watch out for the unlawful activities engaged in by the enterprises.

[29] Supra note 5
[30] Paragraphs 1149-50 of the CFI judgment

5.2 Concluding remark

Thus to conclude, while in general terms the EU and the U.S. competition authorities are following innovation-oriented competition policies[31] and have historically taken the same approach to IP licensing, recent cases indicate there is some divergence in how these jurisdictions apply and enforce the law. The Commission and the European courts have tended to be stricter in enforcing competition law in the face of IP rights than their U.S. counterparts. In so doing, European authorities have emphasized the increased competition and ensuing innovation that can result from sharing IP rights while U.S. authorities have focused on the increased innovation that may result from granting and protecting IP rights. The basic difference between US and EU law is in methodological approach to legislative examination. The law of the EU is the unique legal system which operates alongside the laws of the member states of the EU. The law of member states comes from civil law approach, where legislation is seen as the primary source of law. On the contrary, the US common law refers to law and the corresponding legal system developed through decisions of courts and similar tribunals[32]. These two different approaches can be also seen in judging practices about refusal to deal/supply with rivals according to U.S. Anti-trust law and EU Competition law in interface between IP and competition law.

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[31] Tu Thanh Nguyen, *Competition Law, Technology Transfer and the TRIPs Agreement*, (1st edn, Edward Elgar Publishing Ltd 2010) 160

[32] K.D. Raju, *The Intellectual Property Rights and Competition Law- A comparative analysis* (1st edn, Eastern Law House 2014) 167

CHAPTER – VI

Interplay between Intellectual Property Rights and Competition Law: Position in India

6.0 Introduction

The interplay between intellectual property rights and competition law is in its nascent stage. This chapter shows the journey of the intellectual property, competition law and the interplay between the two laws through judicial pronouncements.

6.1. Intellectual Property Regime in India

India has always been a frontrunner when it comes to the protection of intellectual property rights. It has enacted various laws either in compliance to various international treaties/conventions or of its own for the protection and development of intellectual property rights. An attempt has been made to discuss some key initiatives taken by India for the protection of intellectual property rights.

6.1.1 Patents

The first Indian patent statute was the Act VI of 1856 which was passed in to encourage inventions of new and useful manufactures and to induce inventors to disclose secret of their inventions. The Act was subsequently repealed by Act IX of 1857 since it had been enacted without the approval of the British Crown. The Act granted special privileges to the inventor's of new inventions for a period of 14 years. The Act was modified and re-enacted in 1859. The 1859 Act conferred on the inventor the exclusive privileges to make, use and sell the invention for a period of 14 years. This Act was repealed by the Inventions and Designs Act, 1888 which was in turn repealed by the Indian Patents and Designs Act in 1911.

Inspite of the major amendments, which were brought in 1930 into the 1911 Act, a Patents Enquiry Committee was appointed by the Government of India under Dr. Tek Chand in 1948 to review the working of the patent laws in India. This was made in response to the felt need for the effective protection of the rights of the patentee in tune with the trade-related and industrial needs of India. 1n 1953 the Committee submitted its final report. The report noted that the Indian patent system has failed to stimulate invention among Indians and to encourage the development and exploitations of new inventions for industrial purposes in India. It demonstrated that the patent position in India to be favourable to the Britishers and not to Indians, thus failing to secure benefits of the patent system to the largest section of the people. Based on the report of the committee, a Patents Bill based on the U.K. Patents Act, 1949 was introduced in Lok Sabha in 1953. But the bill lapsed due to the dissolution of the Lok Sabha.

In 1957, the Government of India then appointed a Committee under the chairmanship of Justice Rajagopala Ayyangar to suggest necessary changes and revise the patent law in India taking into consideration the social needs of the people of India. The Indian drug industry was dominated by the foreign multinationals who imported drugs into the Indian market making the prices of the life saving drugs to be costly. The Ayyangar Committee being guided by the Constitutional guarantee of economic and social justice enshrined in the Preamble of the Constitution and Article 21 of the

Constitution[1], recommended for the process of patenting drugs as against the product patenting to ensure that the medical needs of the poorer sections of the society is met with.

The Ayyangar Committee submitted its report comprehensive report in September 1959. In pursuance to the Committee report, the Patents Bill with some additional changes in the field of food, medicine and drugs was introduced in the Lok Sabha in 1965. The Joint Committee of the Parliament was entrusted to study this Bill. The report of the Joint Committee was presented in the Lok Sabha in 1966 but lapsed due to the dissolution of the Lok Sabha in 1970. Thus it came into force in 1972.

India being a party to the TRIPs Agreement is under an obligation to keep its patent law in conformity with TRIPs provisions. The TRIPs Agreement mandates India to provide product patents and to provide Exclusive Marketing Rights during the transition period. The Act was then amended by the Patents (Amendment) Act, 1999 and then subsequently in Patents (Amendment) Act 2002. The Patents (Amendment) Act 2005 has been adopted thereby meeting the TRIPs deadline.

6.1.1.1 Criteria for patentability

The criteria for patentability in Indian law are:

(a) Novelty: Section 2(1) (j) as amended by the Patents (Amendment) Act 2002 defines invention as including any new product or process involving an inventive step and capable of industrial application. A snew invention may consist of a new combination

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[1] The Indian Constitution 1950, Art. 21: No person shall be deprived of right to life and personal property except according to the procedure established by law.

of all integers so as to produce a new or important result or may consist of altogether new integers.[2]

(b) Utility: Section 2 (1) (j) of the Indian Patents Act states that an invention means a new product or process involving an inventive step and capable of industrial application. The phrase "capable of industrial application" clearly indicates that for an invention to be patented in India, it should satisfy the criterion of utility.

(c) Inventive step/Non-obviousness: Section 2(1) (j) of the Patents Act, 1970 as amended in 2002 defines invention as a new product or process involving inventive step and capable of industrial application. Inventive step is defined as a feature that makes the invention not obvious to a person skilled in the art. In M/s Bishwanath Prasad Radhey Shyam v M/s Hindustan Metal Industries[3], it was held that, for an improvement or a combination of something known before, to be patentable, it must involve an inventive step and should be more than a mere workshop improvement. The ingenuity, independent thought and skill of the inventor must be judged to assess the degree of inventive step. There must be the exercise of some inventive faculty over the collection of more than one integers for it to qualify for the grant of patent.

6.1.1.2 Infringement of patents

In India the law neither defines infringement nor does lay down any yardsticks to determine as to what constitutes infringement. In India the

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[2] Raj Prakash v Maungat Ram Chowdhury AIR 1978 Del. 1

[3] (1979) 2 S.C.C. 511

patentee has the exclusive right to make or use the patented article or use the patented process and prevent the third parties from resorting the same.[4] Thus the patentee has the right to exploit the patent, to sue for infringement and to assign and license the patent rights. The extent of the monopoly rights are taken into consideration since no solid guidelines are laid down. The interpretation of the claims in the patent specification determines whether there is a patent infringement or not. The next step is to see whether the acts of the defendant amount to making, using, selling or manufacturing a patented product.

The infringement can be either direct or indirect. In the case of direct infringement, there is direct taking of the elements of the patented invention. But in indirect infringement, the elements of the patented invention are not taken as such. The elements of the patented invention will be hidden by some significant alteration so as to make it appear as a new one. An infringement is deemed to occur only when the infringer without authority makes, uses or sells any patented invention, essential features of the invention or any equivalent invention.[5] In case of infringement of the patent, the onus of proving the infringement lies upon the plaintiff. He has to prove that the patent is his favour and the infringement was caused by using the process patented by the plaintiff.[6] But in Sec 104 A of the Patent Act 1970, it is stated that in the case of infringement of patent, where the subject matter of the patent is a process for obtaining a product, the onus of the burden of proof is with the defendant. He has to prove that the process used by him to obtain the product identical to the product of the patent process is different from the patented process. A patentee, exclusive licensee, assignee, co-owner or a person authorized by the patentee can file a suit for infringement. An action

[4] The Patents Act, 1970, s 48
[5] Laxmi Dutt v Nanku AIR 1964 All. 27
[6] Bombay Agarwal Co. v Ram Chand Diwan AIR 1953 Nag. 154.

for infringement of patent must be instituted in any District Court having jurisdiction to try the suit.[7]

6.1.1.3 Defences

Certain provisions of defences in The Indian Patent Act 1970 are discussed below:

(a) Section 47: Grant of patents to be subject to certain conditions: The grant of a patent under this Act shall be subject to the condition that-

(1) any machine, apparatus or other article in respect of which the patent is granted or any article made by using a process in respect of which the patent is granted, may be imported or made by or on behalf of the Government for the purpose merely of its own use;

(2) any process in respect of which the patent is granted may be used by or on behalf of the Government for the purpose merely of its own use;

(3) any machine, apparatus or other article in respect of which the patent is granted or any article made by the use of the process in respect of which the patent is granted, may be made or used, and any process in respect of which the patent is granted may be used, by any person, for the purpose merely of experiment or research including the imparting of instructions to pupils; and

(4) in the case of a patent in respect of any medicine or drug, the medicine or drug may be imported by the Government for the purpose merely of its own use or for distribution in any dispensary, hospital or other medical institution maintained by or on behalf of the Government or any other dispensary, hospital or other medical institution which the Central Government may, having regard to the

[7] Supra note 4, s 104

public service that such dispensary, hospital or medical institution renders, specify in this behalf by notification in the Official Gazette.

(b) Section 107: Defences, etc., in suits for infringement:- (1) In any suit for infringement of a patent every ground on which it may be revoked under section 64 shall be available as a ground for defence. (2) In any suit for infringement of a patent by the making, using or importation of any machine, apparatus of other article or by the using of any process or by the importation, use or distribution or any medicine or drug, it shall be a ground for defence that such making, using, importation or distribution is in accordance with any one or more of the conditions specified in section 47.

In Fabcon v Industrial Engineering Corporation,[8] the Allahabad High Court observed as follows:

According to section 107(1) in any suit for infringement of patent, every ground on which it may be revoked under section 64 shall be available as a ground of defence. Section 64 emanates the grounds for revocation of patent. Under the scheme of the Act itself, therefore, there is a distinction maintained as between the defence raised to a suit for infringement of patent (vide Section 107) on one hand and the revocation sought of a patent on the other (vide Section 64). The grounds may be the same, but still there is no inconsistency on account of the suit being defended as liable to dismissal in a particular case and a case where the defendant seeks also that the patent asserted by the plaintiff is revoked.

[8] AIR 1987 All 338

(c) Section 107A[9]: Certain acts not to be considered as infringement.— For the purposes of this Act:- (a) any act of making, constructing, using, selling or importing a patented invention solely for uses reasonably related to the development and submission of information required under any law for the time being in force, in India, or in a country other than India, that regulates the manufacture, construction, use, sale or import of any product; (b) importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product, shall not be considered as a infringement of patent rights.

(d) Section 111: Restriction on power of court to grant damages or account of profits for infringement: (1) In a suit for infringement of patent, damages or an account of profits shall not be granted against the defendant who proves that at the date of the infringement he was not aware and had no reasonable grounds for believing that the patent existed.

Explanation:- A person shall not be deemed to have been aware or to have had reasonable grounds for believing that a patent exists by reason only of the application to an article of the word "patent", "patented" or any word or words expressing or implying that a patent has been obtained for the article, unless the number of the patent accompanies the word or words in question.

(2) In any suit for infringement of a patent the court may, if it thinks fit, refuse to grant any damages or an account of profits in respect of any infringement committed after a failure to pay any renewal fee with the prescribed period and before any extension of that period.

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[9] The Patents (Amendment) Act 2002

(3) Where an amendment of a specification by way of disclaimer, correction or explanation has been allowed under this Act after the publication of the specification, no damages or account of profits shall be granted in any proceeding in respect of the use of the invention before the date of the decision allowing the amendment, unless the court is satisfied that the specification as originally published was framed in good faith and with reasonable skill and knowledge.

(4) Nothing in this section shall affect the power of the court to grant an injunction in any suit for infringement of a patent.

6.1.2 Trademarks

The use of trademarks was well-known in Roman times. The guild system of medieval England produced the first widespread use of trademarks. Distinctive production marks were required on goods manufactured by the local guilds. The geographical expansion of markets and development of more complex distribution systems eventually resulted in a new function of production marks. The marks served to identify the source of the goods to the prospective purchaser who could then make their selections based upon the reputation, not merely of the immediate vendor but also of the manufacturer. The medieval production mark thus evolved into a trademark used by manufacturers, distributors and other sellers to identify their goods and services in the market place.

6.1.2.1 Rights of a trademark owner

The protection of the trademark is based on the principle of the protection of the reputation and goodwill of the trademark owner which the trademark owner acquires through constant and exclusive use. The law seeks to protect the established trademark of a person from being violated by another by not permitting any others to use the trademark. Besides through use, rights in a trademark can be obtained by registration, by permission or by license or by assignment. Section 28 of the Trademarks Act, 1999 deals with the rights conferred by registration. According to this section, on the valid registration of a trademark, the trademark owner gets the exclusive right to use the trademark in connection with the goods and services in respect of which it is registered and he can also obtain relief in respect of infringement, if one invades his right by using a mark which is the same or deceptively similar to his trademark.

6.1.2.2 Infringement of Trademark

Any person who trespasses the rights conferred by registration of a trademark infringes the registered trademark for example by adopting identical or deceptively similar trademark. In case a trademark is not registered then the trademark can be protected under passing off. The idea used for infringement is the same used for passing off but the two differ in two fundamental aspects; passing off is concerned with only one method of passing off, namely use of a trademark; once a mark is shown to offend, the user of it cannot escape by showing that he has adopted the name outside the area where the proprietor of the actual mark has attained distinction.

To determine infringement the following factors are taken into consideration:

(1) If the mark nearly resembles the plaintiff's registered trademark so as to cause confusion or deceive the general public[10]

(2) Once it is found that the defendant has used the trademark nothing said or done by the defendant can make available the trademark to the defendant since the infringement consists in using the trademark, as the trademark is indicative of the origin.[11]

(3) Even if the trademark is descriptive and not registrable and the defendant too uses a name that is descriptive but confusingly similar to the previous trademark, the defendant cannot use it as a defence to a claim for infringement action. The plaintiff's are not deprived of statutory provision of the fact that the defendants may be using a descriptive work "as a trademark".[12]

(4) The proprietor does not necessarily have to establish instances of actual confusion or deception arising from the defendant's use of the mark.[13]

(5) Whether certain trademark causes confusion is a question of fact and degree in each case. The court has to take into account all the relevant circumstances in the comparison of the marks. The risk of the deception must be real and not fanciful.

6.1.2.3 Defences of Trademark infringement

When an infringement is initiated against a defendant, he may set up any of the defences provided by the Act, depending upon the applicability of the relevant defence to his case. He can either claim that the plaintiff is not entitled to use as has no title or proprietorship or that the use of the mark by the defendant is not infringement or it is protected by the provisions of

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[10] Saville Perfumary v June Perfect (1941) 58 RPC 147 at 161
[11] Saville Perfumary case at pp. 161, 174
[12] Picot v J.P. Co Goya (1967) RPC 573
[13] Lever Bros. v Sunniwite (1949) 66 RPC 573

Section 30 of the 1999 Act which lists out the acts that do not constitute infringement.

He can claim that he has been using the trademark in accordance with honest practices in industrial or commercial matters, and is not as such as to take unfair advantage of or be detrimental to the distinctive character or repute of the trademark. Subsection (2) of Section 30 states that a registered trademark is not infringed where the use in relation to goods or services indicates the kind, quality, quantity, intended purposes, value, geographical origin, the time of production of goods or of rendering of services or other characteristic of goods or services:

a. A trademark is registered subject to any conditions or limitations, the use of the trademark in any manner in relation to goods to be sold or otherwise traded in, in any place, or in relation to goods to be exported to any market or in relation to services for use or available or acceptance in any place or country outside India or in any circumstances, to which, having regard to those conditions or limitations, the registration does not extend;
b. The use by a person of a trademark-

i) In relation to goods connected in the course of trade with the proprietor or a registered user of a bulk or which they form part, the registered proprietor or the registered user confirming to the permitted use has applied the trademark and has not subsequently removed or obliterated it or has at any time expressly or impliedly consented to the use of the trademark;

ii) In relation to services to which the proprietor of such mark or of a registered user conforming to the permitted use has applied the mark, where the purpose and effect of the use of the mark is to indicate, in accordance with the fact, that those services have been performed by the proprietor or a registered user of the mark.;

c. The use of a trademark by a person in relation to goods adapted to form part of, or to be necessary to, other goods or services in relation to which the trademark has been used without infringement of the right gives by registration under this Act or might for the time being so used, if the use of the trademark is reasonably necessary in order to indicate that the goods or services are adapted , and neither the purpose not the effect of the use of the trademark is to indicate, otherwise than in accordance with the fact, a connection in the course of trade between any person and the goods or services, as the case may be;
d. The use of a registered trademark, being one or two or more trademarks registered under this Act which are identical or nearly resemble each other, in exercise of the right to the use of that trademark given by registration under this Act[14].

Where the goods bearing the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringing on a trade by reason only if-

a) The registered trademark having been assigned by the registered proprietor to some other person, after the acquisition of those goods, or
b) The goods having been put on the market under the registered trademark by the proprietor or with his consent.

[14] To claim protection under section 30(2)(e), both the registered trademark as well as the infringing mark should have been registered under the Act (Crompton Greaves Ltd. v Salzer Electronics Ltd., 2011 (46) PTC 450 (Mad) at p. 465)

Subsection (3) shall not apply when there exist legitimate reasons or the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market.

a) The defendant is the prior user of the disputed mark;
b) The defendant has been a honest concurrent user;
c) The defendant has a right to use the contested mark in view of the concurrent registration;
d) The trademark of the plaintiff became a common word; public juris;
e) The registration of the plaintiff's trademark was invalid;
f) The plaintiff is debarred from suing due to his own conduct like acquiescence, delay or laches.

6.1.3 Copyrights

The first Copyright enactment in India was the Copyright Act of 1847 which was enacted during the East India Company's regime. The Act passed by the Governor-General of India affirmed the applicability of English Copyright law to India. The Copyright Act 1911 while repealing earlier statutes on the subject was also made applicable to all the British colonies including India[15]. In 1914, the Indian Copyright Act was enacted which modified some of the provisions of the Copyright Act 1911, and added some new provisions to make it applicable in India. The Indian Copyright Act 1914 remained applicable in India until it was replaced by the Copyright Act, 1957.

[15] Dr. V.K. Ahuja, *Law Relating to Intellectual Property Rights* (2nd edn, LexisNexis Butterworths 2011) 17

6.1.3.1 Subject matter of Copyright

The subject-matter of copyright are original literary, dramatic, artistic, musical works, cinematograph film, sound recording, works of artistic craftsmanship, work of sculpture.

6.1.3.2 Infringement of Copyright

The rationale behind infringement is that no one should be allowed to appropriate the fruits of another's labour whether it is tangible or intangible. Infringement means the interference with, or violation of the rights of the copyright of another; it takes place when the owner/author does something, which is the exclusive right of the owner/author. Infringing copy means reproduction without a license by the owner of a literary, dramatic, musical or artistic work, copy made of a cinematograph film, recording of sound recording, or a cinematograph of such films of such programs or performance in relation to which broadcasts, reproduction right or performers' right subsists.

Where a person without the license granted by the owner of the copyright or by the registrar of copyright or in contravention of the grant by the copyright owner uses the exclusive right of the copyright owner causes primary infringement. Where the work is communicated to the public constitutes secondary infringement. This could be by sale or hire or lets for hire or distributes for the purpose of trade that affects the copyright owner prejudicially. Even if it is imported it constitutes secondary infringement.

6.1.3.3 Defences in Copyright Infringement

With the purpose of encouraging private study, research and promotion of education, the Copyright Act gives exceptions to what might not cause infringement. These form the defences in case of copyright infringement. The basic purpose of Section 52 is to give the freedom of expression given under Article 19(1) so that research, private study, criticism, review or reporting of current events is done. Section 52 gives a list of acts that do not constitute infringement of copyright. The exceptions listed in section 52(1)[16] can be applied for any act in relation to the translation of a literary, dramatic or musical work or the adaptation of such work.

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[16] Certain acts not to be infringement of copyright—

(1) The following acts shall not constitute an infringement of copyright, namely:—

(a) a fair dealing with a literary, dramatic, musical or artistic work [not being a computer programme] for the purposes of [(i) Private use including research;] (ii) criticism or review, whether of that work or of any other work; [(aa) the making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme from such copy— [(aa) the making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme from such copy "(i) in order to utilise the computer programme for the purpose for which it was supplied; or(ii) to make back-up copies purely as a temporary protection against loss, destruction or damage in order only to utilise the computer programme for the purpose for which it was supplied;] [(ab) the doing of any act necessary to obtain information essential for operating inter-operability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available; [(ab) the doing of any act necessary to obtain information essential for operating inter-operability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available;"(ac) the observation, study or test of functioning of the computer programme in order to determine the ideas and principles which underline any elements of the programme while performing such acts necessary for the functions for which the computer programme was supplied;(ad) the making of copies or adaption of the computer programme from a personally legally obtained copy for non-commercial personal use;]

(b) a fair dealing with a literary, dramatic, musical or artistic work for the purpose of reporting current events:-

(i) in a newspaper, magazine or similar periodical; or (ii) by [broadcast] or in a cinematograph film or by means of photographs. [broadcast] or in a cinematograph film or by means of photographs." [Explanation.—The publication of a compilation of addresses or speeches delivered in public is not a fair dealing of such work within the meaning of this clause;]

(c) the reproduction of a literary, dramatic, musical or artistic work for the purpose of a judicial proceeding or for the purpose of a report of a judicial proceeding;

(d) the reproduction or publication of a literary, dramatic, musical or artistic work in any work prepared by the Secretariat of a Legislature or, where the Legislature consists of two Houses, by the Secretariat of either House of the Legislature, exclusively for the use of the members of that Legislature;

(e) the reproduction of any literary, dramatic or musical work in a certified copy made or supplied in accordance with any law for the time being in force;

(f) the reading or recitation in public of any reasonable extract from a published literary or dramatic work;

(g) the publication in a collection, mainly composed of non-copyright matter, bona fide intended for the use of educational institutions, and so described in the title and in any advertisement issued by or on behalf of the publisher, of short passages from published literary or dramatic works, not themselves published for the use of educational institutions, in which copyright subsists: Provided that not more than two such passages from works by the same author are published by the same publisher during any period of five years. Explanation.—In the case of a work of joint authorship, references in this clause to passage from works shall include references to passages from works by any one or more of the authors of those passages or by any one or more of those authors in collaboration with any other person;

(h) the reproduction of a literary, dramatic, musical or artistic work—

(i) by a teacher or a pupil in the course of instruction; or

(ii) as part of the questions to be answered in an examination; or

(iii) in answers, to such questions;

(i) the performance, in the course of the activities of an educational institution, of a literary, dramatic or musical work by the staff and student of the institution, or of a cinematograph film or a [sound recording], if the audience is limited to such staff and students, the parents and guardians of the students and persons directly connected with the activities of the institution [or the communication to such an audience of a cinematograph film or sound recording]; [(j) the making of sound recordings in respect of any literary, dramatic or musical work, if—

(i) sound recordings of that work have been made by or with the licence or consent of the owner of the right in the work;

(ii) the person making the sound recordings has given a notice of his intention to make the sound recordings, has provided copies of all covers or labels with which the sound recordings are to be sold, and has paid in the prescribed manner to the owner of rights in the work royalties in respect of all such sound recordings to be made by him, at the rate fixed by the Copyright Board in this behalf: Provided that—

(i) no alterations shall be made which have not been made previously by or with the consent of the owner of rights, or which are not reasonably necessary for the adaptation of the work for the purpose of making the sound recordings;

(ii) the sound recordings shall not be issued in any form of packaging or with any label which is likely to mislead or confuse the public as to their identity;

(iii) no such sound recording shall be made until the expiration of two calendar years after the end of the year in which the first recording of the work was made; and

(iv) the person making such sound recordings shall allow the owner of rights or his duly authorised agent or representative to inspect all records and books of account relating to such sound recording: Provided further that if on a complaint brought before the Copyright Board to the effect that the owner of rights has not been paid in full for any sound recordings purporting to be made in pursuance of this clause, the Copyright Board is, prima facie satisfied that the complaint is genuine, it may pass an order ex parte directing the person making the sound recording to cease from making further copies and, after holding such inquiry as it considers necessary, make such further order as it may deem fit, including an order for payment of royalty;

(k) the causing of a recording to be heard in public by utilising it,—

(i) in an enclosed room or hall meant for the common use of residents in any residential premises (not being a hotel or similar commercial establishment) as part of the amenities provided exclusively or mainly for residents therein; or

(ii) as part of the activities of a club or similar organisation which is not established or conducted for profit;]

(l) the performance of a literary, dramatic or musical work by an amateur club or society, if the performance is given to a non-paying audience, or for the benefit of a religious institution;

(m) the reproduction in a newspaper, magazine or other periodical of an article on current economic, political, social or religious topics, unless the author of such article has expressly reserved to himself the right of such reproduction;

(n) the publication in a newspaper, magazine or other periodical of a report of a lecture delivered in public;

(o) the making of not more than three copies of a book (including a pamphlet, sheet of music, map, chart or plan) by or under the direction of the person in charge of a public library for the use of the library if such book is not available for sale in India;

(p) the reproduction, for the purpose of research or private study, or with a view to publication, of an unpublished literary, dramatic or musical works kept in a library, museum or other institution to which the public has access: Provided that where the identity of the author of any such work or, in the case of a work of joint authorship, of any of the authors is known to the library, museum or other institution, as the case may be, the provisions of this clause shall apply only if such reproduction is made at a time more than [sixty years] from the date of the death of the author or, in the case of a work of joint authorship, from the death of the author whose identity is known or, if the identity of more authors than one is known from the death of such of those authors who died last;

(q) the reproduction or publication of—

(i) any matter which has been published in any Official Gazette except an Act of a Legislature;

(ii) any Act of a Legislature subject to the condition that such Act is reproduced or published together with any commentary thereon or any other original matter;

(iii) the report of any committee, commission, council, board or other like body appointed by the Legislature, unless the reproduction or publication of such report is prohibited by the Government;

(iv) any judgment or order of a court, Tribunal or other judicial authority, unless the reproduction or publication of such judgment or order is prohibited by the court, the Tribunal or other judicial authority, as the case may be;

(r) the production or publication of a translation in any Indian language of an Act of a Legislature and of any rules or orders made there under-

(i) if no translation of such Act or rules or orders in that language has previously been produced or published by the Government; or

(ii) where a translation of such Act or rules or orders in that language has been produced or published by the Government, if the translation is not available for sale to the public: Provided that such translation contains a statement at a prominent place to the effect that the translation has not been authorised or accepted as authentic by the Government; [(s) the making or publishing of a painting, drawing, engraving or photograph of a work of architecture or the display of a work of architecture;]

6.1.4 Designs

Design means any design applied to any article, or to any substance artificial or natural or partly artificial or partly natural. It must have an appeal to the eye and should have individuality in appearance. The purpose of the design law is to protect novel and original designs made with the object of applying it to articles manufactured and commercialized with a view to encourage competitive progress and industrial development.

(t) the making or publishing of a painting, drawing, engraving or photograph of a sculpture, or other artistic work falling under sub-clause (iii) of clause (c) of section 2, if such work is permanently situate in a public place or any premises to which the public has access;

(u) the inclusion in a cinematograph film of—

(i) any artistic work permanently situate in a public place or any premises to which the public has access; or

(ii) any other artistic work, if such inclusion is only by way of background or is otherwise incidental to the principal matters represented in the film;

(v) the use by the author of an artistic work, where the author of such work is not the owner of the copyright therein, of any would, cast, sketch, plan, model or study made by him for the purpose of the work: Provided that he does not thereby repeat or imitate the main design of the work;

(x) the reconstruction of a building or structure in accordance with the architectural drawings or plans by reference to which the building or structure was originally constructed: Provided that the original construction was made with the consent or licence of the owner of the copyright in such drawings and plans;

(y) in relation to a literary, dramatic or musical work recorded or reproduced in any cinematograph film, the exhibition of such film after the expiration of the term of copyright therein: Provided that the provisions of sub-clause (ii) of clause (a), sub-clause (i) of clause (b) and clauses (d), (f), (g), (m) and (p) shall not apply as respects any act unless that act is accompanied by an acknowledgement—

(i) identifying the work by its title or other description; and

(ii) unless the work is anonymous or the author of the work has previously agreed or required that no acknowledgement of his name should be made, also identifying the author; [(z) the making of an ephemeral recording, by a broadcasting organisation using its own facilities for its own broadcast by a broadcasting organisation of a work which it has the right to broadcast; and the retention of such recording for archival purposes on the ground of its exceptional documentary character;

(za) the performance of a literary, dramatic or musical work or the communication to the public of such work or of a sound recording in the course of any bona fide religious ceremony or an official ceremony held by the Central Government or the State Government or any local authority. Explanation.—For the purpose of this clause, religious ceremony including a marriage procession and other social festivities associated with a marriage.]

(2) The provisions of sub-section (1) shall apply to the doing of any act in relation to the translation of a literary, dramatic or musical work or the adaptation of a literary, dramatic, musical or artistic work as they apply in relation to the work itself

6.1.4.1 Rights of a design owner

In India, the Designs Act does not expressly carve out anything on the rights of the design owner. The registered proprietor of a design has the copyright in the design. Copyright is the exclusive right to apply a design to any article in any class in which the design is registered[17]. As in other intellectual property rights, he has the right to assign, transfer or license the rights to a second person for some consideration. The rights of the design owner had to be inferred from the provision on infringement of registered design.[18] According to the provision on infringement of registered designs, commissions of certain acts are prohibited during the existence of the copyright in a design without the consent or license of registered proprietor or design. No one can publish it or have it published or expose for sale any article on which either the design or any fraudulent or obvious imitation has been applied, or can apply or cause to apply the registered design for any class of goods covered by the registration, the design or any imitation, or can import for the purpose of sale any article in which the design is registered or to which any fraudulent of obvious imitation had been applied.

From the above provision, it is clear that only the owner of the registered design can publish, apply, sell or import an article containing registered design and obviously he can proceed against the infringer in cases of infringement of his registered design.

[17] Designs Act 2000, s 2(c)
[18] Designs Act 2000, s 22

6.1.4.2 Infringement of Designs

Infringement is the violation of the rights of the owner thereby unlawfully trespassing on his right or privilege. Protection of designs is mainly to promote industries, thereby amounting to industrial progress. Registration of new and original design ensures that the inventor of the design is not deprived of his commercial profit by the application of the registered design by others to their goods.

On registration of a design, the registered proprietor shall attain a copyright in the registered design for a period of ten years from the date of registration.[19] The owner of a registered design has the exclusive right to carry out certain specified acts in relation to articles for which the design is registered. The right in the registered design is infringement by a person who without the license of the registered proprietor does anything which is the exclusive right of the proprietor. The Act enumerates the circumstances in which the copyright in a design shall be infringed. Thus during the existence of copyright in any design, it shall be unlawful for any person:

- For the purpose of sale to apply or cause to be applied to any article in any class of articles in which the design is registered, the design or any fraudulent or any obvious imitation thereof, except with the license or written consent of the registered proprietor, or to do anything with a view to enable the design to be so applied or
- To import for the purposes of sale, without the consent of the registered proprietor, any article belonging to the class in which the design has been registered and having applied to it the design or any fraudulent or obvious imitation thereof, or

[19] Ibid at s 11

- Knowing that the design or any fraudulent or obvious imitation thereof has been applied to any article in any class of articles in which the design is registered without the consent of the registered proprietor, to publish or expose or cause to be published or exposed for sale that article.

To constitute infringement, it has to be proved that copyright in the design existed at the time of infringement and that the design or an imitation was applied to any article or class of articles which are registered and that such application was made without the license or written consent of the registered proprietor, or that the defendant has imported for the purpose of sale the article bearing the design or its imitation without the consent of the registered proprietor, or that the defendant has published or exposed or cause to be published or exposed for sale the pirated article with the knowledge that it is an infringing one.

6.1.4.3 Defences in Design Infringement

In case of infringement of designs, the defendant can raise certain defences in his favour. The defenses open to the defendant are that he can either deny infringement, or can deny the intention to infringe, or can question the validity of registration. These defences are based on the grounds that the registered design is not a design within the meaning of the Act, or that it is neither new or original, or that the plaintiff is not the registered proprietor or he is not entitled to sue or that of the acquiescence or laches.

6.2. Evolution of Competition Law in India

India followed the approach of planned economic development even after it got its independence. The broad policy objectives were achieving self-reliance and promoting social justice. Self-reliance, over time came to include import substitution. The government had a role to play for the coming in and going out of the enterprises in the market. Plant and firm size were subject to statutory limitations, and imports and foreign investment were restricted. Government-owned businesses enjoyed protections and preferences and dominated the majority of the economy in various sectors[20]. These policies were reflected in many of the state's economic policies, including its industrial, trade, labour, exchange controls, financial sector, and several other policies. In this system, there was little place for competition policy.

While the above economic strategy helped in many ways, including the growth of basic industries, in the 1980s it was realized that it was severely constraining entrepreneurial growth. Policy reform followed more particularly since 1991 with the liberalization of industrial and trade policies, foreign investment rules, exchange rates, capital controls, reducing the reservations for the public sector, and in many other areas.[21]

6.2.1 The Monopolies and Restrictive Practices Act

After the attainment of independence, India adopted and followed policies comprising of 'Command-and-Control' laws, rules, regulations and executive orders. The MRTP Act was one such case wherein such command

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[20] Vinod Dhall, '*Essays on Competition Law and Policy*', (2007) <http://www.cci.gov.in/images/media/articles/essay_articles_compilation_text29042008new_20080714135044.pdf > accessed 30 March, 2014

[21] Ibid

and control economy was based. Widespread economic reforms were undertaken and consequently the march from Command-and-control economy to an economy based more on free market principles commenced its stride.[22]

The Monopolies and Restrictive Trade Practices Act, 1969 (the MRTP Act) was the first legislation with regard to competition law in India. This legislation was primarily designed to meet requirements of the then prevailing economic, social, and policy situation.[23] The MRTP Act, 1969 was enacted at in the era of licences, permits and controls. Monopoly in trade and industry was regarded as bad in law. Though public interest and consumer welfare were at the core of the objectives of the said Act, as yet the concept of 'market economy' was not fully conceived at that point of time. The Act empowered the Central Government to set up a Commission to oversee the implementation of the Act.

The State's control should diminish in the case of business practices. There was a need for promoting competition in the market suppressing the monopoly. The MRTP Act had become redundant and thus there was a need for a competition law in the country. To suit international developments a high level committee was appointed to look into a modern competition law for the country.

6.2.1.1 Objectives of the MRTP Act

MRTP Act came into force in 1970 and the MRTP Commission was set in August, 1970. The Act deals with the concept of monopolistic and

[22] Kumar Jayant and Abir Roy, *Competition Law in India* (1st edn, Eastern Law House 2008), 35

[23] Abhimanyu Ghosh and Deep Chaim Kabir, '*Balance of Competition and Intellectual property Laws in the Indian Pharmaceutical Sector*', (2007) JIPR Vol 12, 295

restrictive trade practices and subsequently with the unfair trade practices. It owes its insight to Article 38 and 39 of the Constitution of India which says that the State should strive to promote public welfare by securing and protecting a social order in which socio-economic justice shall inform all institutions of national life, and ensure that the ownership and control of the material resources of the community are so distributed so as to subserve the common good and that the operation of the economic system is based in such a manner which does not result in the concentration of the wealth and means of production to the common detriment. The Act was based on four principles:

1. Social justice;
2. Welfare State;
3. Regulating concentration of economic power to the common detriment;
4. Controlling monopolistic, unfair and restrictive trade practices

The most important function of MRTP Act is to watch the operation of the economic system should not result in the concentration of wealth and means of production to the common detriment. The broad premises on which the MRTP Act rests are unrestrained interaction of competitive forces, maximum progress through rational allocation of economic resources, availability of good or services of quality at reasonable prices and finally a just and fair deal to the consumers.[24]

The Competition Act and the body dealing with the competition law matters i.e. the Competition Commission of India shall come into operation after repealing the MRTP Act and the winding up of the MRTP Commission as recommended by the committee.

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[24] Supra note 20

For this purpose, the Government of India constituted a High Level Committee under the chairmanship of SVS Raghavan, with the aim of examining the MRTP Act, and gauging its relevance, and to bring about a new regime, which would be consonant to and able to protect the domestic entities from international competition. It was due to the recommendations of this Committee that the MRTP Act was ultimately phased out, with the introduction of the new Indian Competition Act, 2002.[25]

6.2.1.2 Trade practices under the MRTP Act

MRTP Act regulates three types of trade practices, monopolistic trade practices, restrictive trade practices and unfair trade practices. A monopolistic trade practice means a trade practice which has or is likely to have the effect of maintaining the prices of goods or services at an unreasonable level, or limiting technical development or capital investment to the common detriment or allowing the quality of any goods or services in India to deteriorate. It includes unreasonably increasing the cost of production of goods or maintenance of services or the sale or resale prices of goods or the charges of the services; or the profits which are or which may be derived by the production , supply or distribution of any goods or in the provision of any services; preventing or lessening competition in the production, supply or distribution of any goods or in the provision or maintenance of any services by adoption of unfair methods or unfair or deceptive practices.

MRTP Act's objective could not be achieved to a great extent. Thus in June 1977, the Government appointed the High-Powered Expert (Sachar)

[25] Supra note 22

Committee to consider and report the required changes. The Committee's report recommended:

(1) Withdrawal of exemption to public enterprises, to be able to check monopolistic, restrictive and unfair trade practices in the sector;
(2) Widening the scope of MRTP Act to include unfair trade practices (UTPs) like hoarding, the supply of hazardous products, and misleading and deceptive advertising; and
(3) Enhancement of MRTP Commission's powers and enlargement of its role

Restrictive Trade Practices: Restrictive Trade Practices means a trade practice which has, or may have the effect of preventing, distorting, or restricting competition in any manner and in particular which tends to obstruct the flow of capital or resources into the stream of production, or which tends to bring about manipulation of prices, or conditions of delivery or to affect the flow of supplies in the, market relating to goods or services in such a manner as to impose on the consumers unjustified costs or restrictions. The MRTP Act lists out certain types of agreements, which are deemed to be agreements relating to restrictive trade practices and required to be registered with the Director General of Investigation and Registration ("DGIR").

Restrictive Trade practices have the effect of preventing, distorting or restricting competition. Manipulation of prices, conditions of delivery or flow of supply in the market which may have the effect of imposing on the consumer unjustified costs or a restriction is known as Restrictive Trade Practices.

Certain common types of restrictive trade practices enumerated in the MRTP Act are:

(a) Refusal to deal
(b) Tie-up sales
(c) Full line forcing
(d) Excusive dealings
(e) Price discrimination
(f) Re-sale price maintenance
(g) Area restriction

Unfair Trade Practice: An unfair practice means a trade practice, which, for the purpose of promoting the sale, use or supply of any goods or for the provisions of any services, adopts unfair methods or unfair or deceptive practices. Before 1984, the MRTP Act contained no provisions for protection of consumers against false or misleading advertisements or other similar trade practices. The Sachar Committee therefore recommended that a separate chapter should be added to the MRTP Act defining various Unfair Trade Practices so that the consumer, the manufacturer, the supplier, the trader and other persons in the market can conveniently identify the practices, which are prohibited. Essentially unfair trade practices falling under the following categories were introduced in 1984 in the MRTP Act.

The Monopolistic Trade Practice (MTP) came into the statute by an amendment to MRTP Act in 1984. An MTP is a trade practice, which has or which is likely to have the effect of:

(1) Maintaining the prices of goods or charges for the for the services at an unreasonable level by limiting, reducing or otherwise controlling the production, supply or distribution of goods or the supply of any services or in any other manner;
(2) Unreasonably preventing or lessening competition in the supply or distribution of any goods or in the supply of any services

(3) Limiting technical development or capital investment to the detriment or allowing the quality of any goods produced, supplied or any services rendered, in India, to deteriorate;

(4) Increasing unreasonably:

  (a) The cost of production of any goods; or

  (b) Charges for the provision;

  (c) Maintenance, of any services

  (d) The prices at which the goods are, or may be, sold or re-sold, or the charges at which the services are, or may be, provided; or

  (e) The profits which are, or may be, derived by the production, supply or distribution (including the sale or purchase of any goods) or in the provision or maintenance of any goods or the provision of any services;

(5) Preventing or lessening competition in the production, supply or distribution of any goods or in the provision or maintenance of any services by the adoption of unfair methods or unfair or deceptive practices.

6.2.1.3 Failure of the MRTP Act

The failure of the MRTP Act was the absence or adequate definitions in the Act. Acts which were anti-competitive in nature like predatory pricing, cartel, collusion, bid-rigging etc. The MRTP Commission also did not have the adequate resources to check the anticompetitive practices. In 1991, due to the balance of payment crisis, the government of India market oriented reforms aimed at dismantling the industrial licensing system, giving business the freedom to make investment decisions and the gradual opening of key infrastructure sectors to private investors. Slowly the government begun to lift many import controls, reduce tariffs, and liberalization of economy. A committee was set up to suggest ways to advise for a modern competition law in India since the government knew that the whole set up had become a relic. The Government came out with a new tax law styled the Trade Related Competition Bill.[26]

6.2.2 Antitrust Laws in India

India, like other developing countries, has adopted antitrust policies for its own domestic enterprises, so as to break public monopolies which are an outcome of socialist impact on economic policy. Owing to the opening of the market and stimulation of the private sector in the core areas of economy the adoption of antitrust policy by way of the enactment of the Competition Act, 2002, SVS Raghavan Committee has played a leading role in its conception. The said Act repeals the previous Monopolies and Restrictive Trade Practices Act (1969), and the creation of Competition Commission there under has become the new genre guiding the industry.

The goals of competition laws include economic efficiency, promotion of trade, facilitating economic liberalization and enhancing development of a market economy, along with consumer protection. The idea of competition is rooted in the freedom of firms to carry out their business in a manner best suited to further their personal interest. The balance is essentially between the bounds of public power and private power and the relationship between these two forces.

India as a signatory to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, under the World Trade Organization (WTO) Regime, has an obligation to comply with the requirements of Article 40. It obliges enactment of relevant competition legislation and brings IP

[26] T.C.A Ramanujam, 'Competition Law on the Anvil Business Line', (India, 31st July 2001), 1

statutes in conformity with the same, so as to avoid any hostility. The said provision of TRIPS cites exclusive grant back conditions, preventing challenges to validity and coercive package licensing. The Patents Act (1970) illustrates the practice in India to encourage division of territory, cross licensing of patents that would reduce competition and price fixing.[27]

6.2.3 SVS Raghavan Committee

The committee recommends that apart from private companies in India, the State monopolies, government procurement and foreign companies should be subject to competition law. It prohibits collusive anti-competitive agreements, abuse of dominance, and mergers among enterprises. The committee has in this regard taken care to suggest incorporation of provisions in respect of the provisions of TRIPS Agreement. It has envisaged the interface between IP and antitrust to involve issues relating to agreements amounting to abuse of dominant position and issues arising out of mergers.

Abuse of dominance has been pointed out to be central to the competition law in India by the committee. In its view, it includes restriction of quantities, markets and technical developments. Predatory pricing and practices exclusionary in nature, in specific, and conduct considered in general prejudicial to consumer interest were viewed to be abusive in nature and advocated to be prima facie illegal.

[27] Shashank Jain and Sunita Tripathy, '*Intellectual Property and Competition Laws: Jural Correlatives*', (2007) JIPR Vol 12, 228

6.2.4 Comparative analysis of MRTP Act, 1969 and Competition Act 2002

A brief comparative analysis of MRTP Act and the Competition Act: First of all, MRTP Act was premised in size whereas Competition Act is premised on conduct. Further, MRTP had a procedure, reformist and behavioral approach whereas Competition Act had a result oriented and punitive approach. Moreover, in MRTP competition offences implicit and not defined expressly whereas in the Competition Act competition offences are explicit and defined. Further more, MRTP Act frowns upon dominance, included unfair trade practices, rule of law approach, no extraterritorial application, no combination regulation and no penalties for offences whereas in the Competition Act, it excluded unfair trade practices, rule of reason approach, extraterritorial application of the Act, presence of combination regulations and penalties for offences. Finally, MRTP Commission had no advocacy role. On the other hand Competition Commission of India (CCI) had a competition advocacy role.[28]

6.2.5 The Competition Act, 2002

The Competition Act, 2002 came into existence in January 2003 and the Competition Commission of India was established in October 2003. The Act states that "it shall be the duty of the Commission to eliminate practices having adverse effect on competition, to promote and sustain competition, protect the interests of consumers and ensure freedom of trade carried on by other participants, in markets in India." The reading of this provisions shows that how much authorization and power the CCI possesses.

[28] Supra note 22, 47

The Act prohibits anticompetitive agreements (Section 3), abuse of dominant position (Section 4) and regulates mergers, amalgamations and acquisitions (Sections 5 & 6). These provisions and several connected provisions of the Act have not yet been brought into force. This was due to a writ petition filed before the Supreme Court of India challenging certain provisions of the Act. After the discarding of the petition by the Supreme Court, the Government introduced certain amendments to the Act in the Competition (Amendment) Bill, 2006, which is currently under consideration in Parliament. Since India was nascent in the competition law arena so there was not sufficient judgments to interpret the laws. Thus there were the current provisions of the Competition Act, 2002 which came to its recue. It reads thus:

(i) Prohibit anti-competitive agreements;
(ii) Prohibit abuse of dominant position by enterprise; and
(iii) Regulate Combinations exceeding threshold limits in terms of prescribed turnover or assets.

As recognized by the Raghavan Committee Report, the three enforcement areas are not mutually exclusive, and there would be considerable overlap between them. The reason for delineating them as broad areas are in order to organize the approach in dealing with each situation. The Competition Act defines what kind of situations could arise under each of the categories, and provides the principles to be adopted while examining the same. The Act elaborates the factors that need to be considered for analyzing each of the concepts of abuse of dominance, analyzing combinations and assessing whether agreements between enterprises can be considered anti-competitive.[29]

[29] Planning Commission Government of India February 2007, Report of the Working group on competition policy,

The scheme laid down under the law places emphasis on case by case analysis or the 'Rule of Reason' for determining violation of the Act. The 'Rule of Reason' test means that only combinations and agreements that cause or are likely to cause appreciable adverse effect on competition in the relevant market are subject to action under the Act and that size and dominant position is not in itself bad. There are only a few, very specific circumstances which are 'presumed' to have appreciable adverse effect on competition in market.

While the Competition Act provides the fundamental framework for governing competition, the development of jurisprudence on application of the Competition Act will determine to a large extent how it is interpreted and applied. Countries with well-developed Competition law regimes, such as the United States of America and the European Union, have each had to develop several sector and issue-specific guidelines to enable better application of the Competition law. While the experience of other countries can be a guiding factor, given that competition law is specific to a particular socioeconomic background, Competition Commission of India would need to incrementally develop the law based on experience gained. The development of jurisprudence through case laws will help clarify the manner in which each of these concepts needs to be addressed.[30]

6.2.5.1 Anti-competitive agreements

Looking into one of the objectives of the Act as stated in the Preamble is to prevent practices having adverse effect on competition. The

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<http://planningcommission.nic.in/aboutus/committee/wrkgrp11/wg11_cpolicy.pdf> accessed 30 March, 2014

[30] Ibid.

main objective of suppliers of goods and services who are in a position to manipulate the market is to maintain the profits at pre-determined levels[31]. They tend to achieve these goals by various means like restraining the supply of goods and services, price-fixing, dividing the market, etc. Section 3 of the Act prohibits any agreement with respect to production, supply, distribution, storage, and acquisition or control of goods or services which causes or is likely to cause an appreciable adverse effect on competition within India. Under Section 3, any such agreement is considered void. The term "agreement" is broadly defined and includes any arrangement, understanding or concerted action, whether or not it is formal, in writing or intended to be enforceable by legal proceedings. Sec 3 (1) is a general prohibition of an agreement in the supply of goods or services that causes or is likely to cause an appreciable adverse effect on competition in India. Sec 3 (2) shall declare such an agreement as void. Section 3(3) deals with certain specific anti-competitive agreements, practices and decisions of those supplying identical or similar goods or services, acting in concert or such action by cartels. Section 3 (4) deals with vertical restraints imposed through agreements among enterprises in different stages of production or supply.

Section 3(5) of the Act does not provide for absolute exemption to IPRs. It actually provides for an exemption to that extent where the Intellectual Property rights do not transgress what has been allowed, in a sense that is counter-productive to the common masses, the consumers and competitors in particular.

6.2.5.2 Abuse of dominant position

The Act does not condemn firms for achieving a dominant position, only the abuse of that position. Dominant position is defined as, "a position

[31] T. Ramappa, *Competition Law in India* (3rd edn, Oxford, 2006) 67

of strength, enjoyed by an enterprise in the relevant market in India, which enables it to (i) operate independently of competitive forces prevailing in the relevant market; or ii) affect its competitors or consumers or the relevant market in its favour"[32]. The definition is similar to those in the competition laws of several other jurisdictions, such as the European Union and the United Kingdom.

The Competition Act specifies that the Commission shall, while determining the "relevant geographic market", have due regard to all or any of the following factors, namely:-

- regulatory trade barriers;,
- local specification requirements;,
- national procurement policies;,
- adequate distribution facilities;,
- transport costs; language;
- consumer preferences;, and
- the need for secure or regular supplies or rapid after-sales services[33].

The relevant product market is to be determined by considering: physical characteristics or end-use of goods; the price of goods or service; consumer preferences; exclusion of in-house production; the existence of specialized producers; and the classification of industrial products.[34] The possibility of exclusion of in-house (i.e. captive) production is also to be considered as a factor.[35]

[32] Competition Act 2002, explanation (a) to s 4(c)
[33] Competition Act 2002, s 19(4)
[34] Id at, s 19(7)
[35] Supra note 20

The Act identifies a wide variety of factors that should be considered in determining whether a firm is dominant or not under Section 4 having due regard to all or any of the following factors, namely:-

i. market share of the enterprise;
ii. size and resources of the enterprise;
iii. size and importance of the competitors,
iv. economic power of the enterprise, including commercial advantages over competitors;
v. vertical integration of the enterprises or the sale or service network of such enterprises;
vi. dependence of consumers on the enterprise;
vii. monopoly or dominant position whether acquired as a result of any statute or by virtue of being a Government company or a public sector undertaking or otherwise;
viii. entry barriers, including barriers such as regulatory barriers, financial risk, high capital cost of entry, marketing entry barriers, technical entry barriers, economies of scale, high cost of substitutable goods or service for consumers;
ix. countervailing buying power;
x. market structure, and size of market;
xi. social obligations and social costs;
xii. relative advantage, by way of the contribution to the economic development, by the enterprise enjoying a dominant position having or likely to have an appreciable adverse effect on competition; and
xiii. any other factor which the Commission may consider relevant.[36]

[36] Competition Act 2002, s 19(4)

6.2.5.3 Regulation of combinations

A combination as defined under Section 5[37] would result subject to the other prescriptions of the section, such as the monetary thresholds of assets or turnover of the enterprise specified therein, on: (a) acquisition of control, shares, voting rights, or assets of one or more enterprises by one or more persons; (b) acquiring of control by a person over an enterprise when such person has already direct or indirect control over another enterprise engaged in production, distribution, or trading of a similar or identical or substitutable service; (c) any merger or amalgamation. The provision of Sec 6(1)[38] prohibits any combination that causes, or is likely to cause, an appreciable adverse effect on competition within the relevant market in India and thereby declaring that such combination would be void. Section 6(2) sets out the procedure for the regulation of combinations.

Once the relevant market has been defined, it would be necessary to determine whether the combination causes or is likely to cause an appreciable adverse effect in that relevant market. The factors to be considered are listed in considerable detail in the Act.[39]

- actual and potential import competition;
- barriers to entry;

[37] Amended in 2007
[38] Sec 6 (2) Regulation of combination: Subject to the provisions contained in sub-section (1), any person or enterprise, who or which proposes to enter into a combination, [shall] give notice to the Commission, in the form as may be specified, and the fee which may be determined, by regulations, disclosing the details of the proposed combination, within 14 [thirty days] of—
(a) approval of the proposal relating to merger or amalgamation, referred to in clause (c) of section 5, by the board of directors of the enterprises concerned with such merger or amalgamation, as the case may be
(b) execution of any agreement or other document for acquisition referred to in clause (a) of section 5 or acquiring of control referred to in clause (b) of that section.
[39] Competition Act 2002, s 20(4)

- the degree of market concentration;
- degree of countervailing power in the market; the likelihood that the combination would allow the parties to significantly and sustainably increase prices or profit margins;
- the extent of likely effective competition;
- the extent to which substitutes are available or likely to be available in the market;
- the market share, in the relevant market, of the persons or enterprises in a combination, individually and as a combination
- the likelihood that the combination would result in the removal of a vigorous and effective competitor in the market;
- the nature and extent of vertical integration in the market;

The analysis also includes consideration of whether one of the firms in the combination is a failing business and the nature and extent of innovation. In addition, the Commission must consider the possible benefits that might flow from the combination that would contribute to economic development and whether the benefits outweigh the adverse impact of the combination, if any. These factors are an indication of a rule of reason approach.

6.3. Cases of interplay between IPR and Competition Law

In FICCI-Multiplex Association v United Producers Distributors Forum[40], there was a collective decision of the opposite parties producers and distributors of films not to release films to the multiplexes with a view to pressurize the multiplexes into accepting the terms of revenue sharing ratio.

[40] Case no 01 0f 2009, decided on 25th May 2011

The purpose of forming United Producers and Distributors Forum (UPDF) was extracting better revenue sharing ratios from multiplexes. UPDF issued notices instructing all producers and distributors, including those who were the members of UPDF, not to release any new films for the purpose of exhibition at the multiplexes. In this case, Competition Commission of India held that UPDF entered into a cartel like activity since it had the ability to control the release of films since it had a 100 per cent market share. The CCI went further to analyze Sec 3(5)(i) to determine the unreasonableness.

Since a feature film is considered to be a bundle of copyrights to make copies, sell or give on hire or communicate a film in public, the question arises whether the right to sell or give on hire or communicate the film in public includes also the right not to sell or give on hire. It has to be noted that copyright does not grant a market power to the holder since there is a difference between the bargaining power between individual copyright owners vis-à-vis collective licensing through copyright societies.

The CCI had correctly decided that UPDF had restricted the supply of films to multiplexes was an anti-competitive act under Section 3(3) of the Competition Act 2002. Analysis of the case reveals that the members of the UPDF were engaged at different levels of the business such as production and distribution. Since producers and distributors are not at the same level of business, they are not competitors and hence it shall fall under vertical agreement[41].

In Amir Khan Productions Private Limited v Union of India[42], Federation of Indian Chamber of Commerce and Industry filed information

[41] Ravikant Bharadwaj, KD Raju and M. Padmavati, 'Determining unreasonable use intellectual property rights in anti-competitive agreements in India' (2013) I.C.C.L.R. 2013, 24(6), 231-238

[42] 2010 (112) Bom LR 3778

against United Producers/Distributors Forum (UPDF) and others for market cartel in films against the multiplexes. Despite knowing that multiplex business is 100% dependant on films, UPDF refused to deal with multiplex owners. The UPDF and others hold almost 100 percent share in the Bollywood film industry. UPDF was indulged in limiting/controlling supply of films by refusing to deal with the multiplexes which are clearly violation of Section 3(3) of the Competition Act 2002.

The Competition Commission of India (hereinafter called as CCI) found that there is anti-competitive agreement and that there is a dominant position also. So the CCI directed the Director General (hereinafter called as DG) to inquire into the matter and submitted a report that there is cartel. UPDF instead of answering to showcause notice, approached the Bombay High Court contending that films are subject to copyright protection[43] and the Copyright Board has the jurisdiction to deal with the matter. Moreover, it was contended that for exclusive licence, only remedy is compulsory license available under Copyright Act.

The Bombay High Court dismissed the petition stating that Section 3(5) of Competition Act, 2002[44] provides that Section 3(1) shall not take away the right to sue for infringement of patent, copyright, trademark etc.

[43] The Copyright Act 1957, s 13(1)(b) and Sec 14(1)(d)(ii)

[44] (5) Nothing contained in this section shall restrict—
(i) the right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of his rights which have been or may be conferred upon him under—
(a) the Copyright Act, 1957 (14 of 1957);
(b) the Patents Act, 1970 (39 of 1970);
(c) the Trade and Merchandise Marks Act, 1958 (43 of 1958) or the Trade Marks Act, 1999 (47 of 1999);
(d) the Geographical Indications of Goods (Registration and Protection) Act, 1999 (48 of 1999); (e) the Designs Act, 2000 (16 of 2000);
(f) the Semi-conductor Integrated Circuits Layout-Design Act, 2000 (37 of 2000);
(ii) the right of any person to export goods from India to the extent to which the agreement relates exclusively to the production, supply, distribution or control of goods or provision of services for such export.

The defences can also be raised before the Competition Commission of India which can be raised before the Copyright Board.

In another case Singhania and Partners LLP v Microsoft Corporation (I) Pvt. Ltd.[45], the petitioner ordered with Microsoft for Windows Operating Systems and Office 2007 from a Microsoft distributor. According to the instruction of Microsoft, the petitioner ordered software for their LLP business and paid the advance required by the purchase order. After paying the advance amount, Microsoft informed the petitioner that they can purchase only volume licenses and not Original Equipment Manufacturer (OEM) licences which are only available to a person who purchases a new machine. The volume licenses were double the amount of OEM licences. Allegations of the petitioner were that different dealers of Microsoft charges different prices for the same product and thus the opposite party artificially controls the market. Microsoft having market shares of 90 percent hold a dominant position in the market. The petitioner being forced to purchase volume licences at double the price of OEM licences amounts to discriminatory pricing under Section 4(2)(a)(ii) of the Competition Act 2002.

Microsoft's contention was that it licences its product through three main channels of distribution like OEM, Volume licences and Retail Chain. Further, it has to protect its Intellectual Property Rights and prevent piracy of its products. Moreover, its relationship with sellers and distributors is independent and does not create any principal agent relationship. It sells its products/licences to its distributors or sellers on a principal to principal basis. Further, it contended that OEM licences are different in nature than those purchased through other channels. Finally, Microsoft's agreement with the OEMs does not require that OEMs can install Windows directly on the PC. OEMs are free to distribute PCs with non Microsoft software or without software at all.

[45] Case no 36/2010, decided by the Commission on 22.06.2011

On the other hand, the petitioners argued that different royalty charged for different licences is a strategy adopted by Microsoft to maintain its monopoly in the market under the garb of licensing policy and intellectual property rights protection. They further contended that the licensing policy of Microsoft is nothing but an artificial device for maintaining the market and strict control over its distribution system responsible for unfair prices in the market and thus violates section 3(4)(e) of the Act.

The Competition Commission has not found any prima facie evidence showing that charging different prices for the same product under different kind of licences are justified and common to the market. The Commission did not find any material to show that due to Microsoft's dominant position competitors were driven out of market. However, Mr. R. Prasad's dissenting opinion is noteworthy. He says that the Commission should look into all factors which are anti-competitive in nature, even though they are not part of the information supplied by the petitioner. There is a possibility of Microsoft playing a dominant role since it holds 80% of the market share of the operating systems.

Further, the OEM license is available only through manufacturers, FPP for individual intending o buy for 5 or less PCs for Volume license and upgradation. It creates a baffling situation for a customer who intends to buy more than 5 PCs. The only option left is to go for OEM which creates buying of OEM and maintaining a monopoly of the Microsoft in Operating system. Finally, Microsoft charged a much lesser price in China and higher price in other countries which hinders competition in the market. Such cases were filed in the United States in the State of Iowa and California and Microsoft was ordered to refund the difference to volume licences for abusing of monopoly power.

In Shamsher Kataria and Honda Siel cars and others[46], Shamsher Kataria (Informant) filed the information under Section 19(1)(a) of the Act in January, 2011 against Honda Siel Cars India Ltd, Volkswagen India Pvt. Ltd. and Fiat India Automobiles Pvt. Ltd. alleging anti-competitive practices in respect of sale of spare parts of these companies. Relying on practices in European Union (EU) and the United States of America (United States), Informant contended that car manufacturers in India were charging higher prices for spare parts and upkeep services than their colleagues overseas.[47] Further, there was complete restriction on availability of technological information, diagnostic tools and software programs required for servicing and repairing the automobiles to autonomous repair shops.[48] The Informant has further alleged that the restriction on the availability of genuine spare parts and the technical information/know how required to effectively repair, maintain or service the automobiles manufactured by the respective Opposite Parties (OP) is not a localized phenomenon. The OPs and their respective dealers, as a matter of policy, refuse to supply genuine spare parts and technological equipment for providing maintenance and repair services in the open market and in the hands of the independent repairers.[49]

The Commission passed detailed order in the following manner under section 27 of the Act which are discussed below:[50]

i) The parties are hereby directed to immediately cease and desist from indulging in conduct which has been found to be in contravention of the provisions of the Act.

[46] Case no 03/2011 of Competition Commission of India
[47] Ibid at para 1
[48] Ibid at para 1.1
[49] Ibid at para 1.2
[50] Ibid at para 22.3

ii) OPs are directed to put in place an effective system to make the spare parts and diagnostic tools easily available through an efficient network.

iii) OPs are directed to allow OESs to sell spare parts in the open market without any restriction, including on prices. OESs will be allowed to sell the spare parts under their own brand name, if they so wish. Where the OPs hold intellectual property rights on some parts, they may charge royalty/fees through contracts carefully drafted to ensure that they are not in violation of the Competition Act, 2002.

iv) The OPs will place no restrictions or impediments on the operation of independent repairers/garages.

v) The OPs may develop and operate appropriate systems for training of independent repairer/garages, and also facilitate easy availability of diagnostic tools. Appropriate arrangements may also be considered for providing technical support and training certificates on payment basis.

vi) The OPs may also work for standardization of an increasing number of parts in such a manner that they can be used across different brands, like tyres, batteries etc. at present, which would result in reduction of prices and also give more choice to consumers as well as repairers/service providers.

vii) OPs are directed not to impose a blanket condition that warranties would be cancelled if the consumer avails of services of any independent repairer. While necessary safeguards may be put in place from safety and liability point of view, OPs may cancel the warranty only to the extent that damage has been caused because of faulty repair work outside their authorized network and circumstances clearly justify such action.

viii) OPs are directed to make available in public domain, and also host on their websites, information regarding the spare parts, their MRPs, arrangements for availability over the counter, and details of matching quality alternatives, maintenance costs, provisions regarding warranty including those mentioned above, and any such other information which may be relevant for full exercise of consumer choice and facilitate fair competition in the market.

The Commission further noted that the OPs have violated the provisions of both sections 3 & 4 of the Act. Anti-competitive conduct of the opposite parties impacts a very large number of consumers in the country estimated to be around 2 crore. Further, the anti-competitive conduct of the opposite parties has restricted the expansion of spare parts and independent repairers segment of the economy to its full potential, at the cost of the consumers, service providers and dealers. It was also noted that despite the fact that most attractive markets for the automobile manufacturers and some OPs have made consumer-friendly commitments in other jurisdictions like Europe, they have failed to adopt similar practices in India which would have gone a long way in significantly diluting their present anti-competitive conduct.[51] The Commission imposes a penalty of 2% of total turnover in India of the opposite parties.[52]

In Micromax Informatics Ltd. v Telefonakiebolaget LM Ericsson (Publ)[53], the Micromax Informatics Ltd. (hereinafter informant) filed a complaint under Section 19 (1) (a) of the Competition Act 2002 against Telefonakiebolaget LM Ericsson (Publ) (hereinafter opposite party) on the

[51] Ibid at para 22.4
[52] Ibid at para 22.6
[53] Case no 50/2013 of Competition Commission of India

abuse of dominant position by demanding an unfair royalty from the informant with regard to standard essential patents on GSM technology.

Ericsson is a member of the Standard Setting Organization (SSO), European Telecommunications Standard Institute (ETSI). ETSI has formulated its own IPR policy called the ETSI Intellectual Property Rights Policy ("ETSI IPR Policy") and the present information, opposite party demanded from informant to secure licences of patents used in its products on Fair, Reasonable and Non-Discriminatory Terms (FRAND Terms). FRAND licences were not provided despite the informant making a request for details. Despite that the informant entered into a Non-Disclosure Agreement with opposite party on 16th January, 2012. After almost 16 months i.e. on 5th November 2012 the terms of the FRAND licences were disclosed to the informant. The opposite party thereafter instituted a civil suit against the informant before the High Court of Delhi, alleging infringement of eight Standard Essential Patents (SEPs), used in 2G, 3G and 4G devices. The Single Judge passed an ad interim ex-parte order in favour of Ericsson.

In Telefonaktiebolaget Lm Ericsson vs Intex Technologies (India)[54] in which the plaintiff, M/s Telefonaktiebolaget LM Ericsson a company incorporated under the laws of Sweden and claimed that the plaintiff is one of the largest telecommunications companies in the world.

The Ericsson group is active in more than 180 countries having annual sales of USD 35 Billion (approximately) for the year 2013. The Ericsson's main trade is to provide telecom operators with best-in-class equipment and services for telecommunications network. The Ericsson group has invested tons of billions of US dollars in the past decade on telecommunications research and development. The plaintiff's portfolio comprises of mobile and

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[54] Delhi High Court Judgment, 13th March 2015 I.A. No. 6735/2014 in CS(OS) No.1045/ 2014

fixed network infrastructure, telecom services, software, broadband and multimedia solutions for operators, enterprises and the media industry.[55]

The plaintiff has contended that the defendant in the plaint that the defendant continues to market and sell various infringing mobile phones/devices. As detailed above, the AMR Patents (AMR Speech Codecs) and 3G Patents correspond to mandatory portions of the 3G standard, to which 3G-enabled devices must adhere. The said patents are employed by the defendant in its various 3G-enabled devices. The AMR Patents, as well as the EDGE Patent, also correspond to optional, but widely implemented, portions of the 2G standard and the EDGE standard, to which 2G/ EDGE-enabled devices must adhere. It is alleged that the plaintiff procured certain handsets being sold by the defendant (listed below) and performed in- house testing to gauge whether the Suit Patents are being infringed by the said handset devices or not. The test reports prove that those are infringed by the defendants.[56]

The plaintiff has also filed an affidavit of Mr.Vijay Ghate, an expert who has examined the standards, the patent specifications and the test reports & has come to the conclusion that the Suit Patents are essential in relation to all the relevant ETSI standards and the same will be necessarily infringed by any device that is compliant with the said standards. The plaintiff has placed on record the testing reports, performed in relation to the four representative mobile devices of the defendant, along with an affidavit of Mr. Max Olofsson. The said reports establish that the defendant is indeed infringing the Suit Patents.[57]

After receiving the information about the defendant who allegedly infringed the product being imported/ offered for sale/ sold in India, the

[55] Ibid at para 3
[56] Ibid at para 6
[57] Ibid at para 20

plaintiff on 16th December, 2008 addressed a letter intimating the defendant about the fact that the telecommunication products being sold by it infringe various SEPs held by the plaintiff in respect of GSM[58] and GPRS[59] technologies, in order to give offer to negotiate & discuss a license agreement on FRAND[60] terms for all of plaintiff's Standard Essential Patents.[61]

In reply, the defendant, vide its e-mail dated 7th January, 2009, stated that it is not aware about any significant portfolio of plaintiff's patents in India that are essential for compliance by the defendant, however, the defendant agreed to meet on this aspect. The plaintiff thereafter gave the defendant an example list of the standard essential patents owned by the plaintiff in India. The plaintiff asked the defendant to sign a Non-Disclosure Agreement ("NDA") so as to facilitate exchange of confidential information (claim chart mapping, infringement analysis etc.) in entering into a FRAND license with the plaintiff.[62] The defendant initially refused to enter into an NDA despite which the plaintiff held various meetings with the defendant to discuss its FRAND licensing program. But despite meeting, the defendant did not enter into the NDA.

The plaintiff, thereafter by its letter dated 16th December, 2011, again requested the defendant to enter into a licensing agreement with the plaintiff on FRAND terms for the SEPs portfolio of the plaintiff. The defendant in its reply letter dated 19th January, 2012, at the first instance, submitted before the plaintiff that the defendant was not a manufacturer of mobile phones as it is merely selling/ trading them under its brand name and thus cannot be held

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[58] GSM (Global System for Mobile Communications) is a standard developed by European Telecommunications Standards Institute to describe the protocols for second generation (2G) Digital cellular networks used by mobile phones.
[59] GPRS (General Packet Radio Service) is a packet oriented mobile data service on the 2G and 3G cellular communication system's global system for mobile communication.
[60] FRAND is a legal term that stands for "Fair, Reasonable, and Non-Discriminatory" and is typically used to describe patent licensing terms
[61] Ibid at para 22
[62] Ibid

liable for infringement of patents. The plaintiff in its reply letter dated 26th January, 2012 clarified that the defendant is legally liable to obtain a license from plaintiff despite the fact that it is not manufacturing the infringing products but was selling the same and the defendant was invited to negotiate a license agreement on FRAND terms with the plaintiff. The plaintiff negotiated with the defendant under the aegis of Indian Cellular Association. Even after the aforesaid efforts by the plaintiff, the defendant failed to show any serious intention of entering into a patent license agreement with the plaintiff.[63]

After repeated attempts by the plaintiff, on 11th April, 2013, the defendant finally signed the NDA (after a lapse of over four years). The plaintiff allegedly provided more information to the defendant and its liability to take license in respect of the plaintiff's SEPs. The plaintiff thereafter supplied the term sheet to the defendant vide email dated 23rd April, 2013 prior to their meeting dated 29th April, 2013. During the course of another meeting which was held between both the parties on 23rd May, 2013, the plaintiff explained its SEP portfolio, the standardization process, etc. The defendant requested the plaintiff to provide a revised patent license arrangement. Thereafter, the Plaintiff drafted a written offer based on the discussion held on 23rd May, 2013, and provided the same to the defendant. In reply, the defendant, however, proposed a counter offer which was different, as per the plaintiff, from the in-principle agreement reached in the meeting between both the parties on 23rd May, 2013.[64]

The plaintiff alleged that on one hand the defendant continued to engage in correspondence with the plaintiff and on the other hand multifarious proceedings were initiated by the defendant against the plaintiff before the Competition Commission of India and the Intellectual Property Appellate

[63] Ibid at para 24
[64] Ibid

Board (IPAB) in the months of August-September, 2013, for revocation of the plaintiff's suit patent. The net result is that the defendant did not respond positively to any of the proposals offered by the plaintiff.[65] The defendant has also filed a Complaint/Information before the Competition Commission of India alleging abuse of dominance by the plaintiff. The said complaint was filed by the defendant on 30th September, 2014. The said complaint is registered as Case No.76/2013. Both the aforesaid proceedings were initiated by the defendant during the period when the licensing negotiations were still on-going between the parties.[66]

It is alleged by the plaintiff that the defendant has taken two different stands, i.e. as in the complaint/ information before the CCI is based that the plaintiff patents are valid and essential as a result of which the defendant is bound to seek a license from the plaintiff whereas before the IPAB the defendant has challenged the validity of five SEPs of the plaintiff. The defendant did not disclose before the CCI that it had already filed five revocation petitions before the IPAB. By its order dated 16th January, 2014 the CCI had ordered an investigation against the plaintiff on the basis of allegations made by the defendant in its complaint before the CCI. The said order dated 16th January, 2014 was challenged by the plaintiff by filing a writ petition, being W.P (C) No.1006/ 2014, before this Court on inter alia the ground that the order passed by the CCI was arbitrary in nature and without jurisdiction. That on 17th February, 2014 the Writ Court directed that whilst the Director General (D.G) of the Competition Commission of India ("CCI") may call for information from the plaintiff, no final report shall be submitted by the Director General and no final orders shall be passed by the CCI in Case No.76 of 2013. The Writ Court also directed that no officer of the plaintiff Company, stationed abroad, shall be called upon by the D.G for the purpose of investigation. The Writ Court also ordered that the

[65] Ibid at para 25
[66] Ibid at para 28

observations made by the CCI in its order dated 16th January, 2014 shall not come in the way of the plaintiff negotiating with the third parties or in the adjudication proceeding filed by either of the parties.[67] The defendant contended five main issues in his written statement which are:

(i) Under the Act, the validity of a patent must be first established before the issue of infringement is considered by the Court.

(ii) Section 13(4) of the Act has been interpreted by the Supreme Court to mean that no patent which is granted in India enjoys presumptive validity owing to the mere factum of grant.

(iii) The caveat in Section 13(4) of the Act has been interpreted as an obligation on the part of a patentee to establish the validity of his patent in the Plaint before he proceeds to address the issue of infringement.

(iv) It is submitted that the defendant's prior-filed revocation petitions and three other revocation petitions represent a serious challenge to the validity of the plaintiff's Suit patents. Thus, no relief can be granted to the Plaintiff. Therefore, until the issue of validity is not conclusively adjudicated upon, the plaintiff is not entitled to the grant of any relief by this Court.

(v) The defendant has challenged five of the Suit patents, the so-called "AMR patents", and the other three Suit patents, the so called "EDGE/ 3G patents" are being challenged, on multiple substantive grounds under Section 64 of the Act including for lack of patentability, lack of novelty, lack of inventive step, non- compliance with Section 8 of the Act, fraud on the Indian Patent Office and insufficiency of disclosure. The violation of Section 8 is a substantive violation of the Act since it establishes breach of the duty of trust cast on the patent applicant by the Act. The violation of Section 8 is fatal to the existence of a patent. Section 8 of the Act has two sub-sections.

[67] Ibid at para 29

The first sub-section requires a patent applicant to submit a statement to the Controller of Patents within the prescribed period setting out detailed particulars of contemporaneous patent applications which were filed by the patent applicant or someone deriving title from the applicant in other jurisdictions with respect to the same or substantially the same invention. Under the same sub- section, it also requires him to give an undertaking to the Controller that he would keep the Controller informed in writing, from time to time, of detailed particulars in respect of such foreign applications, if any of them is filed subsequent to the filing of the Indian application. Under the second sub-section of Section 8, whenever the Controller seeks details of examination of foreign applications, the patent applicant shall furnish them within the prescribed time period. The object of both sub- sections of Section 8 is to enable the Controller of Patents/ Indian Patent Office to have access to the material placed before foreign Patent Offices by the applicant. Every Suit patents have been obtained by suppression or non-disclosure of information under Section 8, thereby committing a fraud on the Indian Patent Office.[68]

Therefore, in this case, The Delhi High Court observed that the defendant has prima facie acted in bad faith during the negotiations with plaintiff, it has even approached various mediums and has made contrary statements in order to get monetary benefit such as:

a) In the Counter affidavit filed by defendant in the aforesaid Writ Petition, it has been stated that the reason it was not disclosed to CCI was that the disputes in personam are of no concern to CCI which has larger responsibility to decide anti-competitive practices in rem.

b) In the Written Statement filed by defendant in the present suit, it has been stated that "the institution of the revocation proceedings before the IPAB was not brought to the attention of CCI since an express clarification

[68] Ibid at para 40

was sought from the Defendant from by the CCI as alleged by the plaintiff with regard to the validity of the Plaintiff's patents.

c) In the Counter Affidavit filed by defendant in the W.P(C) 1006/2014 (filed by plaintiff against the CCI's order dated 16th January, 2014) it has been admitted by defendant that it requires a license in respect of plaintiff's eight standard essential patents.[69]

The Delhi High Court took the same view which is already taken in Suit No.442/2013 and the stay order passed in the two applications i.e. I.A. No.3825/2013 (for stay) and I.A. No.4694/2013 (for vacation of stay order). The aforesaid same royalty amount is fixed in the present matter also, but the same be paid in the following manner by disposing of this interim application:

i) That 50% amount of royalty in the same manner as per details mentioned in Suit No.442/2013 from the date of filing of suit till 1st March, 2015 shall be paid to the plaintiff directly by way of bank draft within four weeks from today. For the remaining 50% amount, the defendant shall furnish the bank guarantee within the same period with the Registrar General of this Court who would invest the said amount in FDR initially for a period of twelve months.

ii) For future period, every six months the same terms would apply till the disposal of the suit in the same manner. The proceedings of the suit are expedited.

iii) As regard the previous period i.e. prior to suit is concerned, the defendant shall furnish true accounts from the date of user till the date of suit within four weeks by filing of an undertaking that in case of decretal of suit, the defendant shall pay the amount for the said period as fixed by the Court

[69] Ibid at para 148

while issuing direction at the final stage of the suit when the objection of defendant on limitation also would be considered as per law.

iv) Liberty is also granted to both the parties to seek further direction or modification order in case of change of circumstances and subsequent events.[70]

In M/s Best IT World (India) Private Limited (iBall) v M/s Best IT World (India) Private Limited (iBall) & M/s Ericsson India Private Limited[71], the Informant is identified to be an Indian IT & Electronics company incorporated under the Companies Act, 1956 and engaged in the business of import and distribution of computer peripherals, mobile handsets, tablets etc. The Informant started business as a computer fixtures supplier in 2001 under the brand name “iBall” and entered into the mobile phone sector in November 2010. The Opposite Party No. 1 in this case was a company incorporated under the laws of Sweden and it offered services related to software and infrastructure in Information and Communication Technology for telecom operators and other industries including licensing of intellectual property as well as networking equipments, mobile and fixed broadband, operations and business support solutions, cable TV, internet protocol television, video systems etc.[72]

The facts of the case as per the Informant that the Opposite Party No. 1 is one of the world’s largest telecommunication companies with a global market share of 38% and also one of the largest holders of Standard Essential Patents (“SEPs”) in the mobile phone and wireless industries with approximately 33,000 granted patents as of 2012, out of which 400 were granted in India[73].

[70] Ibid at para 161
[71] Case no 04/2015 of CCI
[72] Ibid at Para 2
[73] Ibid at para 3

Thereafter, in November 2011, Ericsson wrote a letter to the Informant, stating that they have appraised the Informant's product portfolio and found that the patents of Ericsson have been infringed, which were directly relevant to the Informant's past, present and future GSM and/or WCDMA compliant products and requested for a meeting to discuss the issue. However, Ericsson did not specify any patents which were directly relevant to the Informant's products that were infringed. During the meeting, it was communicated to the Informant that some of its handset models were violating the patents of Ericsson and the Informant should come into a global patent licensing arrangement (GPLA) for all the patents of Ericsson. The Informant expressed its readiness to enter into such agreement if Ericsson could identify the patents which were alleged to have been infringed, such patents were valid and enforceable in India and the terms of such arrangement were reasonable and not burdensome. It was informed by Ericsson to the Informant that a non-disclosure agreement (NDA) would have to be entered into before proceeding further in the matter. The Informant has stated that Ericsson declined to share any data about the patent infringements until it executes the NDA.[74]

Thereafter, an email was sent by Ericsson to the Informant on 29.11.2011 along with a draft NDA for further dialogue. Ericsson, through NDA, levied very stringent terms such as ten years confidentiality in relation to disclosure of any information by either party, confidential information is to be shared only with an affiliated company and all disagreements are to be settled by way of arbitration in Stockholm, Sweden. The Informant had raised numerous apprehensions regarding the terms and conditions of the NDA and highlighted that it is keen to enter into a license agreement with Ericsson as per FRAND (fair, reasonable, and non-discriminatory) terms and within the jurisdiction of Courts in India. In July 2012, it was conversed to the Informant by Ericsson that the proposed license would cover not only its

[74] Ibid at para 4

future sales but also past sales. The Informant contended that despite repeated requests for adopting lenient terms and conditions in the NDA and to provide details about alleged patent violations on the part of the Informant, Ericsson did not address these issues[75].

The Informant highlighted that refusal by Ericsson to identify the standard essential patents so infringed by the Informant, threat of patent infringement proceedings, persuading the Informant to enter into one sided and arduous NDA, tying and bundling of patents irrelevant to the Informant's products by way of GPLA demanding unreasonably high royalties by way of a certain percentage value of handset as opposed to the cost of actual patent technology used etc. are violative of the provisions of section 4 of the Competition Act, 2002 and requested the Commission to conduct necessary investigation on the abuse of dominant position by the Opposite Parties.[76]

The Competition Commission of India in this order observed that Ericsson was a member of a Standard Setting Organisation namely, European Telecommunications Standards Institute (ETSI) which is officially recognized by the European Union as a European Standards Organization. ETSI produces globally applicable standards for Information and Communication Technologies i.e., fixed, mobile, radio, converged, broadcast and internet technologies, some of which are covered by patents held by ETSI or ETSI members like Ericsson. Standardisation is a voluntary process wherein a number of market players reach a consensus for setting common technology standards under the support of a Standard Setting Organisation, which in the present case is ETSI. In simple terms, standardisation is the process of developing and implementing technical standards. Such technological standards are termed as SEP. Once a patent is declared as SEP,

[75] Ibid at para 5
[76] Ibid at para 6

it faces no competition from other patents until that patent becomes obsolete due to new technology.[77]

It was observed by the Commission in this case that as per clause 6 of ETSI IPR policy, an IPR proprietor is required to give irreversible written undertaking that it is prepared to grant irreversible licences on FRAND terms to be applied fairly and consistently to similarly placed players. The patent owner has to grant irrevocable license to manufacture, including the right to make or have made customized components and sub-systems to the licensee's own design for use in manufacture sell, lease, or otherwise dispose of equipment so manufactured repair, use, or operate equipment and use methods[78].

It was further observed by the Commission that FRAND license are primarily intended to prevent Patent hold-up and Royalty Stacking. The worth of complex products and services often depends on the interoperability of components and products of different firms. To improve the value of these complex products, competing manufacturers, customers and suppliers participate in standard setting practices to set technological standards for use in designing products or services. When such standard technologies are protected by patent rights, there is a possibility for hold-up by the patent owner which means a demand for higher royalties or more costly or onerous licensing terms than could have been obtained before the patent was declared as a SEP. Hold-up can undermine the competitive process of choosing among technologies and undermine the integrity of standard-setting activities. Ultimately, the high costs of such patents get transferred to the final consumers. Similarly, royalty-stacking occurs when a single product uses many patents of same or different licensors. As such, from the perspective of

[77] Ibid at para 8
[78] Ibid at para 9

a firm manufacturing the product, all the diverse claims for royalties need to be added or stacked together to determine the total burden of royalty to be borne by the manufacturer[79].

Ericsson had acknowledged to ETSI that it has patents over 2G, 3G and EDGE technology and these patents are SEPs. As per its undertakings, Ericsson is required to offer and conclude licenses with patent seekers on FRAND terms. Ericsson's patents have also been accepted by Department of Telecommunication (DoT), Government of India and every telecom service provider in India is required to enter into a Unified Access Service License Agreement with DoT. DoT had directed that all GSM/ CDMA network equipments imported into India should also meet the standards of international telecommunication technology as set by International Telecommunication Union, Telecommunication Engineering Center and International Standardization bodies such as 3GPP[80], 3GPP-2[81], ETSI[82], IETF[83], ANSI[84], EIA, TIA[85], IS.[86]

The Commission was of the view that SEPs owned by Ericsson are in respect of the 2G, 3G and 4G patents used in smart phones, tablets etc., which fall under GSM technology therefore, prima facie, the relevant product

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[79] Ibid at para 10

[80] The 3rd Generation Partnership Project (3GPP) is a collaboration between groups of telecommunications associations, known as the Organizational Partners.

[81] The 3rd Generation Partnership Project 2 (3GPP2) is a collaboration between groups of telecommunications associations to make a globally applicable third generation (3G) mobile phone system specification within the scope of the ITU's IMT-2000 project.

[82] The European Telecommunications Standards Institute (ETSI) is an independent, not-for-profit, standardization organization in the telecommunications industry in Europe.

[83] Internet Engineering Task Force (IETF) develops and promotes voluntary internet standards, in particular the standards that comprise the Internet protocol suite.

[84] American National Standards Institute (ANSI) is a private non-profit organization that oversees the development of voluntary consensus standards for products, services, processes, systems, and personnel in the United States.

[85] The Telecommunications Industry Association (TIA) represents manufacturers and suppliers of global communications networks through standards development, policy and advocacy, business opportunities, market intelligence, and events and networking.

[86] Ibid at para 11

market to be considered in the instant case appears to be the market of "Standard Essential Patents for 2G, 3G and 4G technologies in GSM standard compliant mobile communication devices". Considering the nature of the relevant product and pan India presence of Ericsson, the relevant geographic market in this case appears to be the territory of India. Accordingly, the relevant market to be considered in the instant case has to be the market of "Standard Essential Patents for 2G, 3G and 4G technologies in GSM standard compliant mobile communication devices in India".[87] The Commission further held that Ericsson has 33,000 patents to its credit, with 400 of these patents granted in India. Ericsson is also the leading holder of SEPs used in mobile communications like 2G, 3G and 4G patents used for smart phones, tablets etc. Since there is no other alternate technology available in the market in India, Ericsson enjoys a complete dominance over its present and prospective licensees in the relevant market. Thus Ericsson, prima facie, appears to be dominant in the relevant market[88].

The allegations made in the information concerning royalty rates make it clear that the practices adopted by Ericsson appear to be inequitable as well as contrary to FRAND terms. The royalty rate being charged by Ericsson has no linkage to the functionality of the patented product rather it has linkage to the final price of the manufactured product in which the patent is being used. Ericsson seems to be acting contrary to the FRAND terms by imposing royalties linked with the cost of manufacturing product. Charging of two different license fees per phone for use of the same technology, prima facie, appears to be discriminatory. Further, the terms of the NDA are contrary to the spirit of applying FRAND terms fairly and uniformly to similarly placed players. The Commission observes that forcing a party to execute NDA and imposing excessive and unfair royalty rates, prima facie, amount to abuse of

[87] Ibid at para 12
[88] Ibid at para 13

dominance in violation of section 4 of the Act. Also, imposing a jurisdiction clause debarring the Informant from getting the disputes adjudicated in the country where both the parties are engaged in doing business and vesting the jurisdiction in a foreign land, prima facie, appears to be unfair.[89]

The Competition Commission of India found in its analysis that a prima facie case of contravention of the provisions of section 4 of the Competition Act, 2002 was made out against the Opposite Parties and it is a fit case to be investigated by the Director General[90]. Accordingly, the Commission directed the Director General to cause an investigation in this matter and submit the report within the prescribed timeframe.

6.4 Concluding remark

In the modern economy, IPR and Competition have complementary roles in the ultimate goal of protection of consumer welfare. On the one hand, IPR promotes innovation which in turn accelerates competition in the market. The fact that these two realms of law come in conflict with each other but some kind of reconciliation is required too.

The researcher has found that there exists a difference between ‘legal monopoly’ and ‘economic monopoly’ since the former falls within the domain of IPR authorities and the other falls within the arena of competition authorities. It is the duty of competition authorities to watch out that dominant position ipso facto does not grant monopoly but the abuse of such dominant position which shall attract the offences within the competition law.

[89] Ibid at para 14
[90] Ibid at para 16

To conclude and after analyzing the legislations and cases, the Competition law of India is not well equipped to deal with the cases involving Intellectual Property and Competition Law. The Competition Act in India has not fully developed and matured with regard to the interplay between Intellectual Property and Competition Law. The competition authorities are heavily relying on the European Union judgments since it is the most developed competition regimes worldwide. The Amir Khan Productions Pvt. Ltd case, the FICCI case, the Microsoft case, the Micromax case and the latest Ericsson cases are the onset in Indian jurisprudence of Intellectual Property Law and Competition Law.

CHAPTER- VII

Conclusion and Suggestions

The existence of Intellectual Property Rights stimulates both investments and development of new ideas, which in turn promotes economic growth which is vital for our society today. By providing a number of protective forms for various industrial property rights the incentive to invest in research and development naturally will increase, as these investments become more secure and the right owner will reap the rewards for his creative effort and innovation. Intellectual property rights, by their very nature, give a monopolistic status to the holder of the right, and so put some short-term restraints on competition in the market. However, in the long run they promote increased competition since a good deal of innovation on the part of competitors is promoted, which will lead to new, competing and substitutable products on the market.[1] On the other hand the objective of Competition Law is increased efficiency in the market and consumer welfare.

Intellectual property Law and Competition Law are the two major areas of law governing the market and promoting economic efficiency, consumer welfare, competition, innovation and technology transfer. Although they share the same objectives, the anti-competitive exercise of IPRs through unilateral or collusive conduct may adversely affect competition and innovation and in fact hinder technology transfer.

[1] Govaere, I., *The Use and Abuse of Intellectual Property Rights in E.C. Law*, (3rd edn, Sweet & Maxwell London 1999) 5

The tension between IPRs and competition policy is sought to be resolved by the competition authorities in major jurisdictions such as US and EU. The law in these countries developed and matured over the years to accommodate the interests of both innovation and competition. However, competition law and policy is in its nascent stage in India in most of the developing countries and the interface between IP law and competition policy poses a challenge to these nations especially in US, EU and India as discussed. There is also a realization among these countries that innovation is the key for flourishing of the economy. Therefore the primary concern is the precompetitive treatment and exercise of IPRs.[2]

As suggested by Hovenkamp[3], much of the confusion regarding the patent-antitrust interface stems from the lack of consensus about the optimal amount of patent protection. Antitrust restrictions on patent exploitation affect the scope and the exercise of patent rights, which in turn alters the size of patentee reward. As such, the patent-antitrust rules are an integral part in the determination of the optimal patent protection (*i.e.*, how many incentives to offer to induce innovation). At the same time, it is impossible to delineate the optimal scope of the patent-antitrust rules without placing these rules in the context of the overall determination of optimal patent protection. The patent-antitrust rules are but one of the many pieces of the puzzle.

Reconciling intellectual property and competition policy requires recognizing that intellectual property law is a form of competition policy[4].

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[2] Manpreet Kaur, '*The interface between Competition Law and Intellectual Property Rights*", < www.cci.gov.in/images/media/.../manpreet_250908_20080925094525.pdf> accessed 15 March 2014

[3] Herbert J. Hovenkamp, 'United States Antitrust Policy in an Age of IP Expansion', *in* Barry Hawk (eds), *International Antitrust Law & Policy* (Fordham Corporate Law 2004) 225, 226

[4] Shubha Ghosh, 'Competitive Baselines for Intellectual Property Systems', in Keith E. Maskus & Jerome Reichman (eds), *International Public Goods and Transfer of Technology under a globalized Intellectual Property* Regime (Cambridge University Press, 2004) 793, 795-802 (arguing that intellectual property rights and competition policy are inseparable)

The researcher shows that the interplay between Intellectual Property and Competition policy is not conflicting since Intellectual property creates monopoly for a limited period of time and competition law shall only interfere when the monopoly is missued. Intellectual property is about competition policy. Innovation occurs through competition, and intellectual property rights ensure effective, dynamic competition. This is why intellectual property rights must be defined in a way that is consistent with dynamic market competition. If constructed too strongly, intellectual property rights can interfere with competition. If constructed too weakly, intellectual property rights may not adequately resolve the market failures that bedevil markets for information. The challenge is to design rules both within intellectual property law (the substantive law of patents, copyrights, trademarks, and trade secrets) and outside intellectual property law (substantive competition law) that promote dynamic competitive markets[5]. In the United States, the Sherman Act 1890 is a matured legislation to handle anti-competitive practices. The Clayton Act 1914 prohibits mergers and price discrimination. The areas of clash between Intellectual Property Rights and Competition law like the refusal to deal, tying arrangements, patent pooling, exclusive licences being monitored by the courts to prevent such practices to protect efficiency in the market.

The European Union through Articles 101 and 102 respectively have tried to curb abuse of dominant position, imposing unfair purchase of selling prices, actions against cartels is strictly being implemented by the European Commission. The Court's attitude is that the exercise of an intellectual property right that causes or maintains the partitioning of markets will only be upheld to such an extent that the specific subject matter of the right is protected. This means that intellectual property rights have a core, the

[5] William H. Page & John E. Lopatka, *The Microsoft Case: Antitrust, High Technology and Consumer Welfare* (1st edn, University of Chicago Press, 2007) 243-44

specific subject matter that the right holder can rely on even if this hinders cross-border trade. Within the specific subject matter, which is different for all intellectual property rights and which is developed through the jurisprudence of the Court, the Community principle of free movement of goods is subordinated to the national rules[6].

India being at the growing stage after its economic liberalization is having difficulty accepting the conflict between both the laws. With liberalization, globalization and privatization it was made easier to concentrate on the aspects of competition and innovation equally. After 1991, law also kept pace with the shifting economic paradigms as was reflected by the amendments brought about in the MRTP Act. To face the newer challenges posed by a vibrant economy like India, it was important to evolve new strategies of growth while cherishing the ideals of economic democratization manifested under Articles 38 and 39(b) and (c) of the Constitution of India. Article 38 states that the State shall secure a social order for the promotion of the welfare of people. Article 39 (b) and (c) states that the ownership and control of the material resources of the community are so distributed as best to subserve the common good and the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The Competition Commission of India was established with the aim of fostering competition, preventing practices having an adverse effect on competition, protecting consumers' interests and ensuring freedom of trade by various participants in the economy. India also developed and accustomed its IP laws to be in conformity with the TRIPS agreement. However, the tussle between IPRs and competition cannot be resolved unless a clear cut policy approach is laid down by way of guidelines

[6] Beaumont, P. & Weatherill, S., *EC Law: The Essential Guide to the Legal Workings of the European Community*, (2nd edn, Penguin Books 2009) 840- 841

as was done by the United States Department of Justice and the Federal Trade Commission in the year 1995.

In India, it is the duty of the Competition Commission to eradicate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade carried on by other participants, in markets in India.

The researcher agrees with the author Debra A. Valentine in her article, “Intellectual Property and Antitrust: Divergent Paths to the Same Goal” “that the relationship between the two systems is characterised more by its accommodation than by its conflict. Both pose a divergent path to the same goal”. The researcher concludes that Intellectual property is an exception to free competition. Competition law will try to interfere only when somebody tries to extend the allowed term of protection by different means or misuse of such monopoly. The behaviour of competition law is not in conflict with intellectual property rights. Competition law is equipped to deal with the abuse of intellectual property rights. Thus, the hypothesis is disproved that Intellectual Property Rights and Competition Law as separate branches of law are necessary for a vigorous competition in the market.

The United States and the European Union have strong competition policies. In the United States both the Sherman Act 1890 and the Clayton Act 1914 prohibits anti-competitive and abusive actions and prohibits mergers and price discrimination targeted to market distortions. There are issues involving unilateral refusal to license, tying arrangements, exclusive licences, patent pooling which might lead to distortion in the competition. On the other hand in the European Union, Article 101 and 102 of the European Union treaty prohibits trade between states that restrict competition. Cartelisation and abuse of dominant position are strictly prohibited.

Looking at India, Competition Act 2002 came after repealing the Monopolies and Restrictive Trade Practices Act. The underlying objective behind creation of the Competition Act was to curb the practices which eliminate competition in the market. Section 3 of the Act deals with anti-competitive practices which exempts IPR from its application. Section 4 deals with abuse of dominant position. India is at a growing stage to comprehend the interplay between intellectual property and competition law.

The researcher after looking into the United States scenario comes to the conclusion that US courts are more favourable to intellectual property protection when compared in promoting competition in the market, the major issues being the abuse of dominant position, refusal to license, tying arrangements etc.

7.1 The European Union scenario

In the European Union framework, the accommodation between competition law and IPRs tend to occur within the general doctrines of competition law. There are limited examples of IPRs being treated as a special form of property. The example is the 'exceptional circumstances' test embedded in Article 102. This doctrine includes that normal exercise of IPRs will not abuse a dominant position. In extreme cases when IPRs are used unjustifiably by their highly dominant owners to exclude competitors from market is when the Competition law of EU starts intervening.

Article 102 also provides a more typical form of accommodation to the exercise of IPRs in the logic of its concept of dominance. The researcher has pointed out earlier that attainment of dominance is not unlawful. The competition law in the European Union accepts that achievement by market dominance by organic growth including investment in R&D and intellectual property rights protection is a legitimate course of conduct for a firm.

The accommodation with IPRs in the new TTBER Guidelines occurs almost entirely with the logic of competition law. The 2004 IP Guidelines do not state explicitly that IP protected products are treated as any other form of property rights, as did the US Guideline in 1995. An analysis of the same makes it clear that there is little special treatment for IPRs under Article 101. The Guidelines have accepted that great majority of licensing agreements are pro-competitive and compatible with Article 101[7]. Finally, the Commission also acknowledges that technology licensing may require the licensee to make considerable sunk investments in the licensed technology and production assets necessary to exploit it.[8]

Looking into the judicial pronouncements, the ECJ has pointed out that existence of monopoly power under IP rights is not a breach of EU Competition Law.

As early as in 1968, Art 82 (presently Article 102), could be applied to the use of IP rights as long as the relevant conditions relating to the operation of the article were in place- the fact that an undertaking holds an IP right does not necessarily mean that it is dominant. The Court in Parke Davis & Co. v Probel, Reese, Beintema-Interpharm and Centrapharm[9], the ECJ held thsat to charge a price for a patented item than a non-patented item was not an abuse of dominant position but in confirming that Art. 82 could be applied to the exploitation of IP rights.

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[7] TTBER Guidelines, para 9
[8] Id, para 8
[9] 24/67[1968] CMLR 47

Looking into Tetra Pak I[10], the EC Commission condemned the acquisition of a license to intellectual property in an area where the undertaking in question was already dominant. On the other hand in Sirena v Eda[11], the Court held that holding of intellectual property does not necessarily confer dominant position as it may be the case that the relevant market encompasses products, services, or processes other than the one for which the right is held.

The Magill[12] judgment was criticized by a number of competition and intellectual property lawyers, and it is generally considered to be 'exceptional', although it is not doubted that it remains a good law. Despite this the Commission took an interim measures decision in relation to the use of intellectual property in German law. The CFI in this case was very clear that would be appropriate to compulsorily license intellectual property in response to an alleged breach of Art 82:

It is important to recall that the public interest in respect for property rights in general and for intellectual property rights in particular is expressly reflected in Articles 30 and 295 EC. The mere fact that the applicant has invoked and sought to enforce its copyright in the 1860 brick structure for economic reasons does not lessen its entitlement to rely upon the exclusive right granted by national law for the very purpose of rewarding innovation. In the present case, where there is, on the face of it, a clear public interest underlying the applicant's effort to enforce and profit from the specific subject matter of its copyright in the 1860 brick structure, the inherently exceptional nature of the power to adopt interim measures would normally require that conduct whose termination or amendment is targeted by such measures fall clearly within the scope of the Treaty competition rules.

[10] 88/501 (1988) OJ L272/27
[11] 40/70 [1971] ECR 69, Para 16
[12] C 241 and 242/91P [1995] 4CMLR 418

However, the characterization of the refusal to license at issue in the present proceedings as abusive turns, prima facie, on the correctness of the Commissions's interpretation of the case law concerning the scope of 'exceptional circumstances'. It is this case law which explains the clearly special situations in which the objective pursued by Art. 82 EC may prevail over that underlying the grant of intellectual property rights. In this context, where the abusive nature of the appellant's conduct is not unambiguous having regard to the relevant case law and where there is a tangible risk that it will suffer serious and irreparable harm if forced, in the meantime, to license its competitors, the balance of interests favours the unimpaired preservation of its copyright until the judgment of the main action[13].

Further in NDC Health Corporation v IMS Health Inc and Commission [14] case, regarding refusal to license, the ECJ had justified that: (1) the refusal prevented the emergence of a new product for which there was demand; (2) the refusal was unjustified; and (3) refusal would exclude competition on a secondary market.

The ECJ while dealing with the issue of compulsory licensing in Microsoft [15] case, noted in para 204 that it was not the Commissions 'intention to order Microsoft to disclose its source code to its competitors'. The Microsoft judgment was a landmark judgment in terms of intellectual property versus competition law in the US. Microsoft violated the competition laws by not disclosing its interoperability information to competitors which is necessary to operate with Microsoft's dominant PC operating systems.

[13] Para 143-4

[14] C-481/01 P ® [2002]5CMLR 1

[15] 2007/53/EC (2007) OJ L32/23

The cases discussed above relate to the extreme position in which the compulsory licensing has been raised, the situation more normally encountered continues to be that in which it is the exercise of IP rights that is curtailed by the application of competition law, although there are few cases relating to the process of applying for IP rights and the management of the IP systems. Thus the use of patents and related IP rights to partition the market was condemned by the EC Commission in Astra Zeneca plc[16] with the Astra Zeneca group being fined 60 million pounds in respect of various infringements related to the marketing of an anti-ulcer medicine, Losec.

The essential facilities doctrine was discussed by the ECJ in Bronner[17], Volvo[18], Renault[19], Magill[20], Microleader[21] and IMS Health[22] cases. The Magill and IMS Health cases has specifically put conditions for refusal to license an IPR that covers indispensable input for competitors.

The provisions in the European Commission treaty relating to the free movement of goods or intellectual property are Art 28 which provides that quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States. However, Art 30 provides some exceptions to this general principle. It states that the provisions of Art 28…..shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of…industrial and commercial property. Such prohibition or

[16] 2005/1757/EC, decision of 15 June 2005
[17] Oscar Bronner v Mediaprint [1998] ECR 1 7791
[18] Volvo v Veng [1988] ECR 6211
[19] ConsorzioItaliano Della Comonenetistica Di RicambioPer-Autiveicoli and Mexicar v RegieNationale Des Usiness Renault (case 53/87) [1990] FSR 544; [1988] ECR 6039.
[20] Micro Leader Business v Commission Case T-198/98 [2000]4 CMLR886
[21]Comp D3/38.044- NDC Health/IMS Health: Interim Measures, Commission Decision of 3rd July 2001
[22] Micro Leader Business v Commission (T-198/98) [1999] ECR II- 3989; [2000] 4CMLR 886.

restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

Art 30 expressly allows restrictions based on the assertion of IP rights, as long as such restrictions do not amount to 'arbitrary discrimination or a disguised restriction on trade between member States'. The ECJ has thus developed a line of cases which significantly restricts the ability of the holders of IP rights to exercise those rights in a way which divides the internal market. The ECJ has drawn a distinction between 'existence' of IP right and the 'exercise' of that right which the researcher finds to be an uncomfortable distinction. The ECJ in Consten and Grundig v Commission[23], the Court held that:

Article 30….cannot limit the field of application of Article 81(presently Article 101). Article 295 confines itself to stating that the "Treaty shall in no way prejudice the rules in Member States governing the system of property ownership'. The injunction contained in………the contested decision to refrain from using rights under national trademark law in order to set an obstacle in the way of parallel imports does not affect the grant of those grants of those rights but only limits their exercise to the extent necessary to give effect to the prohibition under Article 81(1)[24].

In Deutsche Grammophon v Metro[25], the distinction between the existence and the exercise of an IP right was discussed. The interface of Intellectual Property rights and Competition Law has grown enormously because of the expansion and strengthening of intellectual property at a large scale. Two main concerns dominate this IPR competition law interface which is the potential abuse of monopoly pricing, especially in developing countries

[23] Case 56 and 58/64 [1966] 1 CMLR 418

[24] Para 50

[25] [1971] CMLR 631

where effective substitutes to IPR-protected products may not be readily available.[26] As Mario Monti[27] has rightly pointed out: "It is a long standing topic of debate in economic and legal circle: how to marry the innovation bride and the competition groom".

7.2 The United States scenario

The United States Antitrust Law had enacted the Sherman Antitrust Act, 1890. Later the enactment of the Clayton Act 1914, Federal Trade Commission Act 1914 and the Robinson Patman Act 1936, the competition law has attained new dimensions.

At the federal level, it has long been recognized that antitrust and intellectual property rights encourage innovation but by different means which can conflict. Intellectual property rights grants monopoly whereas antitrust promotes competition. Moreover, intellectual property is mainly concerned with longer term a benefit than antitrust which is mainly concerned with price and output, its policy focuses on short term effects of strategic conduct.

Antitrust and IP laws have historically been in and out of relative prominence. In the earlier years of the interplay between both the laws, the IP laws arguably won out as the courts excused conduct extending the scope of patent rights beyond its appropriate bounds. Later, antitrust bounced back with revenge, condemning per se unlawful what would now be considered relatively innocuous product.

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[26] L. Peeperkorn, "IP Licences and Competition Rules: Striking the Right Balance", World Competition Policy, Vol. 26, (2003), 527

[27] European Commissioner for Competition Policy, January 2004

Modern US antitrust law dates back to the last years of the nineteenth century and cases reconciling IP with antitrust date back only to the first decade or two of the twentieth. The United States jurisprudence reveals that US Courts are more favourable to intellectual property protection when compared in promoting competition. The researcher has shall look into the US Courts antitrust scrutiny in the intellectual property rights.

In the 1910s, the SC had initially approved the practice of tying a patent license to the purchase of an unpatented product in a case where the producer of a rotary mimeograph included a license restriction that the licensee purchase pencils, paper, ink, and other products only from the manufacturer[28]. But five years later in Motion Picture Patents Co v Universal Film Manufacturing Co.[29], the Court had rebuked a licensing provision requiring operators of motion picture projection to screen film only produced by the manufacturer.

With regard to patents, in Simpson v Union Oil Co.[30], the SC declared that 'the patent laws ….are in pari materia with the antitrust laws and modify them pro tanto. The SCM decision held that 'where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the anti-trust laws'. In cases like U.S v E.I. Du Pont de Nemours & Co.[31] and U.S v Microsoft Corporation[32], the monopoly power was discussed by the court. In Image Technical Services v Eastman Kodak Co.[33] , the court held that exploiting dominant position in one market to expand the empire into another is violative of section 2 of the Sherman Act. The Court aptly held that neither the aims of intellectual property nor antitrust law justify

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[28] Henry v Dick 224 US (1912)
[29] 243 US 502, 37 Cr 416 (1917)
[30] 377 U.S. 13, 24 (1964)
[31] 351 US 377
[32] 253 F 3d 34, 51 (D.C. Cir 2001)
[33] 125 F 3d 1195, 1218 (9^{th} Cir 1997)

allowing a monopolist to rely on a business justification to mask anti-competitive practice.

The law on the antitrust treatment of IP licensing practices generally breaks down into two areas: allegedly anticompetitive conduct arising from the unilateral or concerted refusal to issue a license, or allegedly anti-competitive conduct arising from a particular licensing arrangement. In the former category, it deals with the refusal to deal outside the IP context. Claims from the latter usually stem from some restriction in the license on conduct outside use of protected IP.

Unilateral refusal to license IP suggests the limited areas where IP holders should be circumspect when denying a license to a rival. In Data General Corp v Grumman Systems[34], the first circuit had created a rebuttal presumption that unilateral refusal to license are lawful. In Image Technical Services v Eastman Kodak Co[35], the Ninth circuit created a similar assumption but modified it slightly to emphasize that the presumption would not rest on 'formalistic distinctions' but would be based on actual market reality and would focus the fact finder on….the primary interest of both intellectual property and antitrust laws: public interest'. In Re Independent Service Organization Antitrust Litigation[36], the Federal Circuit rejecting the First and Ninth Circuit's middle road approach held that in the absence of any illegal tying, fraud in the Patent and Trademark office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws.

[34] 36F3d 1147, 1187 (US Ct of Apps (1st Cir), 1994
[35] 125 F3d 1195, 1218 (US Ct of Apps (9th Cir), 1997)
[36] 203 F3d 1322, 1327 (US Ct of Apps (Fed Cir) 2000

The US Supreme Court went on to say that Licensing restrictions cannot be put in such a way that it substantially reduces the market and creates a monopoly. In Atari Games Corp. Case[37], the Court made it clear that both IP rights and antitrust law provide incentives for scientific advances and commercializations of inventions and creative works, both promote consumer welfare. However, when licensing fails, some intellectual property rights owner have collaborated to enforce their rights in a confrontational manner. In Originators Guild of America v FTC[38], the Supreme Court held that "even if copying were an acknowledged tort under the law of the state, the situation would not justify petitioners in combining together to regulate and restrain interstate commerce".

Tying closely resembles the patent misuse cases where the sale of a license is conditioned on purchase of some good or service that is not covered by the relevant IP. The Courts in US require plaintiffs to meet four elements to succeed on a per se tying claim: (1) the existence of two separate products; (2) sale conditioned on purchase of something else; (3) market power sufficient to restrain the tied market; and (4) an effect on a 'not substantial amount' of interstate commerce. In United States v Loew's[39], the court had claimed that a related claim is bundled licensing which is generally permissible as long as there is no conditioned sale. However in US Philips Corp v ITC[40], simply bundling related patents together without any restriction or requirements regarding use will likely not warrant per se treatment.

Patent pooling involves whether pooled patents involve 'blocking patents' or competing patents. A patent pool with a set of royalty is akin to price fixing. However, with blocking patents, the courts have realized since the early days of

[37] Atari Games Corp. v Nintendo of America, Inc 897 F 2d 1572; 1576 (Fed Cir 2006)
[38] 312 U.S. 457 (1941)
[39] 371 US 38, 83 S Ct 97 (1962)
[40] 424 F3d 1179 (US Ct of Apps (Fed Cir), 2005)

the IP licensing antitrust law that such arrangements are pro-competitive and essential to clear up the patent thickets. The Princo case mentioned earlier, involves several issues relevant to the antitrust treatment of patent pools. The Federal circuit found that, while such conduct could conceivably represent an antitrust violation, it does not represent a viable patent misuse defence in an infringement action. In another case[41] patent pools that serve to retard innovation can be challenged.

In cases of copyright, the exclusive right to copy includes more than protection from making of identical duplicates such as photo or digital copies. It also prohibits others from making 'substantially similar' reproductions, whether 'by imitation or simulation'. The well known Sega Enterprises Ltd. v Accolade Inc.[42] involved reverse engineering and with it, copying in order to identify application program interfaces (APIs) which the defendants needed to write game programs that would run on the SEGA system. The Court determined that Accolade's copying did not infringe SEGA's copyright in the operating system, noting that Accolade's games competed directly with those of SEGA and its licensees.

7.3 Indian scenario

India also developed and accustomed its IP laws to be in conformity with the TRIPS agreement. One can easily infer that equal drive on innovation and competition is a matter economic expediency for India. However, the tussle between IPRs and competition cannot be resolved unless a clear cut policy approach is laid down.

[41] United States v Automobile Mfg Association 307 F Supp 617 (US Dist Ct (CD Cal), 1969

[42] 977 F.2d 1510

The Competition Act 2002 explicitly points out exceptions in favour of the exercise of intellectual property rights in Section 3(5) of the Act[43]. Looking into Section 3 of the Indian Competition Act which prohibits anti-competitive agreements between enterprises and lists out the conduct which is deemed to have a harmful impact on competition which includes – determining purchase or sale prices, limiting production or supply, allocating geographic markets or product market, bid rigging or collusive bidding etc. However, the exception as created by clause (5) of the section reflects the policy of striking a balance between the legitimate interests of IPR holders and competition in the market.

The advanced countries and major trading nations like US and EU have taken recourse to tools such as compulsory licensing in order to mitigate the impending perils of abusive conduct of dominant enterprises. The applicability of such a provision in India cannot be precluded since the Indian Patent Act makes an explicit provision for compulsory licensing. This would be more relevant in the field of pharmaceuticals where competition in the generic drugs may be foreclosed by dominant undertakings. The researcher concludes that compulsory licences can be used, both in the context of IPRs and of competition laws, to remedy anti-competitive practices. Article 31(k) of the TRIPS Agreement, explicitly provides for the granting of such licences

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[43] Nothing contained in this section shall restrict –

i. the right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of his rights which have been or may be conferred upon him under –
    a) the Copyright Act, 1957
    b) the Patents Act, 1970
    c) the Trade and Merchandise Marks Act, 1958 or the Trade Marks Act, 1999
    d) the Geographic Indications of Goods (Registration and Protection) Act, 1999
    e) the Designs Act, 2000
    f) the Semi-conductor Integrated Circuits Layout-Design Act, 2000
ii. the right of any person to export goods from India to the extent to which the agreement relates exclusively to the production, supply, distribution or control of goods or provision of services for such export.

in the case of patents.[44] It is pertinent to mention that the power to enact laws on compulsory patent licensing arises from several international agreements such as the World Intellectual Property Organization (WIPO) Paris Convention for the Protection of Industrial Property,[45] the relevant provisions of which were incorporated into the World Trade Organization (WTO) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

TRIPS provide flexibility to the Member States to solve the difficulties resulting in potential conflict between competition policy and IP law. Articles 8, 31 and 40[46] deserve a special mention. Members may "adopt measures necessary to protect public health and nutrition and to promote the public interest in sectors of vital importance to their socio-economic and technological development."[47]

Further, TRIPS handles compulsory licenses as an exception to the agreement's minimum requirement that all Member States afford a patentee a right of exclusivity during the complete patent term. TRIPS lay down a set of

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[44] Carlos M. Correa, '*Intellectual property and Competition law – exploring some issues of relevance to developing countries',*(2007) <http://www.iprsonline.org/resources/docs/corea_Oct07.pdf > accessed 5 March, 2010

[45] Paris Convention, Article 5, states that "[e]ach country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work."

[46] The following part of Article 40 is relevant for our purpose -

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grant back conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member. Available at http://www.wto.org/english/tratop_e/trips_e/t_agm3d_e.htm#8 accessed on March 10, 2010.

[47] Article 8 of TRIPS

circumstances that establish a floor at which any Member State is allowed to issue compulsory license. The compulsory licenses that are allowed fall into two categories—where there is an overriding public interest or where the patent rights are being used in an anti-competitive manner. In the realm of national laws, following are the examples that specify when compulsory licenses can be issued:

- Refusal to enter into a voluntary licensing agreement on reasonable commercial terms;
- Public interest;
- Public health and nutrition;
- National emergency or situation of extreme urgency;
- Anti-competitive practices on the part of patent holders;
- Dependent patents;
- No or insufficient working of the invention in the national territory.

Thus, it is evident that compulsory licensing can potentially combat some of the most insidious circumstances including anti-competitive practices. India can undoubtedly enact and develop its laws to suit the peculiar requirements. The Competition Commission of India may use the potent tool of compulsory licensing to countervail the harmful effect of IPRs on competition. This approach must be subject to the TRIPS provisions which entail that the compulsory license should be issued on the basis of individual merits and the IPR holder must be appropriately remunerated etc. Therefore India can fully use the flexibilities allowed by the TRIPS Agreement to determine the grounds for granting compulsory licences to remedy anti-competitive practices relating to IPRs.

Further, the doctrine of “essential facilities” can be made to apply in India to combat abusive conduct of dominant enterprises. Developing countries like India may draw interesting lessons from the application of the concept of refusal to deal, essential facilities, block booking and royalty stacking doctrine in developed countries.

However, there are no rigid models and developing countries can elaborate their own approaches on the matter in order to respond to their public interests. In countries like US and EU the essential facilities doctrine has been used as a potent tool for granting of compulsory licences so as to allow third parties to have access to IP protected products and technologies. The vast array of case laws that has developed in this area throws light on some of the conditions and circumstances under which the doctrine of essential facilities is applied to IPRs. [48] The most frequently enunciated pre-requisites are refusal to deal without any objective justification; exclusion of competition in secondary market by denying access to essential facilities which are deemed to be industry standards and are indispensable for producing new goods for which there is consumer demand; extending and perpetuating monopoly in other markets in ways different from normal development of monopoly power (example – unlawful tying).

Under the India law, these could fall within the ambit of Section 4. The Competition Act, 2002 (Section 4) prohibits the abuse of dominance by enterprises. Section 4(2) (c) articulates that abuse of dominant position consists in indulging in practice(s) resulting in denial of market access. Further, section 4(2) (e) expatiates that such abuse could also be in the form of using the dominant position in one relevant market to enter into, or protect, other relevant market. These provisions are very much in line with the principles adopted by EU and US courts in cases involving refusal to deal and essential facilities. However, India can evolve its own principles with regard to application of essential facilities doctrine without dampening the

[48] Supra note 2

growth of innovation and enterprise. India could also adopt the EU approach wherein the law casts a general duty upon dominant firms to supply the essential facilities to competitors (unlike US)[49].

In some cases, even if the facilities are not "essential" the denial of access by a dominant firm is nonetheless scrutinized from the perspective of abusive conduct, considering its impact on competitors in secondary market. The essence lies in adopting the "rule of reason" approach with regard to cases involving "refusal to deal", which would lend flexibility to the application of essential doctrine. Pertinently, in India, S.4 (2) (e) of the Competition Act is the vanguard for preventing abusive conduct by IP owners and ushering competition in secondary markets.

The analysis of the scope of competition law and IP laws reveals certain factors that can be used for determination of unreasonable use of IPRs. The researcher proposes that the primary determinants of abuse of IPRs could be excessive pricing and accessibility of goods and services. The secondary determinants of abuse of IPRs could be market sharing, unfair contract terms and dominance leverage. There are certain IP management practices which have more pro-competitive effects than anti-competitive effects. Nevertheless, such practices may also come under the purview of competition law. These are patent pools, cross-licensing, field of use licences and the standard setting process. Jurisdictions such as the United States, European Union, Japan and Singapore have adopted guidelines relating to these practices. Development of guidelines related to antitrust treatment of IP licensing under the Indian Competition Act would help clarify these areas[50].

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[49] Ibid

[50] Ravikant Bharadwaj, KD Raju and M. Padmavati, 'Determining unreasonable use of intellectual property rights in anti-competitive agreements in India' (2013) I.C.C.L.R. 2013, 24(6), 231-238

In India, it is the duty of the Competition Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade carried on by other participants, in markets in India. The obligation to grant compulsory licence and to adjudge the status of an invention vis-à-vis s.3 (d) of the Indian Patent Act 1970 has been entrusted to the Controller of Patents, Design and Trademarks. The Controller, under the Indian Patent Act 1970, is the creature of the statute. As every enquiry brings forth a new riddle to the fore, a possible conundrum which further needs to be addressed is the enquiry into the jurisdiction of the appropriate forum in India for redressal of the abuse of patent rights in an anti-competitive way[51].

In a country like India, both IPR and antitrust regimes are in a state of infancy, thus jurisprudence in respect of the relationship between them has not really been thought of. The SVS Raghavan Committee in the light of the TRIPS Agreement recommended that apart from private companies in India, the State monopolies, government procurement and foreign companies should be subject to competition law. It prohibits collusive anticompetitive agreements, abuse of dominance, and mergers among enterprises. The same has been incorporated in the Act.

The winds of change shall fetch a new set of challenges with regard to clashes in overlapping zones of IPR and competition law and it is relevant for developing nations like India who are at the verge of cutting edge technology to protect their innovations and also be deal with the upcoming economic strategies in the garb of protective competition.

[51] Tapas Kumar Bandhopadhyay and Saurav Bindal, 'Managing competition: scrutinizing the Indian Patent Act 1970' (2012) E.C.L.R., 33(2), 100-104

7.4 Suggestions

In the light of the above deliberations, the researcher would like to extend her suggestions to the Competition Commission of India which are as following:

- First of all, the conditions of abuse of IPR and violation of competition law like abuse of dominant position, exclusive licensing agreements, tie-ins, duty to supply where access was essential, block booking, royalty stacking and patent pooling should be clearly defined Intellectual Property Laws in order to punish the competition law violators. The US approach is that of treating IPRs at par with other property rights. This seems to be a practical option for India as well since it lends simplicity to the application of competition laws.

- The competition law and intellectual property rights are for the welfare of the consumers. Both the laws share the same economic rationale. They are both important for the establishment of competitive and innovative markets. This concept should be included in the respective Acts.

- Since the Indian Courts have been relying on the judgments of the EU and US in absence of a clear definition of the term "abuse of Intellectual property rights" in the Competition Act the researcher proposes the definition of "abuse of Intellectual property rights" as "abuse of dominant position, exclusive licensing agreements, tie-ins, duty to supply where access was essential, block booking, royalty stacking and patent pooling".

- Licensing should not be used as a means to abuse the market and thereby affect healthy competition. It should never be used as a method to restrict competition for undue benefits and must be considered as 'abuse of IPRs'.

- Competition Act does not include high prices as abuse of dominant position. In this regard, Section 4(2) (a) (ii) of the Competition Act, 2002 should be amended so as also to include high prices. High prices not related to any objective criteria is the essence of exploitation and fair price should be ensured through in IPR protected products through competition policies. Excessive prices may be a means of unhealthy competition and should be strictly dealt by the CCI.

- Tying arrangements are restrictive practices and should be strictly dealt under the competition provisions. Tying practices involves several factors such as the objective behind selling the product, the inter-relation between tying and tied product, the amount at which the transaction is made and its probable effects on the market. These factors should be taken into consideration by the CCI.

- Patent pooling may go against competition law and will allow the process to be locked making it difficult for new entrants to enter into the market. The patent pooling is likely to attract anti-trust litigation if the licensing arrangements and agreements under it have an appreciable adverse effect on competition.

- The CCI should deal with unreasonable and unjustifiable grounds of refusal to license very strictly and this should be considered as anti-competitive. The three conditions must be taken into consideration by the CCI such as the refusal to license must prevent the competitor offering a new product on the secondary market for which there is a potential demand, further, the refusal must not have an objectionable justification and finally the refusal must reserve to the owner of the IPR of the market for the supply of a secondary product in the member State concerned by eliminating all competition on that market.

- The guidelines could list out the anti-competitive conduct of IP owners under a "per se" category. This would enable the holders of IPRs to exercise their rights in a manner which is harmonious with competition policy. If the conduct which is per se illegal and anti-competitive is listed out by the Commission in its guidelines, it may lead to reduction in the number of cases falling foul of the competition laws.

- The exemption in favour of 'agreements in research and development', on the lines of EU exemption may go a long way in encouraging innovation whilst maintaining healthy competition in the market. India can adopt the block exemption for research and development in the lines of EU by adopting certain guidelines.

- In technology areas, exhaustion principle may be seriously applied so that the seller cannot put unreasonable conditions on the purchaser after selling the product. Further, technology transfer guidelines should be adopted in India to watch that acquiring of IPR is not to strengthen the exclusive monopoly power in the market.

- The definition of market could be bifurcated into markets for goods, services and technology or innovation. This would reduce the complexity and enable the Commission to address situations in which

IP is used to charge excessive prices for or prevent access to protected technologies.

- The impact of IPRs on the market substantially varies depending upon the legal and socio-economic contexts in which they apply. Thus, the static-dynamic efficiency rationale applicable to a developed country does not necessarily hold in low income countries. High levels of IPR protection may have significant negative distributive consequences in the latter without contributing or even impeding their technological development. Thus, the Competition Commission can legitimately give static efficiency precedence over dynamic efficiency considerations and challenge, for instance, situations of excessive pricing emerging from the exercise of IPRs.

- Compulsory licensing should be meticulously used as a tool by the Controller of Patent for any patented product on public interest invoking Section 84 of the Patents Act, 1970. The patentee must make the patented invention available to the public at a reasonable price under Section 84(1)(b) 84(2) of the Patents Act, 1970. Section 84(7)(a)(ii) of the Patents Act, 1970 states that in the case of grant of license, it should be in 'reasonable' terms and price which will maintain healthy competition in the market.

- The remedy also lies in the Patent Act, 1970 since if the patent right is abused by the patentee in order to increasingly restraint the trade and transfer of technology, the Controller of patents can take actions under Section 83 of the Patents Act, 1970. The Controller should also consider taking into account the anti-competitive practices by the patentee while dealing with the restraint of trade.

- Section 140 of the Patents Act, 1970 states that licensing agreement contains conditions restricting the freedom of purchasing non-patented article from any other source as illegal has to be considered as anti-competitive and should also be categorically incorporated into the Competition Act, 2002.

- The provisions for prohibiting practices such as “royalty stacking” should be included in the Competition Act, 2002 by taking lessons from the Micromax Case.[52]

The recently announced National IPR Policy by the Department of Industrial Promotion and Policy, Government of India[53] has pointed out that it is the need of the hour to defend India's interest to hold a robust ground in the world of competition. The policy seeks to strengthen the existing laws and offers for an effective legal system for the protection, promotion and interface between IPRs and Competition laws. These broad objectives of the National IP Policy are in alignment with the researcher’s concluding remarks in the thesis.

The above suggested measures given by the researcher if taken into consideration by the policy makers and adopted by the Regulatory body would lead to a healthy market and it is important, particularly for developing nations like India who are at the threshold of cutting age technology to protect their innovations and be able to handle the onslaught of economic policies in the name of healthy competition.

[52] Case no 50/2013 of Competition Commission of India

[53] <http://dipp.nic.in/English/Schemes/intellectual_property_rights.aspx> accessed 27 September 2016

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THE COMPETITION ACT, 2002

(12 OF 2003)

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MISCELLANEOUS

THE COMPETITION ACT, 2002[1]
No. 12 OF 2003

[13th January, 2003.]

An Act to provide, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto.

BE it enacted by Parliament in the Fifty-third Year of the Republic of India as follows:—

CHAPTER I
PRELIMINARY

Short title, extent and commencement

1. (1) This Act may be called the Competition Act, 2002.

(2) It extends to the whole of India except the State of Jammu and Kashmir.

(3) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint:

Provided that different dates may be appointed for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision.

Definitions

2. In this Act, unless the context otherwise requires,—

(a) "acquisition" means, directly or indirectly, acquiring or agreeing to acquire—

(i) shares, voting rights or assets of any enterprise; or

(ii) control over management or control over assets of any enterprise;

(b) "agreement" includes any arrangement or understanding or action in concert,—

(i) whether or not, such arrangement, understanding or action is formal or in writing; or

(ii) whether or not such arrangement, understanding or action is intended to be enforceable by legal proceedings;

[2][(ba)"Appellate Tribunal" means the Competition Appellate Tribunal established under sub-section (1) of Section 53A"]

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[1] The following Act of Parliament received the assent of the President on the 13th January, 2003

[2] Ins. by Competition (Amendment) Act, 2007

(c) “cartel” includes an association of producers, sellers, distributors, traders or service providers who, by agreement amongst themselves, limit, control or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services;

(d) “Chairperson” means the Chairperson of the Commission appointed under sub-section (1) of section 8;

(e) “Commission” means the Competition Commission of India established under sub-section(1) of section 7;

(f) “consumer” means any person who—

(i) buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised, or under any system of deferred payment when such use is made with the approval of such person, whether such purchase of goods is for resale or for any commercial purpose or for personal use;

(ii) hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such services other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first-mentioned person whether such hiring or availing of services is for any commercial purpose or for personal use;

(g) “Director General” means the Director General appointed under sub- section (1) of section 16 and includes any Additional, Joint, Deputy or Assistant Directors General appointed under that section;

(h) “enterprise” means a person or a department of the Government, who or which is, or has been, engaged in any activity, relating to the production, storage, supply, distribution, acquisition or control of articles or goods, or the provision of services, of any kind, or in investment, or in the business of acquiring, holding, underwriting or dealing with shares, debentures or other securities of any other body corporate, either directly or through one or more of its units or divisions or subsidiaries, whether such unit or division or subsidiary is located at the same place where the enterprise is located or at a different place or at different places, but does not include any activity of the Government relatable to the sovereign functions of the Government including all activities carried on by the departments of the Central Government dealing with atomic energy, currency, defence and space.

Explanation.-For the purposes of this clause,—

(a) “activity” includes profession or occupation;

(b) “article” includes a new article and “service” includes a new service; (c)“unit” or “division”, in relation to an enterprise, includes

(i) a plant or factory established for the production, storage, supply, distribution, acquisition or control of any article or goods;

(ii) any branch or office established for the provision of any service;

(i) “goods” means goods as defined in the Sale of Goods Act, 1930 (3 of 1930) and includes—

(A) products manufactured, processed or mined; (B)debentures, stocks and shares after allotment;

(C) in relation to goods supplied, distributed or controlled in India, goods imported into India;

(j) “Member” means a Member of the Commission appointed under sub- section (/) of section 8 and includes the Chairperson;

(k) “notification” means a notification published in the Official Gazette; (l) “person” includes—

(i) an individual;

(ii) a Hindu undivided family; (iii) a company;

(iv) a firm;

(v) an association of persons or a body of individuals, whether incorporated or not, in India or outside India; or

(vi) any corporation established by or under any Central, State or Provincial Act or a Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956);

(vii) any body corporate incorporated by or under the laws of a country outside India;

(viii) a co-operative society registered under any law relating to cooperative societies;

(ix) a local authority;

(x) every artificial juridical person, not falling within any of the preceding sub-clauses;

(m) “practice” includes any practice relating to the carrying on of any trade by a person or an enterprise;

(n) “prescribed” means prescribed by rules made under this Act;

(o) “price”, in relation to the sale of any goods or to the performance of any services, includes every valuable consideration, whether direct or indirect, or deferred, and includes any consideration which in effect relates to the sale of any goods or to the performance of any services although ostensibly relating to any other matter or thing;

(p) “public financial institution” means a public financial institution specified under section 4A of the Companies Act, 1956 (1 of 1956) and includes a

State Financial, Industrial or Investment Corporation;

(q) "regulations" means the regulations made by the Commission under section 64;

(r) "relevant market" means the market which may be determined by the Commission with reference to the relevant product market or the relevant geographic market or with reference to both the markets;

(s) "relevant geographic market" means a market comprising the area in which the conditions of competition for supply of goods or provision of services or demand of goods or services are distinctly homogenous and can be distinguished from the conditions prevailing in the neighbouring areas;

(t) "relevant product market" means a market comprising all those products or services which are regarded as interchangeable or substitutable by the consumer, by reason of characteristics of the products or services, their prices and intended use;

(u) "service" means service of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial matters such as banking, communication, education, financing, insurance, chit funds, real estate, transport, storage, material treatment, processing, supply of electrical or other energy, boarding, lodging, entertainment, amusement, construction, repair, conveying of news or information and advertising;

(v) "shares" means shares in the share capital of a company carrying voting rights and includes—
   (i) any security which entitles the holder to receive shares with voting rights;
   (ii) stock except where a distinction between stock and share is expressed or implied;

(w) "statutory authority" means any authority, board, corporation, council, institute, university or any other body corporate, established by or under any Central, State or Provincial Act for the purposes of regulating production or supply of goods or provision of any services or markets therefor or any matter connected therewith or incidental thereto;

(x) "trade" means any trade, business, industry, profession or occupation relating to the production, supply, distribution, storage or control of goods and includes the provision of any services;

(y) "turnover" includes value of sale of goods or services;

(z) words and expressions used but not defined in this Act and defined in the Companies Act, 1956 (1 of 1956) shall have the same meanings respectively assigned to them in that Act.

CHAPTER II

PROHIBITION OF CERTAIN AGREEMENTS, ABUSE OF DOMINANT POSITION AND REGULATION OF COMBINATIONS

Prohibition of agreements

Anti-competitive agreements

3. (1) No enterprise or association of enterprises or person or association of persons shall enter into any agreement in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition within India.

(2) Any agreement entered into in contravention of the provisions contained in subsection (1) shall be void.

(3) Any agreement entered into between enterprises or associations of enterprises or persons or associations of persons or between any person and enterprise or practice carried on, or decision taken by, any association of enterprises or association of persons, including cartels, engaged in identical or similar trade of goods or provision of services, which—

(a) directly or indirectly determines purchase or sale prices;

(b) limits or controls production, supply, markets, technical development, investment or provision of services;

(c) shares the market or source of production or provision of services by way of allocation of geographical area of market, or type of goods or services, or number of customers in the market or any other similar way;

(d) directly or indirectly results in bid rigging or collusive bidding,

shall be presumed to have an appreciable adverse effect on competition:

Provided that nothing contained in this sub-section shall apply to any agreement entered into by way of joint ventures if such agreement increases efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services.

Explanation.—For the purposes of this sub-section, “bid rigging” means any agreement, between enterprises or persons referred to in sub-section (3) engaged in identical or similar production or trading of goods or provision of services, which has the effect of eliminating or reducing competition for bids or adversely affecting or manipulating the process for bidding

(4) Any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, including—

(a) tie-in arrangement;

(b) exclusive supply agreement;

(c) exclusive distribution agreement;

(d) refusal to deal;

(e) resale price maintenance,

shall be an agreement in contravention of sub-section (1) if such agreement causes or is likely to cause an appreciable adverse effect on competition in India.

Explanation.—For the purposes of this sub-section,—

(a) "tie-in arrangement" includes any agreement requiring a purchaser of goods, as a condition of such purchase, to purchase some other goods;

(b) "exclusive supply agreement" includes any agreement restricting in any manner the purchaser in the course of his trade from acquiring or otherwise dealing in any goods other than those of the seller or any other person;

(c) "exclusive distribution agreement" includes any agreement to limit, restrict or withhold the output or supply of any goods or allocate any area or market for the disposal or sale of the goods;

(d) "refusal to deal" includes any agreement which restricts, or is likely to restrict, by any method the persons or classes of persons to whom goods are sold or from whom goods are bought;

(e) "resale price maintenance" includes any agreement to sell goods on condition that the prices to be charged on the resale by the purchaser shall be the prices stipulated by the seller unless it is clearly stated that prices lower than those prices may be charged.

(5) Nothing contained in this section shall restrict—

(i) the right of any person to restrain any infringement of, or to impose reasonable conditions, as may be necessary for protecting any of his rights which have been or may be conferred upon him under—

(a) the Copyright Act, 1957 (14 of 1957);

(b) the Patents Act, 1970 (39 of 1970);

(c) the Trade and Merchandise Marks Act, 1958 (43 of 1958) or the

Trade Marks Act, 1999 (47 of 1999);

(d) the Geographical Indications of Goods (Registration and Protection) Act, 1999 (48 of 1999); (e) the Designs Act, 2000 (16 of 2000);

(f) the Semi-conductor Integrated Circuits Layout-Design Act, 2000 (37 of 2000);

(ii) the right of any person to export goods from India to the extent to which the agreement relates exclusively to the production, supply, distribution or control of goods or provision of services for such export.

Prohibition of abuse of dominant position

Abuse of dominant position

4. [3][(1) No enterprise or group shall abuse its dominant position.]

(2) There shall be an abuse of dominant position [4][under sub-section (1), if an enterprise or a group].—-

(a) directly or indirectly, imposes unfair or discriminatory—

(i) condition in purchase or sale of goods or service; or

(ii) price in purchase or sale (including predatory price) of goods or service.

Explanation.— For the purposes of this clause, the unfair or discriminatory condition in purchase or sale of goods or service referred to in sub-clause (i) and unfair or discriminatory price in purchase or sale of goods (including predatory price) or service referred to in sub-clause (ii) shall not include such discriminatory condition or price which may be adopted to meet the competition; or

(b) limits or restricts—

(i) production of goods or provision of services or market there for or

(ii) technical or scientific development relating to goods or services to the prejudice of consumers; or

(c) indulges in practice or practices resulting in denial of market access [5][in any manner]; or

(d) makes conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts; or

(e) uses its dominant position in one relevant market to enter into, or protect, other relevant market.

Explanation.—For the purposes of this section, the expression—

(a) "dominant position" means a position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables it to—

(i) operate independently of competitive forces prevailing in the relevant market; or

(ii) affect its competitors or consumers or the relevant market in its favour.

(b) "predatory price" means the sale of goods or provision of services, at a. price which is below the cost, as may be determined by regulations, of production of the goods or provision of services, with a view to reduce competition or eliminate the competitors.

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3 Subs. by Competition (Amendment) Act, 2007 for "No enterprise shall abuse its dominant position."

4 Subs. by Competition (Amendment) Act, 2007 for "under sub-section (1), if an enterprise"

5 Ins. by Competition (Amendment) Act, 2007

[6][(c)"group" shall have the same meaning as assigned to it in clause (b) of the Explanation to section 5.]

Regulation of combinations

Combination

5. The acquisition of one or more enterprises by one or more persons or merger or amalgamation of enterprises shall be a combination of such enterprises and persons or enterprises, if—

(a) any acquisition where—

(i) the parties to the acquisition, being the acquirer and the enterprise, whose control, shares, voting rights or assets have been acquired or are being acquired jointly have,—

(A) either, in India, the assets of the value of more than rupees one thousand crores or turnover more than rupees three thousand crores; or

(B) [7][in India or outside India, in aggregate, the assets of the value of more than five hundred million US dollars, including at least rupees five hundred crores in India, or turnover more than fifteen hundred million US dollars, including at least rupees fifteen hundred crores in India; or]

(ii) the group, to which the enterprise whose control, shares, assets or voting rights have been acquired or are being acquired, would belong after the acquisition, jointly have or would jointly have,—

(A) either in India, the assets of the value of more than rupees four thou sand crores or turnover more than rupees twelve thousand crores; or

(B) [8][in India or outside India, in aggregate, the assets of the value of more than two billion US dollars, including at least rupees five hundred crores in India, or turnover more than six billion US dollars, including at least rupees fifteen hundred crores in India; or]

(b) acquiring of control by a person over an enterprise when such person has already direct or indirect control over another enterprise engaged in production, distribution or trading of a similar or identical or substitutable goods or provision of a similar or identical or substitutable service, if—

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6 Ins. by Competition (Amendment) Act, 2007

7 Subs. by Competition (Amendment) Act, 2007 for:
" in India or outside India, in aggregate, the assets of the value of more than five hundred million US dollars or turnover more than fifteen hundred million US dollars; or"

8 Subs. by Competition (Amendment) Act, 2007 for:
" in India or outside India, in aggregate, the assets of the value of more than two billion US dollars or turnover more than six billion US dollars; or"

(i) the enterprise over which control has been acquired along with the enterprise over which the acquirer already has direct or indirect control jointly have,—

(A) either in India, the assets of the value of more than rupees one thousand crores or turnover more than rupees three thousand crores; or

(B) [9][in India or outside India, in aggregate, the assets of the value of more than five hundred million US dollars, including at least rupees five hundred crores in India, or turnover more than fifteen hundred million US dollars, including at least rupees fifteen hundred crores in India; or]

(ii) the group, to which enterprise whose control has been acquired, or is being acquired, would belong after the acquisition, jointly have or would jointly have,—

(A) either in India, the assets of the value of more than rupees four thou sand crores or turnover more than rupees twelve thousand crores or

(B) [10][in India or outside India, in aggregate, the assets of the value of more than two billion US dollars, including at least rupees five hundred crores in India, or turnover more than six billion US dollars, including at least rupees fifteen hundred crores in India; or]

(c) any merger or amalgamation in which—

(i) the enterprise remaining after merger or the enterprise created as a result of the amalgamation, as the case may be, have,—

(A) either in India, the assets of the value of more than rupees one thousand crores or turnover more than rupees three thousand crores; or

(B) [11][in India or outside India, in aggregate, the assets of the value of more than five hundred million US dollars, including at least rupees five hundred crores in India, or turnover more than fifteen hundred million US dollars, including at least rupees fifteen hundred crores in India; or]

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9 Subs. by Competition (Amendment) Act, 2007 for

" in India or outside India, in aggregate, the assets of the value of more than five hundred million US dollars or turnover more than fifteen hundred million US dollars; or"

10 Subs. by Competition (Amendment) Act, 2007 for

" in India or outside India, in aggregate, the assets of the value of more than two billion US dollars or turnover more than six billion US dollars; or"

11 Subs. by Competition (Amendment) Act, 2007 for

" in India or outside India, in aggregate, the assets of the value of more than five hundred million US dollars or turnover more than fifteen hundred million US dollars; or"

(ii) the group, to which the enterprise remaining after the merger or the enter prise created as a result of the amalgamation, would belong after the merger or the amalgamation, as the case may be, have or would have,—

(A) either in India, the assets of the value of more than rupees four-thou sand crores or turnover more than rupees twelve thousand crores; or

(B) [12] [in India or outside India, in aggregate, the assets of the value of more than two billion US dollars, including at least rupees five hundred crores in India, or turnover more than six billion US dollars, including at least rupees Fifteen Hundred Crores in India

Explanation.— For the purposes of this section,—

(a) "control" includes controlling the affairs or management by—

(i) one or more enterprises, either jointly or singly, over another enterprise or group;

(ii) one or more groups, either jointly or singly, over another group or enterprise;

(b) "group" means two or more enterprises which, directly or indirectly, are in a position to —

(i) exercise twenty-six per cent or more of the voting rights in the other enterprise; or

(ii) appoint more than fifty per cent of the members of the board of directors in the other enterprise; or

(iii) control the management or affairs of the other enterprise;

(c) the value of assets shall be determined by taking the book value of the assets as shown, in the audited books of account of the enterprise, in the financial year immediately preceding the financial year in which the date of proposed merger falls, as reduced by any depreciation, and the value of assets shall include the brand value, value of goodwill, or value of copyright, patent, permitted use, collective mark, registered proprietor, registered trade mark, registered user, homonymous geographical indication, geographical indications, design or layout- design or similar other commercial rights, if any, referred to in sub-section (5) of section 3.

Regulation of combinations

6. (1) No person or enterprise shall enter into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India and such a combination shall be void.

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[12] Subs. by Competition (Amendment) Act, 2007 for:
"in India or outside India, the assets of the value of more than two billion US dollars or turn over more than six billion US dollars

(2) Subject to the provisions contained in sub-section (1), any person or enterprise, who or which proposes to enter into a combination, [13] [shall] give notice to the Commission, in the form as may be specified, and the fee which may be determined, by regulations, disclosing the details of the proposed combination, within [14] [thirty days] of—

(a) approval of the proposal relating to merger or amalgamation, referred to in clause (c) of section 5, by the board of directors of the enterprises concerned with such merger or amalgamation, as the case may be;

(b) execution of any agreement or other document for acquisition referred to in clause (a) of section 5 or acquiring of control referred to in clause (b) of that section.

[15][(2A)No combination shall come into effect until two hundred and ten days have passed from the day on which the notice has been given to the Commission under sub-section(2) or the Commission has passed orders under section 31, whichever is earlier.]

(3) The Commission shall, after receipt of notice under sub-section (2), deal with such notice in accordance with the provisions contained in sections 29, 30 and 31.

(4) The provisions of this section shall not apply to share subscription or financing facility or any acquisition, by a public financial institution, foreign institutional investor, bank or venture capital fund, pursuant to any covenant of a loan agreement or investment agreement.

(5) The public financial institution, foreign institutional investor, bank or venture capital fund, referred to in sub-section (4), shall, within seven days from the date of the acquisition, file, in the form as may be specified by regulations, with the Commission the details of the acquisition including the details of control, the circumstances for exercise of such control and the consequences of default arising out of such loan agreement or investment agreement, as the case may be.

Explanation.—For the purposes of this section, the expression—

(a) "foreign institutional investor" has the same meaning as assigned to it in clause (a) of the Explanation to section 115AD of the Income-tax Act, 1961(43 of 1961);

(b) "venture capital fund" has the same meaning as assigned to it in clause (b) of the Explanation to clause (23 FB) of section 10 of the Income-tax Act, 1961(43 of 1961);.

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13 Subs. by Competition (Amendment) Act, 2007 for "may, at his or its option"

14 Subs. by Competition (Amendment) Act, 2007 for "seven days"

15 Ins. by Competition (Amendment) Act, 2007

CHAPTER III

COMPETITION COMMISSION OF INDIA

Establishment of Commission

7. (1) With effect from such date as the Central Government may, by notification, appoint, there shall be established, for the purposes of this Act, a Commission to be called the "Competition Commission of India".

(2) The Commission shall be a body corporate by the name aforesaid having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

(3) The head office of the Commission shall be at such place as the Central Government may decide from time to time.

(4) The Commission may establish offices at other places in India.

Composition of Commission

[16][**8**.(1) The Commission shall consist of a Chairperson and not less than two and not more than six other Members to be appointed by the Central Government.

(2) The Chairperson and every other Member shall be a person of ability, integrity and standing and who has special knowledge of, and such professional experience of not less than fifteen years in, international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs or competition matters, including competition law and policy, which in the opinion of the Central Government, may be useful to the Commission.

(3) The Chairperson and other Members shall be whole-time Members.]

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[16] Subs. by Competition (Amendment) Act, 2007 for ;

(1) The Commission shall consist of a Chairperson and not less than two and not more than ten other Members to be appointed by the Central Government:

Provided that the Central Government shall appoint the Chairperson and a Member during the first year of the establishment of the Commission.

(2) The Chairperson and every other Member shall be a person of ability, integrity and standing and who has been, or is qualified to be a judge of a High Court, or, has special knowledge of, and professional experience of not less than fifteen years in international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs, administration or in any other matter which, in the opinion of the Central Government may be useful to the Commission.

(3) The Chairperson and other Members shall be whole-time Members."

[17][Selection Committee for Chairperson and Members of Commission]

[18][9.(1) The Chairperson and other Members of the Commission shall be appointed by the Central Government from a panel of names recommended by a Selection Committee consisting of –

a) the Chief Justice of India or his nominee - Chairperson;

b) the Secretary in the Ministry of Corporate Affairs - Member;

c) the Secretary in the Ministry of Law and Justice - Member;

d) two experts of repute who have special knowledge of, and professional ex perience in international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs or competition matters including - Members.

competition law and policy

(2) The term of the Selection Committee and the manner of selection of panel of names shall be such as may be prescribed.]

Term of office of Chairperson and other Members

10. (1) The Chairperson and every other Member shall hold office as such for a term of five years from the date on which he enters upon his office and shall be eligible for re-appointment:

[19][Provided that the Chairperson or other Members shall not hold office as such after he has attained the age of sixty-five years]

(2) A vacancy caused by the resignation or removal of the Chairperson or any other Member under section 11 or by death or otherwise shall be filled by fresh appointment in accordance with the provisions of sections 8 and 9.

(3) The Chairperson and every other Member shall, before entering upon his office, make and subscribe to an oath of office and of secrecy in such form, manner and before such authority, as may be prescribed.

(4) In the event of the occurrence of a vacancy in the office of the Chairperson by reason of his death, resignation or otherwise, the senior-most Member shall act as the Chairperson, until the date on which a new Chairperson, appointed in accordance with the provisions of this Act to fill such vacancy, enters upon his office.

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17 Subs. by Competition (Amendment) Act, 2007 for "Selection of Chairperson and other Members"

18 Subs. by Competition (Amendment) Act, 2007 for:
"The Chairperson and other Members shall be selected in the manner as may be prescribed."

19 Subs. by Competition (Amendment) Act, 2007 for:
"Provided that no Chairperson or other Member shall hold office as such after he has attained-
(a) in the case of the Chairperson, the age of sixty-seven years;
(b) in the case of any other Member, the age of sixty-five years."

(5) When the Chairperson is unable to discharge his functions owing to absence, illness or any other cause, the senior-most Member shall discharge the functions of the Chairperson until the date on which the Chairperson resumes the charge of his functions.

Resignation, removal and suspension of Chairperson and other members

11. (1) The Chairperson or any other Member may, by notice in writing under his hand addressed to the Central Government, resign his office:

Provided that the Chairperson or a Member shall, unless he is permitted by the Central Government to relinquish his office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as his successor enters upon his office or until the expiry of his term of office, whichever is the earliest.

(2) Notwithstanding anything contained in sub-section (1), the Central Government may, by order, remove the Chairperson or any other Member from his office if such Chairperson or Member, as the case may be,—

(a) is, or at any time has been, adjudged as an insolvent; or

(b) has engaged at any time, during his term of office, in any paid employment; or

(c) has been convicted of an offence which, in the opinion of the Central Government, involves moral turpitude; or

(d) has acquired such financial or other interest as is likely to affect prejudicially his functions as a Member; or

(e) has so abused his position as to render his continuance in office prejudicial to the public interest; or

(f) has become physically or mentally incapable of acting as a Member.

(3) Notwithstanding anything contained in sub-section (2), no Member shall be removed from his office on the ground specified in clause (d) or clause (e) of that subsection unless the Supreme Court, on a reference being made to it in this behalf by the Central Government, has, on an inquiry, held by it in accordance with such procedure as may be prescribed in this behalf by the Supreme Court, reported that the Member, ought on such ground or grounds to be removed.

Restriction on employment of Chairperson and other Members in certain cases

12. The Chairperson and other Members shall not, for a period of [20] [two years] from the date on which they cease to hold office, accept any employment in, or connected with the management or administration of, any enterprise which has been a party to a proceeding before the Commission under this Act:

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[20] Subs. by Competition (Amendment) Act, 2007 for "one year"

Provided that nothing contained in this section shall apply to any employment under the Central Government or a State Government or local authority or in any statutory authority or any corporation established by or under any Central, State or Provincial Act or a Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956).

[21][Administrative powers of Chairperson]

[22]**[13.** The Chairperson shall have the powers of general superintendence, direction and control in respect of all administrative matters of the Commission:

Provided that the Chairperson may delegate such of his powers relating to administrative matters of the Commission, as he may think fit, to any other Member or officer of the Commission."]

Salary and allowances and other terms and conditions of service of Chairperson and other Members

14. (1) The salary, and the other terms and conditions of service, of the Chairperson and other Members, including travelling expenses, house rent allowance and conveyance facilities, sumptuary allowance and medical facilities shall be such as may be prescribed.

(2) The salary, allowances and other terms and conditions of service of the Chairperson or a Member shall not be varied to his dis advantage after appointment.

Vacancy, etc. not to invalidate proceedings of Commission

15. No act or proceeding of the Commission shall be invalid merely by reason of—

(a) any vacancy in, or any defect in the constitution of, the Commission; or

(b) any defect in the appointment of a person acting as a Chairperson or as a Member; or

(c) any irregularity in the procedure of the Commission not affecting the merits of the case.

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[21] Subs. by Competition (Amendment) Act, 2007 for "Financial and administrative powers of Member Administration"

[22] Subs. by Competition (Amendment) Act, 2007 for:

" The Central Government shall designate any Member as Member Administration who shall exercise such financial and administrative powers as may be vested in him under the rules made by the Central Government:

Provided that the Member Administration shall have authority to delegate such of his financial and administrative powers as he may think fit to any other officer of the Commission subject to the condition that such officer shall, while exercising such delegated powers continue to act under the direction, superintendence and control of the Member Administration."

Appointment of Director General, etc.

16. [23] [(1) The Central Government may, by notification, appoint a Director General for the purposes of assisting the Commission in conducting inquiry into contravention of any of the provisions of this Act and for performing such other functions as are, or may be, provided by or under this Act.

(1A) The number of other Additional, Joint, Deputy or Assistant Directors General or such officers or other employees in the office of Director General and the manner of appointment of such Additional, Joint, Deputy or Assistant Directors General or such officers or other employees shall be such as may be prescribed.”]

(2) Every Additional, Joint, Deputy and Assistant Directors General or [24][such officers or other employees,] shall exercise his powers, and discharge his functions, subject to the general control, supervision and direction of the Director General.

(3) The salary, allowances and other terms and conditions of service of the Director General and Additional, Joint, Deputy and Assistant Directors General or, [25] [such officers or other employees,] shall be such as may be prescribed.

(4) The Director General and Additional, Joint, Deputy and Assistant Directors General or [26][such officers or other employees,] shall be appointed from amongst persons of integrity and outstanding ability and who have experience in investigation, and knowledge of accountancy, management, business, public administration, international trade, law or economics and such other qualifications as may be prescribed.

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[23] Subs. by Competition (Amendment) Act, 2007 for :
“ The Central Government may, by notification, appoint a Director General and as many Additional, Joint, Deputy or Assistant Directors General or such other advisers, consultants or officers, as it may think fit, for the purposes of assisting the Commission in conducting inquiry into contravention of any of the provisions of this Act and for the conduct of cases before the Commission and for performing such other functions as are, or may be, provided by or under this Act”

[24] Subs. by Competition (Amendment) Act, 2007 for “such other advisers, consultants and officers,”

[25] Subs. by Competition (Amendment) Act, 2007 for “such other advisers, consultants and officers,”

[26] Subs. by Competition (Amendment) Act, 2007 for “such other advisers, consultants and officers,”

[27][Appointment of Secretary, experts, professionals and officers and other employees of Commission]

[28]**[17**. (1) The Commission may appoint a Secretary and such officers and other employees as it considers necessary for the efficient performance of its functions under this Act.

(2) The salaries and allowances payable to and other terms and conditions of service of the Secretary and officers and other employees of the Commission and the number of such officers and other employees shall be such as may be prescribed.

(3) The Commission may engage, in accordance with the procedure specified by regulations, such number of experts and professionals of integrity and outstanding ability, who have special knowledge of, and experience in, economics, law, business or such other disciplines related to competition, as it deems necessary to assist the Commission in the discharge of its functions under this Act.]

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27 Subs. by Competition (Amendment) Act, 2007 for "Registrar and officers and other employees of Commission"

28 Subs. by Competition (Amendment) Act, 2007 for:

(1) The Commission may appoint a Registrar and such officers and other employees as it considers necessary for the efficient performance of its functions under this Act

(2) The salaries and allowances payable to and other terms and conditions of service of the Registrar and officers and other employees of
the Commission and the number of such officers and other employees shall be such as may be prescribed."

CHAPTER IV

DUTIES, POWERS AND FUNCTIONS OF COMMISSION

Duties of Commission

18. Subject to the provisions of this Act, it shall be the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade carried on by other participants, in markets in India:

Provided that the Commission may, for the purpose of discharging its duties or performing its functions under this Act, enter into any memorandum or arrangement with the prior approval of the Central Government, with any agency of any foreign country.

Inquiry into certain agreements and dominant position of enterprise

19. (1) The Commission may inquire into any alleged contravention of the provisions contained in subsection (1) of section 3 or sub-section (1) of section 4 either on its own motion or on—

(a) [29][receipt of any information, in such manner and] accompanied by such fee as may be determined by regulations, from any person, consumer or their association or trade association; or

(b) a reference made to it by the Central Government or a State Government or a statutory authority.

(2) Without prejudice to the provisions contained in sub-section (1), the powers and functions of the Commission shall include the powers and functions specified in sub-sections (3) to (7).

(3) The Commission shall, while determining whether an agreement has an appreciable adverse effect on competition under section 3, have due regard to all or any of the following factors, namely:—

(a) creation of barriers to new entrants in the market;

(b) driving existing competitors out of the market;

(c) foreclosure of competition by hindering entry into the market;

(d) accrual of benefits to consumers;

(e) improvements in production or distribution of goods or provision of services;

(f) promotion of technical, scientific and economic development by means of production or distribution of goods or provision of services.

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[29] Subs. by Competition (Amendment) Act, 2007 for "receipt of a complaint,"

(4) The Commission shall, while inquiring whether an enterprise enjoys a dominant position or not under section 4, have due regard to all or any of the following factors, namely:—

(a) market share of the enterprise;

(b) size and resources of the enterprise;

(c) size and importance of the competitors;

(d) economic power of the enterprise including commercial advantages over competitors;

(e) vertical integration of the enterprises or sale or service network of such enterprises;

(f) dependence of consumers on the enterprise;

(g) monopoly or dominant position whether acquired as a result of any statute or by virtue of being a Government company or a public sector undertaking or otherwise;

(h) entry barriers including barriers such as regulatory barriers, financial risk, high capital cost of entry, marketing entry barriers, technical entry barriers, economies of scale, high cost of substitutable goods or service for consumers;

(i) countervailing buying power;

(j) market structure and size of market; (k) social obligations and social costs;

(l) relative advantage,by way of the contribution to the economic development, by the enterprise enjoying a dominant position having or likely to have an appreciable adverse effect on competition;

(m) any other factor which the Commission may consider relevant for the inquiry.

(5) For determining whether a market constitutes a “relevant market” for the purposes of this Act, the Commission shall have due regard to the “relevant geographic market’’ and “relevant product market”.

(6) The Commission shall, while determining the “relevant geographic market”, have due regard to all or any of the following factors, namely:—

(a) regulatory trade barriers;

(b) local specification requirements; (c) national procurement policies;

(d) adequate distribution facilities; (e) transport costs;

(f) language;

(g) consumer preferences;

(h) need for secure or regular supplies or rapid after-sales services.

(7) The Commission shall, while determining the "relevant product market", have due regard to all or any of the following factors, namely:—

(a) physical characteristics or end-use of goods;

(b) price of goods or service

(c) consumer preferences;

(d) exclusion of in-house production;

(e) existence of specialised producers;

(f) classification of industrial products.

Inquiry into combination by Commission

20. (1) The Commission may, upon its own knowledge or information relating to acquisition referred to in clause (a) of section 5 or acquiring of control referred to in clause (b) of section 5 or merger or amalgamation referred to in clause (c) of that section, inquire into whether such a combination has caused or is likely to cause an appreciable adverse effect on competition in India:

Provided that the Commission shall not initiate any inquiry under this subsection after the expiry of one year from the date on which such combination has taken effect.

(2) The Commission shall, on receipt of a notice under sub-section (2) of section 6 [30][***], inquire whether a combination referred to in that notice or reference has caused or is likely to cause an appreciable adverse effect on competition in India.

(3) Notwithstanding anything contained in section 5, the Central Government shall, on the expiry of a period of two years from the date of commencement of this Act and thereafter every two years, in consultation with the Commission, by notification, enhance or reduce, on the basis of the wholesale price index or fluctuations in exchange rate of rupee or foreign currencies, the value of assets or the value of turnover, for the purposes of that section.

(4) For the purposes of determining whether a combination would have the effect of or is likely to have an appreciable adverse effect on competition in the relevant market, the Commission shall have due regard to all or any of the following factors, namely:—

(a) actual and potential level of competition through imports in the market

(b) extent of barriers to entry into the market;

(c) level of combination in the market;

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[30] The words "or upon receipt of a reference under sub-section (1) of section 21" omitted by Competition (Amendment) Act, 2007

(d) degree of countervailing power in the market;

(e) likelihood that the combination would result in the parties to the combination being able to significantly and sustainably increase prices or profit margins;

(f) extent of effective competition likely to sustain in a market;

(g) extent to which substitutes are available or arc likely to be available in the market;

(h) market share, in the relevant market, of the persons or enterprise in a combination, individually and as a combination;

(i) likelihood that the combination would result in the removal of a vigorous and effective competitor or competitors in the market;

(j) nature and extent of vertical integration in the market; (k) possibility of a failing business;

(l) nature and extent of innovation;

(m) relative advantage, by way of the contribution to the economic development, by any combination having or likely to have

(n) whether the benefits of the combination outweigh the adverse impact of the combination, if any.

Reference by statutory authority

21. (1) Where in the course of a proceeding before any statutory authority an issue is raised by any party that any decision which such statutory authority has taken or proposes to take is or would be, contrary to any of the provisions of this Act, then such statutory authority may make a reference in respect of such issue to the Commission:

[31][Provided that any statutory authority, may, suo motu, make such a reference to the Commission.]

[32][(2) On receipt of a reference under sub-section (1), the Commission shall give its opinion, within sixty days of receipt of such reference, to such statutory authority which shall consider the opinion of the Commission and thereafter, give its findings recording reasons therefor on the issues referred to in the said opinion.]

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31 Ins. by Competition (Amendment) Act, 2007

32 Subs. by Competition (Amendment) Act, 2007 for:
" On receipt of a reference under sub-section (1), the Commission shall, after hearing the parties to the proceedings, give its opinion to such statutory authority which shall thereafter pass such order on the issues referred to in that sub-section as it deems fit:
Provided that the Commission shall give its opinion under this section within sixty days of receipt of such reference."

[33][**Reference by Commission]**

[34][**21A.** (1) Where in the course of a proceeding before the Commission an issue is raised by any party that any decision which, the Commission has taken during such proceeding or proposes to take, is or would be contrary to any provision of this Act whose implementation is entrusted to a statutory authority, then the Commission may make a reference in respect of such issue to the statutory authority:

Provided that the Commission, may, suomotu, make such a reference to the statutory authority.

(2) On receipt of a reference under sub-section (1), the statutory authority shall give its opinion, within sixty days of receipt of such reference, to the Commission which shall consider the opinion of the statutory authority, and thereafter give its findings recording reasons there for on the issues referred to in the said opinion.]

[35] **[Meetings of Commission]**

[36]**[22.** (1) The Commission shall meet at such times and places, and shall observe such rules and procedure in regard to the transaction of business at its meetings as may be provided by regulations.

(2) The Chairperson, if for any reason, is unable to attend a meeting of the Commission, the senior-most Member present at the meeting, shall preside at the meeting.

(3) All questions which come up before any meeting of the Commission shall be decided by a majority of the Members present and voting, and in the event of an equality of votes, the Chairperson or in his absence, the Member presiding, shall have a second or/casting vote:

Provided that the quorum for such meeting shall be three Members.]

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[33] Ins. by Competition (Amendment) Act, 2007

[34] Ins. by Competition (Amendment) Act, 2007

[35] Subs. by Competition (Amendment) Act, 2007 for "Benches of Commission"

[36] Subs. by Competition (Amendment) Act, 2007 for:

(1) The jurisdiction, power and authority of the Commission may be exercised by Benches thereof.

(2) The Benches shall be constituted by the Chairperson and each Bench shall consist of not less than two Members.

(3) Every Bench shall consist of at least one Judicial Member.
Explanation.—For the purposes of this sub-section, "Judicial Member" means a Member who is, or has been, or is qualified to be, a Judge of a High Court.

(4) The Bench over which the Chairperson presides shall be the Principal Bench and the otherBenches shall be known as the Additional Benches.

(5) There shall be constituted by the Chairperson one or more Benches to be called the Mergers Bench or Mergers Benches, as the case may be, exclusively to deal with matters referred to in sections 5 and 6.

(6) The places at which the Principal Bench, other Additional Bench or Mergers Bench shall ordinarily sit, shall be such as the Central Government may, by notification, specify."

[37] **23**. [Omitted by the Competition (Amendment) Act, 2007]

[38] **24**. [Omitted by the Competition (Amendment) Act, 2007]

[39] **25**. [Omitted by the Competition (Amendment) Act, 2007]

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[37] Prior to omission, Section 23 read as under:-

" Distribution of business of Commission amongst Benches

(1) Where any Benches are constituted, the Chairperson may, from time to time, by order, make provisions as to the distribution of the business of the Commission amongst the Benches and specify the matters, which may be dealt with by each Bench.

(2) If any question arises as to whether any matter falls within the purview of the business allocated to a Bench, the decision of the Chairperson thereon shall be final.

(3) The Chairperson may

(i) transfer a Member from one Bench to another Bench , or

(ii) authorize the Members of one Bench to discharge also the functions of the Members of other Bench:

Provided that the Chairperson shall transfer, with the prior approval of the Central Government, a Member from one Bench situated in one city to another Bench situated in another city.

(4) The Chairperson may, for the purpose of securing that any case or matter which, having regard to the nature of the questions involved, requires or is required in his opinion or under the rules made by the Central Government in this behalf, to be decided by a Bench composed of more than two Members issue such general or special orders as he may deem fit."

[38] Prior to omission Section 24 read as under:

" Procedure for deciding a case where Members of a Bench differ in opinion

If the Members of a Bench differ in opinion on any point, they shall state the point or points on which they differ, and make a reference to the Chairperson who shall either hear the point or points himself or refer the case for hearing on such point or points by one or more of the other Members and such point or points shall be decided according to the opinion of the majority of the Members who have heard the case, including those who first heard it."

[39] Prior to omission, Section 25 read as under: " Jurisdiction of Bench

An inquiry shall be initiated or a complaint be instituted or a reference be made under this Act before a Bench within the local limits of whose jurisdiction—

(a) the respondent, or each of the respondents, where there are more than one, at the time of the initiation of inquiry or institution of the complaint or making of reference, as the case may be, actually and voluntarily resides, or carries on business, or personally works for gain; or

(b) any of the respondents, where there are more than one, at the time of the initiation of the inquiry or institution of complaint or making of reference, as the case may be, actually and voluntarily resides or carries on business or personally works for gain provided that in such case either the leave of the Bench is given, or the respondents who do not reside, or carry on business, or personally work for gain, as aforesaid, acquiesce in such institution; or

(c) the cause of action, wholly or in part, arises.

Explanation.—A respondent, being a person referred to in sub-clause (iii) or sub-clause (vi) or sub-clause (vii) or sub-clause (viii) of clause (1) of section 2, shall be deemed to carry on business at its sole or principal place of business in India or at its registered office in India or where it has also a subordinate office at such place."

[40][Procedure for inquiry under section 19]

[41][26. (1) On receipt of a reference from the Central Government or a State Government or a statutory authority or on its own knowledge or information received under section 19, if the Commission is of the opinion that there exists a prima facie case, it shall direct the Director General to cause an investigation to be made into the matter:

Provided that if the subject matter of an information received is, in the opinion of the Commission, substantially the same as or has been covered by any previous information received, then the new information may be clubbed with the previous information.

(2) Where on receipt of a reference from the Central Government or a State Government or a statutory authority or information received under section 19,

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40 Subs. by Competition (Amendment) Act, 2007 for "Procedure for inquiry on complaints under section 19"

41 Subs. by Competition (Amendment) Act, 2007 for:

" Procedure for inquiry on complaints under Section 19

(1) On receipt of a complaint or a reference from the Central Government or a State Government or a statutory authority or on its own knowledge or information, under section 19, if the Commission is of the opinion that there exists a prima facie case, it shall direct the Director General to cause an investigation to be made into the matter.

(2) The Director General shall, on receipt of direction under sub-section (1), submit a report on his findings with in such period as may be specified by the Commission.

(3) Where on receipt of a complaint under clause (a) of sub-section (1) of section 19, the Commission is of the opinion that there exists no prima facie case, it shall dismiss the complaint and may pass such orders as it may deems fit, including imposition of costs, if necessary.

(4) The Commission shall forward a copy of the report referred to in sub-section (2) to the parties concerned or to the Central Government or the State Government or the statutory authority, as the case may be.

(5) If the report of the Director General relates on a complaint and such report recommends that there is no contravention of any of the provisions of this Act, the complainant shall be given an opportunity to rebut the findings of the Director General.

(6) If, after hearing the complainant, the Commission agrees with the recommendation of the Director General, it shall dismiss the complaint.

(7) If, after hearing the complainant, the Commission is of the opinion that further inquiry is called for, it shall direct the complainant to proceed with the complaint.

(8) If the report of the Director General relates on a reference made under sub-section (/) and such report recommends that there is no contravention of the provisions of this Act, the Commission shall invite comments of the Central Government or the State Government or the statutory authority, as the case may be, on such report and on receipt of such comments, the Commission shall return the reference if there is no prima facie case or proceed with the reference as a complaint if there is a prima facie case.

(9) If the report of the Director General referred to in sub-section (2) recommends that there is contravention of any of the provisions of this Act, and the Commission is of the opinion that further inquiry is called for, it shall inquire into such contravention in accordance with the provisions of this Act."

the Commission is of the opinion that there exists no prima facie case, it shall close the matter forthwith and pass such orders as it deems fit and send a copy of its order to the Central Government or the State Government or the statutory authority or the parties concerned, as the case may be.

(3) The Director General shall, on receipt of direction under sub-section (1), submit a report on his findings within such period as may be specified by the Commission.

(4) The Commission may forward a copy of the report referred to in sub section(3) to the parties concerned:

Provided that in case the investigation is caused to be made based on reference received from the Central Government or the State Government or the statutory authority, the Commission shall forward a copy of the report referred to in sub- section (3) to the Central Government or the State Government or the statutory authority, as the case may be.

(5) If the report of the Director General referred to in sub-section (3) reco-mends that there is no contravention of the provisions of this Act, the Commission shall invite objections or suggestions from the Central Government or the State Government or the statutory authority or the parties concerned, as the case may be, on such report of the Director General.

(6) If, after consideration of the objections and suggestions referred to in sub section (5), if any, the Commission agrees with the recommendation of the Director General, it shall close the matter forthwith and pass such orders as it deems fit and communicate its order to the Central Government or the State Government or the statutory authority or the parties concerned, as the case may be.

(7) If, after consideration of the objections or suggestions referred to in sub section (5), if any, the Commission is of the opinion that further investigations is called for, it may direct further investigation in the matter by the Director General or cause further inquiriy to be made by in the matter or itself proceed with further inquiry in the matter in accordance with the provisions of this Act.

(8) If the report of the Director General referred to in sub-section (3) recommends that there is contravention of any of the provisions of this Act, and the Commission is of the opinion that further inquiry is called for, it shall inquire into such contravention in accordance with the provisions of this Act.]

Orders by Commission after inquiry into agreements or abuse of dominant position

27. Where after inquiry the Commission finds that any agreement referred to in section 3 or action of an enterprise in a dominant position, is in contravention of section 3 or section 4, as the case may be, it may pass all or any of the following orders, namely:—

(a) direct any enterprise or association of enterprises or person or association of persons, as the case may be, involved in such agreement, or abuse of dominant position, to discontinue and not to re-enter such agreement or discontinue such abuse of dominant position, as the case may be;

(b) impose such penalty, as it may deem fit which shall be not more than ten percent. of the average of the turnover for the last three preceding financial years, upon each of such person or enterprises which are parties to such agreements or abuse:

[42][Provided that in case any agreement referred to in section 3 has been entered into by a cartel, the Commission may impose upon each producer, seller, distributor, trader or service provider included in that cartel, a penalty of up to three times of its profit for each year of the continuance of such agreement or ten percent. of its turnover for each year of the continuance of such agreement, whichever is higher.]

[43](c) [Omitted by Competition (Amendment) Act, 2007]

(d) direct that the agreements shall stand modified to the extent and in the manner as may be specified in the order by the Commission;

(e) direct the enterprises concerned to abide by such other orders as the Commission may pass and comply with the directions, including payment of costs, if any;

[44](f) [Omitted by Competition (Amendment) Act, 2007]

(g) pass such other [45][order or issue such directions] as it may deem fit.

[46][Provided that while passing orders under this section, if the Commission comes to a finding, that an enterprise in contravention to section 3 or section 4 of the Act is a member of a group as defined in clause(b) of the Explanation to section 5 of the Act, and other members of such a groupare also responsible for, or have contributed to, such a contravention, then it may pass orders, under this section, against such members of the group.]

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42 Subs. by Competition (Amendment) Act, 2007 for:
" Provided that in case any agreement referred to in section 3 has been entered into by any cartel, the Commission shall impose upon each producer, seller, distributor, trader or service provider included in that cartel, a penalty equivalent to three times of the amount of profits made out of such agreement by the cartel or ten percent. of the average of the turnover of the cartel for the last preceding three financial years, whichever is higher;"

43 Prior to omission, Clause (c) of Section 27 read as under:-
"award compensation to parties in accordance with the provisions contained in section 34;"

44 Prior to omission, Clause (c) of Section 27 read as under:-
"recommend to the Central Government for the division of an enterprise enjoying dominant position;"

45 Subs. by Competition (Amendment) Act, 2007 for "order"

46 Ins. by Competition (Amendment) Act, 2007

Division of enterprise enjoying dominant position

28 (1) The [47][Commission] may, notwithstanding anything contained in any other law for the time being in force, by order in writing, direct division of an enterprise enjoying dominant position to ensure that such enterprise does not abuse its dominant position.

(2) In particular, and without prejudice to the generality of the foregoing powers, the order referred to in sub-section (1) may provide for all or any of the following matters, namely:—

(a) the transfer or vesting of property, rights, liabilities or obligations;

(b) the adjustment of contracts either by discharge or reduction of any liability or obligation or otherwise;

(c) the creation, allotment, surrender or cancellation of any shares, stocks or securities;

[48](d) [Omitted by Competition (Amendment) Act, 2007]

(e) the formation or winding up of an enterprise or the amendment of the memorandum of association or articles of association or any other instruments regulating the business of any enterprise;

(f) the extent to which, and the circumstances in which, provisions of the order affecting an enterprise may be altered by the enterprise and the registration thereof;

(g) any other matter which may be necessary to give effect to the division of the enterprise.

(3) Notwithstanding anything contained in any other law for the time being in force or in any contract or in any memorandum or articles of association, an officer of a company who ceases to hold office as such in consequence of the division of an enterprise shall not be entitled to claim any compensation for such cesser.

Procedure for investigation of combination

29. (1) Where the Commission is of the [49][prima facie] opinion that a combination is likely to cause, or has caused an appreciable adverse effect on competition within the relevant market in India, it shall issue a notice to show cause to the parties to combination calling upon them to respond within thirty days of the receipt of the notice, as to why investigation in respect of such combination should not be conducted.

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47 Subs. by Competition (Amendment) Act, 2007 for “Central Government, on recommendation under clause(f) of section 27”

48 Prior to omission, clause (d) of sub-section(2) of section 28 read as under:-
“the payment of compensation to any person who suffered any loss due to dominant position of such enterprise;”

49 Ins. by Competition (Amendment) Act, 2007

[50][1(A) After receipt of the response of the parties to the combination under sub- section (1), the Commission may call for a report from the Director General and such report shall be submitted by the Director General within such time as the Commission may direct.]

(2) The Commission, if it is prima facie of the opinion that the combination has, or is likely to have, an appreciable adverse effect on competition, it shall, within seven working days from the date of receipt of the response of the parties to the combination, [51] [or the receipt of the report from Director General called under sub section (1A), whichever is later] direct the parties to the said combination to publish details of the combination within ten working days of such direction, in such manner, as it thinks appropriate, for bringing the combination to the knowledge or information of the public and persons affected or likely to be affected by such combination.

(3) The Commission may invite any person or member of the public, affected or likely to be affected by the said combination, to file his written objections, if any, before the Commission within fifteen working days from the date on which the details of the combination were published under sub-section (2).

(4) The Commission may, within fifteen working days from the expiry of the period specified in sub-section (3), call for such additional or other information as it may deem fit from the parties to the said combination.

(5) The additional or other information called for by the Commission shall be furnished by the parties referred to in sub-section (4) within fifteen days from the expiry of the period specified in sub-section (4).

(6) After receipt of all information and within a period of forty-five working days from the expiry of the period specified in sub-section (5), the Commission shall proceed to deal with the case in accordance with the provisions contained in section 31.

[52]**[Procedure in case of notice under sub-section (2) of section 6]**

[53][**30.** Where any person or enterprises has given a notice under sub-section (2) of section 6, the Commission shall examine such notice and form its prima facie opinion as provided in sub-section (1) of section 29 and proceed as per provisions contained in that section.]

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50 Ins. by Competition (Amendment) Act, 2007

51 Ins. by Competition (Amendment) Act, 2007

52 Subs. by Competition (Amendment) Act, 2007 for "Inquiry into disclosure under sub-section(2) of section 6"

53 Subs. by Competition (Amendment) Act, 2007 for:
"Where any person or enterprise has given a notice under sub-section (2) of section 6. The Commission shall inquire—
(a) whether the disclosure made in the notice is correct;
(b) whether the combination has, or is likely to have, an appreciable adverse effect on competition."

Orders of Commission on certain combinations

31. (1) Where the Commission is of the opinion that any combination does not, or is not likely to, have an appreciable adverse effect on competition, it shall, by order, approve that combination including the combination in respect of which a notice has been given under sub-section (2) of section 6.

(2) Where the Commission is of the opinion that the combination has, or is likely to have, an appreciable adverse effect on competition, it shall direct that the combination shall not take effect.

(3) Where the Commission is of the opinion that the combination has, or is likely to have, an appreciable adverse effect on competition but such adverse effect can be eliminated by suitable modification to such combination, it may propose appropriate modification to the combination, to the parties to such combination.

(4) The parties, who accept the modification proposed by the Commission under subsection (3), shall carry out such modification within the period specified by the Commission.

(5) If the parties to the combination, who have accepted the modification under subsection (4), fail to carry out the modification within the period specified by the Commission, such combination shall be deemed to have an appreciable adverse effect on competition and the Commission shall deal with such combination in accordance with the provisions of this Act.

(6) If the parties to the combination do not accept the modification proposed by the Commission under sub-section (3), such parties may, within thirty working days of the modification proposed by the Commission, submit amendment to the modification proposed by the Commission under that sub-section.

(7) If the Commission agrees with the amendment submitted by the parties under subsection (6), it shall, by order, approve the combination.

(8) If the Commission does not accept the amendment submitted under sub section (6), then, the parties shall be allowed a further period of thirty working days within which such parties shall accept the modification proposed by the Commission under sub-section (3).

(9) If the parties fail to accept the modification proposed by the Commission within thirty working days referred to in sub-section (6) or within a further period of thirty working days referred to in sub-section (8), the combination shall be deemed to have an appreciable adverse effect on competition and be dealt with in accordance with the provisions of this Act.

(10) Where the Commission has directed under sub-section (2) that the combination shall not take effect or the combination is deemed to have an appreciable adverse effect on competition under sub-section (9), then, without prejudice to any penalty which may be imposed or any prosecution which may be initiated under this Act, the Commission may order that

(a) the acquisition referred to in clause (a) of section 5; or

(b) the acquiring of control referred to in clause (b) of section 5; or

(c) the merger or amalgamation referred to in clause (c) of section 5, shall not be given effect to:

Provided that the Commission may, if it considers appropriate, frame a scheme to implement its order under this sub-section.

(11) If the Commission does not, on the expiry of a period of [54][two hundred and ten days from the date of notice given to the Commission under sub-section (2) of section 6], pass an order or issue direction in accordance with the provisions of sub-section (1) or sub-section (2) or sub-section (7), the combination shall be deemed to have been approved by the Commission.

Explanation.—For the purposes of determining the period of [55][two hundred and ten] days specified in this subsection, the period of thirty working days specified in sub-section (6) and a further period of thirty working days specified in sub- section (8) shall be excluded.

(12) Where any extension of time is sought by the parties to the combination, the period of ninety working days shall be reckoned after deducting the extended time granted at the request of the parties.

(13) Where the Commission has ordered a combination to be void, the acquistion or acquiring of control or merger or amalgamation referred to in section 5, shall be dealt with by the authorities under any other law for the time being in force as if such acquisition or acquiring of control or merger or amalgamation had not taken place and the parties to the combination shall be dealt with accordingly.

(14) Nothing contained in this Chapter shall affect any proceeding initiated or which may be initiated under any other law for the time being in force.

Acts taking place outside India but having an effect on competition in India

32. The Commission shall, notwithstanding that,—

(a) an agreement referred to in section 3 has been entered into outside India;or

(b) any party to such agreement is outside India; or

(c) any enterprise abusing the dominant position is outside India; or

(d) a combination has taken place outside India; or

(e) any party to combination is outside India; or

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54 Subs. by Competition (Amendment) Act, 2007 for:
"ninety working days from the date of publication referred to in sub-section(2) of section 29"

55 Subs. by Competition (Amendment) Act, 2007 for "ninety days"

(f) any other matter or practice or action arising out of such agreement or dominant position or combination is outside India,

have power to inquire [56][in accordance with the provisions contained in sections 19, 20, 26, 29 and 30 of the Act] into such agreement or abuse of dominant position or combination if such agreement or dominant position or combination has, or is likely to have, an appreciable adverse effect on competition in the relevant market in India [57][and pass such orders as it may deem fit in accordance with the provisions of this Act.]

[58]**[Power to issue interim orders]**

[59]**[33.** Where during an inquiry, the Commission is satisfied that an act in contravention of sub-section (1) of section 3 or sub-section (1) of section 4 or section 6 has been committed and continues to be committed or that such act is about to be committed, the Commission may, by order, temporarily restrain any party from carrying on such act until the conclusion of such inquiry or until further orders, without giving notice to such party, where it deems it necessary.]

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56 Ins. by Competition (Amendment) Act, 2007

57 Ins. by Competition (Amendment) Act, 2007

58 Subs. by Competition (Amendment) Act, 2007 for "Power to grant interim relief"

59 Subs. by Competition (Amendment) Act, 2007 for:

(1) Where during an inquiry before the Commission, it is proved to the satisfaction of the Commission, by affidavit or otherwise, that an act in contravention of sub-section (1) of section 3 or sub-section (1) of section 4 or section 6 has been committed and continues to be committed or that such act is about to be committed, the Commission may, by order, grant a temporary injunction restraining any party from carrying on such act until the conclusion of such inquiry or until further orders, without giving notice to the opposite party, where it deems it necessary.

(2) Where during the inquiry before the Commission it is proved to the satisfaction of the Commission by affidavit or otherwise that import of any goods is likely to contravene sub-section (1) of section 3 or subsection (1) of section 4 or section 6, it may, by order, grant a temporary injunction restraining any party from importing such goods until the conclusion of such inquiry or until further orders, without giving notice to the opposite party, where it deems it necessary and a copy of such order granting temporary injunction shall be sent to the concerned authorities.

(3) The provisions of rules 2A to 5 (both inclusive) of Order XXXIX of the First Schedule to the Code of Civil Procedure, 1908 (5 of 1908) shall, as far as may be, apply to a temporary injunction issued by the Commission under this Act, as they apply to a temporary injunction issued by a civil court, and any reference in any such rule to a suit shall be construed as a reference to any inquiry before the Commission.

[60]34. [Omitted by Competition (Amendment) Act, 2007] (39 of 2007 with effect from 12th October 2007)

Appearance before Commission

35. A [61][person or an enterprise] or the Director General may either appear in person or authorise one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any of his or its officers to present his or its case before the Commission.

Explanation.—For the purposes of this section,—

(a) "chartered accountant" means a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 (38 of 1949) and who has obtained a certificate of practice under sub-section (1) of section 6 of that Act;

(b) "company secretary" means a company secretary as defined in clause (c) of sub-section (1) of section 2 of the Company Secretaries Act, 1980 (56 of 1980) and who has obtained a certificate of practice under sub-section (1) of section 6 of that Act;

(c) "cost accountant" means a cost accountant as defined in clause (b) of sub section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who has obtained a certificate of practice under sub- section (1) of section 6 of that Act;

(d) "legal practitioner" means an advocate, vakil or an attorney of any High Court, and includes a pleader in practice.

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60 Prior to omission, section 34 read as under:-

" Power to award compensation

(1) Without prejudice to any other provisions contained in this Act, any person may make an application to the Commission for an orderfor the recovery of compensation from any enterprise for any loss or damage shown to have been suffered, by such person as a result of any contravention of the provisions of Chapter II, having been committed by such enterprise.

(2) The Commission may, after an inquiry made into the allegations mentioned in the application made under sub-section (1), pass an order directing the enterprise to make payment to the applicant, of the amount determined by it as realisable from the enterprise as compensation for the loss or damage caused to the applicant as a result of any contra vention of the provisions of Chapter II having been committed by such enterprise.

(3) Where any loss or damage referred to in sub-section (1) is caused to numerous persons having the same interest, one or more of such persons may, with the permission of the Commission, make an application under that sub-section for and on behalf of, or for the benefit of, the persons so interested, and thereupon, the provisions of rule 8 of Order 1 of the First Schedule to the Code of Civil

Procedure, 1908 (5 of 1908), shall apply subject to the modification that every reference therein to a suit or decree shall be construed as a reference to the application before the Commission and the order of the Commission thereon."

61 Subs. by Competition (Amendment) Act, 2007 for "complainant or defendant"

Power of Commission to regulate its own procedure

[62]**[36**. (1) In the discharge of its functions, the Commission shall be guided by the principles of natural justice and, subject to the other pro visions of this Act and of any rules made by the Central Government, the Commission shall have the powers to regulate its own procedure.

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62 Subs. by Competition (Amendment) Act, 2007 for:

"(1) The Commission shall not be bound by the procedure laid down by the Code of Civil Procedure,1908 (5 of 1908), but shall be guided by the principles of natural justice and, subject to the other provisions of this Act and of any rules made by the Central Government, the Commission shall have powers to regulate its own procedure including the places at which they shall have their sittings, duration of oral hearings when granted, and times of its inquiry.

(2) The Commission shall have, for the purposes of discharging its functions umder this Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908(5 of 1908), while trying a suit, in respect of the following matters, namely:—

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence on affidavits;

(d) issuing commissions for the examination of witnesses or documents;

(e) subject to the provisions of sections 123 and 124 of the Indian Evidence Act, 1872 (1of 1872), requisitioning any public record or document or copy of such record or document from any office;

(f) dismissing an application in default or deciding it ex parte; (g)any other matter which may be prescribed.

(3) Every proceeding before the Commission shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228 and for the purposes of section 196 of the Indian Penal Code (45 of 1860) and the Commission shall be deemed to be a civil court for the purposes of section 195 (2 of 1974) and Chapter XXVI of the Code of Criminal Procedure, 1973.

(4) The Commission may call upon such experts, from the fields of economics, commerce, accountancy, international trade or from any other discipline as it deems necessary, to assist the Commission in the conduct of any inquiry or proceeding before it.

(5) The Commission may direct any person—

(a) to produce before the Director General or the Registrar or an officer authorised by it, such books, accounts or other documents in the custody or under the control of such person so directed as may be specified or described in the direction, being documents relating to any trade, the examination of which may be required for the purposes of this Act;

(b) to furnish to the Director General or the Registrar or any officer authorised by it, as respects the trade or such other information as may be in his possession in relation to the trade carried on by such person, as may be required for the purposes of this Act.

(6) If the Commission is of the opinion that any agreement referred to in section 3 or "abuse of dominant position referred to in section 4 or the combination referred to in section 5 has caused or is likely to cause an appreciable adverse effect on competition in the relevant market in India and it is necessary to protect, without further delay, the interests of consumers and other market participants in India, it may conduct an inquiry or adjudicate upon any matter under this Act after giving a reason able oral hearing to the parties concerned."

(2) The Commission shall have, for the purposes of discharging its functions under this Act, the same powers as are vested in a Civil Court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely:-

(a) summoning and enforcing the attendance of any person and examining him on oath;

(b) requiring the discovery and production of documents;

(c) receiving evidence on affidavit;

(d) issuing commissions for the examination of witnesses or documents;

(e) requisitioning, subject to the provisions of sections 123 and 124 of the Indian Evidence Act, 1872 (1 of 1872), any public record or document or copy of such record or document from any office.

(3) The Commission may call upon such experts, from the fields of economics, commerce, accountancy, international trade or from any other discipline as it deems necessary to assist the Commission in the conduct of any inquiry by it.

(4) The Commission may direct any person:

(a) to produce before the Director General or the Secretary or an officer authorized by it, such books, or other documents in the custody or under the control of such person so directed as may be specified or described in the direction, being documents relating to any trade, the examination of which may be required for the purposes of this Act;

(b) to furnish to the Director General or the Secretary or any other officer authorized by it, as respects the trade or such other information as may be in his possession in relation to the trade carried on by such person, as may be required for the purposes of this Act.]

[63] **37**. [Omitted by Competition (Amendment) Act, 2007] (39 of 2007 with effect from 12th October 2007)

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[63] Prior to omission, section 37 read as under:-
" Review of orders of Commission
Any person aggrieved by an order of the Commission from which an appeal is allowed by this Act but no appeal has been preferred, may, within thirty days from the date of the order, apply to the Commission for review of its order and the Commission may make such order thereon as it thinks fit:
Provided that the Commission may entertain a review application after the expiry of the said period of thirty days, if it is satisfied that the applicant was prevented by sufficient cause from preferring the application in time:
Provided further that no order shall be modified or set aside without giving an opportunity of being heard to the person in whose favour the order is given and the Director General where he was a party to the proceedings."

Rectification of orders

38. (1) With a view to rectifying any mistake apparent from the record, the Commission may amend any order passed by it under the provisions of this Act.

(2) Subject to the other provisions of this Act, the Commission may make—

(a)an amendment under sub-section (1) of its own motion;

(b) an amendment for rectifying any such mistake which has been brought to its notice by any party to the order.

Explanation.—- For the removal of doubts, it is hereby declared that the Commission shall not, while rectifying any mistake apparent from record, amend substantive part of its order passed under the provisions of this Act.

[64] **[Execution of orders of Commission imposing monetary penalty]**

[65]**[39.**(1)If a person fails to pay any monetary penalty imposed on him under this Act, the Commission shall proceed to recover such penalty, in such manner as may be specified by the regulations.

(2) In a case where the Commission is of the opinion that it would be expedient to recover the penalty imposed under this Act in accordance with the provisions of the Income-tax Act, 1961 (43 of 1961), it may make a reference to this effect to the concerned income-tax authority under that Act for recovery of the penalty as tax due under the said Act.

(3) Where a reference has been made by the Commission under sub-section (2) for recovery of penalty, the person upon whom the penalty has been imposed shall be deemed to be the assessee in default under the Income Tax Act, 1961 (43 of 1961) and the provisions contained in sections 221 to 227, 228A, 229, 231 and 232 of the said Act and the Second Schedule to that Act and any rules made there under shall, in so far as may be, apply as if the said provisions were the provisions of this Act and referred to sums by way of penalty imposed under this Act instead of to income-

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64 Subs. by Competition (Amendment) Act, 2007 for "Execution of orders of Commission"

65 Subs. by Competition (Amendment) Act, 2007 for:

" Every order passed by the Commission under this Act shall be enforced by the Commission in the same manner as if it were a decree or order made by a High Court or the principal civil court in a suit pending therein and it shall be lawful for the Commission to send, in the event of its inability to execute it, such order to the High Court or the principal civil court, as the case may be, within the local limits of whose jurisdiction,—

(a) in the case of an order against a person referred to in sub-clause (iii) or sub-clause (vi) or subclause (vii) of clause (l) of section 2, the registered office or the sole or principal place of business of the person in India or where the person has also a subordinate office, that subordinate office, is situated;

(b) in the case of an order against any other person, the place, where the person concerned voluntarily resides or carries on business or personally works for gain, is situated, and thereupon the court to which the order is so sent shall execute the order as if it were a decree or order sent to it for execution."

tax and sums imposed by way of penalty, fine, and interest under the Income–tax Act, 1961 (43 of 1961) and to the Commission instead of the Assessing Officer.

Explanation 1 – Any reference to sub-section (2) or sub-section (6) of section 220 of the income-tax Act, 1961 (43 of 1961), in the said provisions of that Act or the rules made thereunder shall be construed as references to sections 43 to 45 of this Act.

Explanation 2 – The Tax Recovery Commissioner and the Tax Recovery Officer referred to in the Income-tax Act, 1961 (43 of 1961) shall be deemed to be the Tax Recovery Commissioner and the Tax Recovery Officer for the purposes of recovery of sums imposed by way of penalty under this Act and reference made by the Commission under sub-section (2) would amount to drawing of a certificate by the Tax Recovery Officer as far as demand relating to penalty under this Act.

Explanation 3– Any reference to appeal in Chapter XVIID and the Second Schedule to the Income-tax Act, 1961 (43 of 1961), shall be construed as a reference to appeal before the Competition Appellate Tribunal under section 53B of this Act.]

[66]**40**. [Omitted by Competition (Amendment) Act, 2007] (39 of 2007 with effect from 12th October 2007)

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[66] Prior to omission, section 40 read as under:-
"Any person aggrieved by any decision or order of the Commission may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Commission to him on one or more of the grounds specified in section 100 of the Code of Civil Procedure, 1908 (5 of 1908): Provided that the Supreme Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding sixty days: Provided further that no appeal shall lie against any decision or order of the Commission made with the consent of the parties."

CHAPTER V

DUTIES OF DIRECTOR GENERAL

Director General to investigate contravention

41. (1) The Director General shall, when so directed by the Commission, assist the Commission in investigating into any contravention of the provisions of this Act or any rules or regulations made thereunder.

(2) The Director General shall have all the powers as are conferred upon the Commission under subsection (2) of section 36.

(3) Without prejudice to the provisions of sub-section (2), sections 240 and 240A of the Companies Act, 1956 (1 of 1956), so far as may be, shall apply to an investigation made by the Director General or any other person investigating under his authority, as they apply to an inspector appointed under that Act.

[67][Explanation.—For the purposes of this section, --

(a) the words "the Central Government" under section 240 of the Companies Act,1956 (1 of 1956) shall be construed as "the Commission";

(b) the word "Magistrate" under section 240A of the Companies Act, 1956 (1 of1956) shall be construed as "the Chief Metropolitan Magistrate, Delhi".]

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[67] Ins. by Competition (Amendment) Act, 2007

CHAPTER VI

PENALTIES

Contravention of orders of Commission

[68][42.(1) The Commission may cause an inquiry to be made into compliance of its orders or directions made in exercise of its powers under the Act.

(2) If any person, without reasonable clause, fails to comply with the orders or directions of the Commission issued under sections 27, 28, 31, 32, 33, 42A and 43A of the Act, he shall be punishable with fine which may extend to rupees one lakh for each day during which such non-compliance occurs, subject to a maximum of rupees ten crore, as the Commission may determine.

(3) If any person does not comply with the orders or directions issued, or fails to pay the fine imposed under sub-section (2), he shall, without prejudice to any proceeding under section 39, be punishable with imprisonment for a term which may extend to three years, or with fine which may extend to rupees twenty-five crore, or with both, as the Chief Metropolitan Magistrate, Delhi may deem fit:

Provided that the Chief Metropolitan Magistrate, Delhi shall not take cognizance of any offence under this section save on a complaint filed by the Commission or any of its officers authorized by it.]

[69][Compensation in case of contravention of orders of Commission]

[70][**42A.** Without prejudice to the provisions of this Act, any person may make an application to the Appellate Tribunal for an order for the recovery of compensation from any enterprise for any loss or damage shown to have been suffered, by such person as a result of the said enterprise violating

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68 Subs. by Competition (Amendment) Act, 2007 for:

"(1) Without prejudice to the provisions of this Act, if any person contravenes, without any reasonable ground, any order of the Commission, or any condition or restriction subject to which any approval, sanction, direction or exemption in relation to any matter has been accorded, given, made or granted under this Act or fails to pay the penalty imposed under this Act, he shall be liable to be detained in civil prison for a term which may extend to one year, unless in the meantime the Commission directs his release and he shall also be liable to a penalty not exceeding rupees ten lakhs.

(2) The Commission may, while making an order under this Act, issue such directions to any person or authority, not inconsistent with this Act, as it thinks necessary or desirable, for the proper implementation or execution of the order, and any person who commits breach of, or fails to comply with, any obligation imposed on him under such direction, may be ordered by the Commission to be detained in civil prison for a term not exceeding one year unless in the meantime the Commission directs his release and he shall also be liable to a penalty not exceeding rupees ten lakhs."

69 Ins. by Competition (Amendment) Act, 2007

70 Ins. by Competition (Amendment) Act, 2007

directions issued by the Commission or contravening, without any reasonable ground, any decision or order of the Commission issued under sections 27, 28, 31, 32 and 33 or any condition or restriction subject to which any approval, sanction, direction or exemption in relation to any matter has been accorded, given, made or granted under this Act or delaying in carrying out such orders or directions of the Commission.]

Penalty for failure to comply with directions of Commission and Director General

[71]**[43.** If any person fails to comply, without reasonable cause, with a direction given by—

(a) the Commission under sub-sections (2) and (4) of section 36; or

(b) the Director General while exercising powers referred to in sub-section (2)of section 41,

such person shall be punishable with fine which may extend to rupees one lakh for each day during which such failure continues subject to a maximum of rupees one crore, as may be determined by the Commission.]

[72]**[Power to impose penalty for non-furnishing of information on combinations]**

[73]**[43A**. If any person or enterprise who fails to give notice to the Commission under sub- section(2) of section 6, the Commission shall impose on such person or enterprise a penalty which may extend to one percent, of the total turnover or the assets, whichever is higher, of such a combination.]

Penalty for making false statement or omission to furnish material information

44. If any person, being a party to a combination,—

(a) makes a statement which is false in any material particular, or knowing it to be false; or

(b) omits to state any material particular knowing it to be material, such person shall be liable to a penalty which shall not be less than rupees fifty lakhs but which may extend to rupees one crore, as may be determined by the Commission.

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71 Subs. by Competition (Amendment) Act, 2007 for:
"If any person fails to comply with a direction given by—
(a) the Commission under sub-section (5) of section 36; or
(b) the Director General while exercising powers referred to in sub-section (2) of section 41, the Commission shall impose on such person a penalty of rupees one lakh for each day during which such failure continues."

72 Ins. by Competition (Amendment) Act, 2007

73 Ins. by Competition (Amendment) Act, 2007

Penalty for offences in relation to furnishing of information

[74][**45**.(1) Without prejudice to the provisions of section 44, if a person, who furnishes or is required to furnish under this Act any particulars, documents or any information,—

(a) makes any statement or furnishes any document which he knows or has reason to believe to be false in any material particular; or

(b) omits to state any material fact knowing it to be material; or

(c) wilfully alters, suppresses or destroys any document which is required to be furnished as aforesaid,

such person shall be punishable with fine which may extend to rupees one crore as may be determined by the Commission.]

(2) Without prejudice to the provisions of sub-section(1), the Commission may also pass such other order as it deems fit.

Power to impose lesser penalty

46. The Commission may, if it is satisfied that any producer, seller, distributor, trader or service provider included in any cartel, which is alleged to have violated section 3, has made a full and true disclosure in respect of the alleged violations and such disclosure is vital, impose upon such producer, seller, distributor, trader or service provider a lesser penalty as it may deem fit, than leviable under this Act or the rules or the regulations:

[75][Provided that lesser penalty shall not be imposed by the Commission in cases where the report of investigation directed under section 26 has been received before making of such disclosure.]

Provided further that lesser penalty shall be imposed by the Commission only in respect of a producer, seller, distributor, trader or service provider included in the cartel, who [76][has] made the full, true and vital disclosures under this section.

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[74] Subs. by Competition (Amendment) Act, 2007 for :

"(1) Without prejudice to the provisions of section 44, if any person, who furnishes or is required to furnish under this Act any particulars, documents or any information—

(a) makes any statement or furnishes any document which he knows or has reason to believe to be false in any material particular; or

(b) omits to state any material fact knowing it to be material; or

(c) wilfully alters, suppresses or destroys any document which is required to be furnished as aforesaid, the Commission shall impose on such person a penalty which may extend to rupees ten lakhs."

[75] Subs. by Competition (Amendment) Act, 2007 for:

"Provided that lesser penalty shall not be imposed by the Commission in cases where proceedings for the violation of any of the provisions of this Act or the rules or has the regulations have been instituted or any investigation has been directed to be made under section 26 before making of such disclosure:"

[76] Subs. by Competition (Amendment) Act, 2007 for "first"

[77][Provided also that lesser penalty shall not be imposed by the Commission if the person making the disclosure does not continue to cooperate with the Commission till the completion of the proceedings before the Commission.]

Provided also that the Commission may, if it is satisfied that such producer, seller, distributor, trader or service provider included in the cartel had in the course of proceedings,—

(a) not complied with the condition on which the lesser penalty was imposed by the Commission; or

(b) had given false evidence; or

(c) the disclosure made is not vital,

and thereupon such producer, seller, distributor, trader or service provider may be tried for the offence with respect to which the lesser penalty was imposed and shall also be liable to the imposition of penalty to which such person has been liable, had lesser penalty not been imposed.

Crediting sums realised by way of penalties to Consolidated Fund of India

47. All sums realised by way of penalties under this Act shall be credited to the Consolidated Fund of India.

Contravention by companies

48. (1) Where a person committing contravention of any of the provisions of this Act or of any rule, regulation, order made or direction issued thereunder is a company, every person who, at the time the contravention was committed, was in charge of, and was responsible to the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment if he proves that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such contravention.

(2) Notwithstanding anything contained in sub-section (1), where a contravention of any of the provisions of this Act or of any rule, regulation, order made or direction issued thereunder has been committed by a company and it is proved that the contravention has taken place with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that contravention and shall be liable to be proceeded against and punished accordingly.

Explanation.—For the purposes of this section,—

(a) ”company” means a body corporate and includes a firm or other association of individuals; and

(b) ”director”, in relation to a firm, means a partner in the firm.

[77] Ins. by Competition (Amendment) Act, 2007

CHAPTER VII
COMPETITION ADVOCACY

Competition Advocacy

49. [78][(1) The Central Government may, in formulating a policy on competition (including review of laws related to competition) or any other matter, and a State Government may, in formulating a policy on competition or on any other matter, as the case may be, make a reference to the Commission for its opinion on possible effect of such policy on competition and on the receipt of such a reference, the Commission shall, within sixty days of making such reference, give its opinion to the Central Government, or the State Government, as the case may be, which may thereafter take further action as it deems fit.]

(2) The opinion given by the Commission under sub-section (1) shall not be binding upon the Central Government [79] [or the State Government, as the case may be] in formulating such policy.

(3) The Commission shall take suitable measures [80][***] for the promotion of competition advocacy, creating awareness and imparting training about competition issues.

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78 Subs. by Competition (Amendment) Act, 2007 for:

"(1) In formulating a policy on competition (including review of laws related to competition), the Central Government may make a reference to the Commission for its opinion on possible effect of such policy on competition and on receipt of such a reference, the Commission shall, within sixty days of making such reference, give its opinion to the Central Government, which may thereafter formulate the policy as it deems fit."

79 Ins. by Competition (Amendment) Act, 2007

80 The words "as may be prescribed" omitted by Competition (Amendment) Act, 2007

CHAPTER VIII

FINANCE, ACCOUNTS AND AUDIT

Grants by Central Government

50. The Central Government may, after due appropriation made by Parliament by law in this behalf, make to the Commission grants of such sums of money as the Government may think fit for being utilised for the purposes of this Act.

Constitution of Fund

51. (1) There shall be constituted a fund to be called the "Competition Fund" and there shall be credited thereto—

(a) all Government grants received by the Commission;

[81](b) [Omitted by Competition (Amendment) Act, 2007] (c) the fees received under this Act;

(d) the interest accrued on the amounts referred to in [82][clauses (a) and (c)].

(2) The Fund shall be applied for meeting—

(a) the salaries and allowances payable to the Chairperson and other Members and the administrative expenses including the salaries, allowances and pension payable to the Director General, Additional, Joint, Deputy or Assistant Directors General, the Registrar and officers and other employees of the Commission;

(b) the other expenses of the Commission in connection with the discharge of its functions and for the purposes of this Act.

(3) The Fund shall be administered by a committee of such Members of the Commission as may be determined by the Chairperson.

(4) The committee appointed under sub-section (3) shall spend monies out of the Fund for carrying out the objects for which the Fund has been constituted.

Accounts and Audit

52. (1) The Commission shall maintain proper accounts and other relevant records and prepare an annual statement of accounts in such form as may be prescribed by the Central Government in consultation with the Comptroller and Auditor-General of India.

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81 Prior to omission, clause (b) of section 51(1) read as under :-
"the monies received as costs from parties to proceedings before the Commission;"

82 Subs. by Competition (Amendment) Act, 2007 for "clauses (a) to (c)"

(2) The accounts of the Commission shall be audited by the Comptroller and Auditor- General of India at such intervals as may be specified by him and any expenditure incurred in connection with such audit shall be payable by the Commission to the Comptroller and Auditor-General of India.

Explanation.—For the removal of doubts, it is hereby declared that the orders of the Commission, being matters appealable to the [83][Appellate Tribunal or the Supreme Court], shall not be subject to audit under this section.

(3) The Comptroller and Auditor-General of India and any other person appointed by him in connection with the audit of the accounts of the Commission shall have the same rights, privileges and authority in connection with such audit as the Comptroller and Auditor-General of India generally has, in connection with the audit of the Government accounts and, in particular, shall have the right to demand the production of books, accounts, connected vouchers and other documents and papers and to inspect any of the offices of the Commission.

(4) The accounts of the Commission as certified by the Comptroller and Auditor- General of India or any other person appointed by him in this behalf together with the audit report thereon shall be forwarded annually to the Central Government and that Government shall cause the same to be laid before each House of Parliament.

Furnishing of returns, etc., to Central Government

53. (1) The Commission shall furnish to the Central Government at such time and in such form and manner as may be prescribed or as the Central Government may direct, such returns and statements and such particulars in regard to any proposed or existing measures for the promotion of competition advocacy, creating awareness and imparting training about competition issues, as the Central Government may, from time to time, require.

(2) The Commission shall prepare once in every year, in such form and at such time as may be prescribed, an annual report giving a true and full account of its activities during the previous year and copies of the report shall be forwarded to the Central Government.

(3) A copy of the report received under sub-section (2) shall be laid, as soon as may be after it is received, before each House of Parliament.

[83] Subs. by Competition (Amendment) Act, 2007 for “Supreme Court”

[84][CHAPTER VIIIA
COMPETITON APPELLATE TRIBUNAL

Establishment of Appellate Tribunal:

53A. (1) The Central Government shall, by notification, establish an Appellate Tribunal to be known as Competition Appellate Tribunal –

(a) to hear and dispose of appeals against any direction issued or decision made or order passed by the Commission under sub-sections (2) and (6) of section 26, section 27, section 28, section 31, section 32, section 33, section 38, section 39, section 43, section 43A, section 44, section 45 or section 46 of the Act;

(b) to adjudicate on claim for compensation that may arise from the findings of the Commission or the orders of the Appellate Tribunal in an appeal against any finding of the Commission or under section 42A or under sub- section(2) of section 53Q of this Act, and pass orders for the recovery of compensation under section 53N of this Act.

(2) The Headquarter of the Appellate Tribunal shall be at such place as the Central Government may, by notification, specify.

Appeal to Appellate Tribunal

53B. (1) The Central Government or the State Government or a local authority or enterprise or any person, aggrieved by any direction, decision or order referred to in clause (a) of section 53A may prefer an appeal to the Appellate Tribunal.

(2) Every appeal under sub-section (1) shall be filed within a period of sixty days from the date on which a copy of the direction or decision or order made by the Commission is received by the Central Government or the State Government or a local authority or enterprise or any person referred to in that sub-section and it shall be in such form and be accompanied by such fee as may be prescribed:

Provided that the Appellate Tribunal may entertain an appeal after the expiry of the said period of sixty days if it is satisfied that there was sufficient cause for not filing it within that period.

(3) On receipt of an appeal under sub-section (1), the Appellate Tribunal may,

after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the direction, decision or order appealed against.

(4) The Appellate Tribunal shall send a copy of every order made by it to the Commission and the parties to the appeal.

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[84] "Chapter VIIIA" Inserted by Competition (Amendment) Act, 2007

(5) The appeal filed before the Appellate Tribunal under sub-section (1) shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal within six months from the date of receipt of the appeal.

Composition of Appellate Tribunal

53C. The Appellate Tribunal shall consist of a Chairperson and not more than two other members to be appointed by the Central Government.

Qualifications for appointment of Chairperson and Members of Appellate Tribunal

53D.(1) The Chairperson of the Appellate Tribunal shall be a person, who is, or has been a Judge of the Supreme Court or the Chief Justice of a High Court.

(2) A member of the Appellate Tribunal shall be a person of ability, integrity and standing having special knowledge of, and professional experience of not less than twenty five years in, competition matters including competition law and policy, international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs, administration or in any other matter which in the opinion of the Central Government, may be useful to the Appellate Tribunal.

Selection Committee

53E.(1) The Chairperson and members of the Appellate Tribunal shall be appointed by the Central Government from a panel of names recommended by a Selection Committee consisting of –

(a) the Chief Justice of India or his nominee ………. Chairperson;

(b) the Secretary in the Ministry of Corporate Affairs………. Member;

(c) the Secretary in the Ministry of Law and Justice ………. Member.

(2) The terms of the Selection Committee and the manner of selection of panel of names shall be such as may be prescribed.

Term of office of Chairperson and Members of Appellate Tribunal

53F. The Chairperson or a member of the Appellate Tribunal shall hold office as such for a term of five years from the date on which he enters upon his office, and shall be eligible for re-appointment:

Provided that no Chairperson or other member of the Appellate Tribunal shall hold office as such after he has attained, -

(a) in the case of the Chairperson, the age of sixty-eight years;

(b) in the case of any other member of the Appellate Tribunal, the age of sixty-five years.

Terms and conditions of service of chairperson and Members of Appellate Tribunal

53G(1)The salaries and allowances and other terms and conditions of service of the Chairperson and other members of the Appellate Tribunal shall be such as may be prescribed.

(2) The salaries, allowances and other terms and conditions of service of the Chairperson and other members of the Appellate Tribunal shall not be varied to their disadvantage after their appointment.

Vacancies

53H. If, for any reason other than temporary absence, any vacancy occurs in the office of the Chairperson or a member of the Appellate Tribunal, the Central Government shall appoint another person in accordance with the provisions of this Act to fill the vacancy and the proceedings may be continued before the Appellate Tribunal from the stage at which the vacancy is filled.

Resignation of Chairperson and Members of Appellate Tribunal

53I. The Chairperson or a member of the Appellate Tribunal may, by notice in writing under his hand addressed to the Central Government, resign his office:

Provided that the Chairperson or a member of the Appellate Tribunal shall, unless he is permitted by the Central Government to relinquish his office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as his successor enters upon his office or until the expiry of his term of office, whichever is the earliest.

Member of Appellate Tribunal to act as its Chairperson in certain cases

53J.(1) In the event of the occurrence of any vacancy in the office of the Chairperson of the Appellate Tribunal by reason of his death or resignation, the senior-most Member of the Appellate Tribunal shall act as the Chairperson of the Appellate Tribunal until the date on which a new Chairperson appointed in accordance with the provisions of this Act to fill such vacancy enters upon his office.

(2) When the Chairperson of the Appellate Tribunal is unable to discharge his functions owing to absence, illness or any other cause, the senior-most member or, as the case may be, such one of the Members of the Appellate Tribunal, as the Central Government may, by notification, authorize in this behalf, shall discharge the functions of the Chairperson until the date on which the Chairperson resumes his duties.

Removal and suspension of Chairperson and Members of Appellate Tribunal

53K.(1) The Central Government may, in consultation with the Chief Justice of India, remove from office the Chairperson or any other member of the Appellate Tribunal, who-

(a) has been adjudged an insolvent; or

(b) has engaged at any time, during his terms of office, in any paid employment; or

(c) has been convicted of an offence which, in the opinion of the Centra Government, involves moral turpitude; or

(d) has become physically or mentally incapable of acting as such Chairperson or other Member of the Appellate Tribunal; or

(e) has acquired such financial or other interest as is likely to affect prejudicially his functions as such Chairperson or Member of the Appellate Tribunal; or

(f) has so abused his position as to render his continuance in office prejudicial to the public interest.

(2) Notwithstanding anything contained in sub-section (1), no Chairperson or a Member of the Appellate Tribunal shall be removed from his office on the ground specified in clause (e) or clause (f) of sub-section (1) except by an order made by the Central Government after an inquiry made in this behalf by a Judge of the Supreme Court in which such Chairperson or member had been informed of the charges against him and given a reasonable opportunity of being heard in respect of those charges.

Restriction on employment of Chairperson and other Members of Appellate Tribunal in certain cases

53L. The Chairperson and other members of the Appellate Tribunal shall not, for a period of two years from the date on which they cease to hold office, accept any employment in, or connected with the management or administration of, any enterprise which has been a party to a proceeding before the Appellate Tribunal under this Act:

Provided that nothing contained in this section shall apply to any employment under the Central Government or a State Government or local authority or in any statutory authority or any corporation established by or under any Central, State or Provincial Act or a Government Company as defined in section 617 of the Companies Act,1956 (1 of 1956).

Staff of Appellate Tribunal

53M.(1) The Central Government shall provide the Appellate Tribunal with such officers and other employees as it may think fit.

(2) The officers and other employees of the Appellate Tribunal shall dis charge their functions under the general superintendence and control of the Chairperson of the Appellate Tribunal.

(3) The salaries and allowances and other conditions of service of the officers and other employees of the Appellate Tribunal shall be such as may be prescribed.

Awarding compensation

53N.(1) Without prejudice to any other provisions contained in this Act, the Central Government or a State Government or a local authority or any enterprise or any person may make an application to the Appellate Tribunal to adjudicate on claim for compensation that may arise from the findings of the Commission or the orders of the Appellate Tribunal in an appeal against any findings of the Commission or under section 42A or under sub-section(2) of section 53Q of the Act, and to pass an order for the recovery of compensation from any enterprise for any loss or damage shown to have been suffered, by the Central Government or a State Government or a local authority or any enterprise or any person as a result of any contravention of the provisions of Chapter II, having been committed by enterprise.

(2) Every application made under sub-section (1) shall be accompanied by the findings of the Commission, if any, and also be accompanied with such fees as may be prescribed.

(3) The Appellate Tribunal may, after an inquiry made into the allegations mentioned in the application made under sub-section (1), pass an order directing the enterprise to make payment to the applicant, of the amount determined by it as realisable from the enterprise as compensation for the loss or damage caused to the applicant as a result of any contravention of the provisions of Chapter II having been committed by such enterprise:

Provided that the Appellate Tribunal may obtain the recommendations of the Commission before passing an order of compensation.

(4) Where any loss or damage referred to in sub-section (1) is caused to numerous persons having the same interest, one or more of such persons may, with the permission of the Appellate Tribunal, make an application under that sub-section for and on behalf of, or for the benefit of, the persons so interested, and thereupon, the provisions of rule 8 of Order 1 of the First Schedule to the Code of Civil Procedure, 1908 (5 of 1908), shall apply subject to the modification that every reference therein to a suit or decree shall be construed as a reference to the application before the Appellate Tribunal and the order of the Appellate Tribunal thereon.

Explanation.—For the removal of doubts, it is hereby declared that—

(a) an application may be made for compensation before the Appellate Tribunal only after either the Commission or the Appellate Tribunal on appeal under clause (a) of sub-section(1) of section 53A of the Act, has determined in a proceeding before it that violation of the provisions of the Act has taken place, or if provisions of section 42A or sub-section(2) of section 53Q of the Act are attracted.

(b) enquiry to be conducted under sub-section(3) shall be for the purpose of determining the eligibility and quantum of compensation due to a person applying for the same, and not for examining afresh the findings of the Commission or the Appellate Tribunal on whether any violation of the Act has taken place.

Procedures and powers of Appellate Tribunal

53O.(1) The Appellate Tribunal shall not be bound by the procedure laid down in the Code of Civil Procedure, 1908 (5 of 1908), but shall be guided by the principles of natural justice and, subject to the other provisions of this Act and of any rules made by the Central Government, the Appellate Tribunal shall have power to regulate its own procedure including the places at which they shall have their sittings.

(2) The Appellate Tribunal shall have, for the purposes of discharging its functions under this Act, the same powers as are vested in a civil court under the Code of

Civil Procedure, 1908 (5 of 1908) while trying a suit in respect of the following matters, namely:-

a) summoning and enforcing the attendance of any person and examining him on oath;

b) requiring the discovery and production of documents;

c) receiving evidence on affidavit;

d) subject to the provisions of sections 123 and 124 of the Indian Evidence Act, 1872 (1 of 1872), requisitioning any public record or document or copy of such record or document from any office;

e) issuing commissions for the examination of witnesses or documents;

f) reviewing its decisions;

g) dismissing a representation for default or deciding it exparte;

h) setting aside any order of dismissal of any representation for default or any order passed by it ex parte;

i) any other matter which may be prescribed.

(3) Every proceedings before the Appellate Tribunal shall be deemed to be judicial proceedings within the meaning of sections 193 and 228, and for the purposes of section 196, of the Indian Penal Code (45 of 1860) and the Appellate Tribunal shall be deemed to be a civil court for the purposes of section 195 (2 of 1974) and Chapter XXVI of the Code or Criminal Procedure, 1973.

Execution of orders of Appellate Tribunal

53P.(1) Every order made by the Appellate Tribunal shall be enforced by it in the same manner as if it were a decree made by a court in a suit pending therein, and it shall be lawful for the Appellate Tribunal to send, in case of its inability to execute such order, to the court within the local limits of whose jurisdiction,-

a) in the case of an order against a company, the registered office of the company is situated; or

b) in the case of an order against any other person, place where the person concerned voluntarily resides or carries on business or personally works for gain, is situated.

(2) Notwithstanding anything contained in sub-section (1), the Appellate Tribunal may transmit any order made by it to a civil court having local jurisdiction and such civil court shall execute the order as if it were a decree made by that court.

Contravention of orders of Appellate Tribunal

53Q.(1) Without prejudice to the provisions of this Act, if any person contravenes, without any reasonable ground, any order of the Appellate Tribunal, he shall be liable for a penalty of not exceeding rupees one crore or imprisonment for a term up to three years or with both as the Chief Metropolitan Magistrate, Delhi may deem fit:

Provided that the Chief Metropolitan Magistrate, Delhi shall not take cognizance of any offence punishable under this sub-section, save on a complaint made by an officer authorized by the Appellate Tribubnal.

(2) Without prejudice to the provisions of this Act, any person may make an application to the Appellate Tribunal for an order for the recovery of compensation from any enterprise for any loss or damage shown to have been suffered, by such person as a result of the said enterprise contravening, without any reasonable ground, any order of the Appellate Tribunal or delaying in carrying out such orders of the Appellate Tribunal.

Vacancy in Appellate Tribunal not to invalidate acts or proceedings

53R. No act or proceeding of the Appellate Tribunal shall be questioned or shall be invalid merely on the ground of existence of any vacancy or defect in the constitution of the Appellate Tribunal.

Right to legal representation

53S.(1) A person preferring an appeal to the Appellate Tribunal may either appear in person or authorize one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any of its officers to present his or its case before the Appellate Tribunal.

(2) The Central Government or a State Government or a local authority or any enterprise preferring an appeal to the Appellate Tribunal may authorize one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any of its officers to act as presenting officers and every person so authorized may present the case with re-

spect to any appeal before the Appellate Tribunal.

(3) The Commission may authorize one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any of its officers to act as presenting officers and every person so authorized may present the case with respect to any appeal before the Appellate Tribunal.

Explanation – The expressions "chartered accountant" or "company secretary" or "cost accountant" or "legal practitioner" shall have the meanings respectively assigned to them in the Explanation to section 35.

Appeal to Supreme Court

53T. The Central Government or any State Government or the Commission or any statutory authority or any local authority or any enterprise or any person aggrieved by any decision or order of the Appellate Tribunal may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Appellate Tribunal to them;

Provided that the Supreme court may, if it is satisfied that the applicant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed after the expiry of the said period of sixty days.

Power to Punish for contempt

53U. The Appellate Tribunal shall have, and exercise, the same jurisdiction, powers and authority in respect of contempt of itself as a High Court has and may exercise and, for this purpose, the provisions of the Contempt of Courts Act, 1971 (70 of 1971) shall have effect subject to modifications that,--

(a) the reference therein to a High Court shall be construed as including a reference to the Appellate Tribunal;

(b) the references to the Advocate-General in section 15 of the said Act shall be construed as a reference to such Law Officer as the Central Government may, by notification, specify in this behalf.]

CHAPTER IX
MISCELLANEOUS

Power to exempt

54. The Central Government may, by notification, exempt from the application of this Act, or any provision thereof, and for such period as it may specify in such notification—

(a) any class of enterprises if such exemption is necessary in the interest of security of the State or public interest;

(b) any practice or agreement arising out of and in accordance with any obligation assumed by India under any treaty, agreement or convention with any other country or countries;

(c) any enterprise which performs a sovereign function on behalf of the Central Government or a State Government:

Provided that in case an enterprise is engaged in any activity including the activity relatable to the sovereign functions of the Government, the Central Government may grant exemption only in respect of activity relatable to the sovereign functions.

Power of Central Government to issue directions

55.(1) Without prejudice to the foregoing provisions of this Act, the Commission shall, in exercise of its powers or the performance of its functions under this Act, be bound by such directions on questions of policy, other than those relating to technical and administrative matters, as the Central Government may give in writing to it from time to time:

Provided that the Commission shall, as far as practicable, be given an opportunity to express its views before any direction is given under this sub- section.

(2) The decision of the Central Government whether a question is one of policy or not shall be final.

Power of Central Government to supersede Commission

56. (1) If at any time the Central Government is of the opinion—

(a) that on account of circumstances beyond the control of the Commission, it is unable to discharge the functions or perform the duties imposed on it by or under the provisions of this Act; or

(b) that the Commission has persistently made default in complying with any direction given by the Central Government under this Act or in the discharge of the functions or performance of the duties imposed on it by or under the provisions of this Act and as a result of such default the financial position of the Commission or the administration of the Commission has suffered; or

(c) that circumstances exist which render it necessary in the public interest so to do,

the Central Government may, by notification and for reasons to be specified therein, supersede the Commission for such period, not exceeding six months, as may be specified in the notification:

Provided that before issuing any such notification, the Central Government shall give a reasonable opportunity to the Commission to make representations against the proposed supersession and shall consider representations, if any, of the Commission.

(2) Upon the publication of a notification under sub-section (1) superseding the Commission,—

(a) the Chairperson and other Members shall as from the date of supersession, vacate their offices as such;

(b) all the powers, functions and duties which may, by or under the provisions of this Act, be exercised or discharged by or on behalf of the Commission shall, until the Commission is reconstituted under sub-section (3), be exercised and discharged by the Central Government or such authority as the Central Government may specify in this behalf;

(c) all properties owned or controlled by the Commission shall, until the Commission is reconstituted under sub-section (3), vest in the Central Government.

(3) On or before the expiration of the period of supersession specified in the notification issued under subsection (1), the Central Government shall reconstitute the Commission by a fresh appointment of its Chairperson and other Members and in such case any person who had vacated his office under clause (a) of sub-section (2) shall not be deemed to be disqualified for re-appointment.

(4) The Central Government shall cause a notification issued under sub-section (1) and a full report of any action taken under this section and the circumstances leading to such action to be laid before each House of Parliament at the earliest.

Restriction on disclosure of information

57. No information relating to any enterprise, being an information which has been obtained by or on behalf of [85][the Commission or the Appellate Tribunal] for the purposes of this Act, shall, without the previous permission in writing of the enterprise, be disclosed otherwise than in compliance with or for the purposes of this Act or any other law for the time being in force.

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[85] Subs. by Competition (Amendment) Act, 2007 for “the Commission”

[86][Chairperson, Members, Director General, Secretary, officers and other employees, etc., to be public servants]

[87]**[58.**The Chairperson and other Members and the Director General, Additional, Joint, Deputy or Assistant Directors General and Secretary and officers and other employees of the Commission and the Chairperson, Members, officers and other employees of the Appellate Tribunal shall be deemed, while acting or purporting to act in pursuance of any of the provisions of this Act, to be public servants within the meaning of section 21 of the Indian Penal Code (45 of 1860).]

Protection of action taken in good faith

59. No suit, prosecution or other legal proceedings shall lie against the Central Government or Commission or any officer of the Central Government or the Chairperson or any Member or the Director- General, Additional, Joint, Deputy or Assistant Directors General or [88][the Secretary or officers or other employees of the Commission or the Chairperson, Members, officers and other employees of the Appellate Tribunal] for anything which is in good faith done or intended to be done under this Act or the rules or regulations made thereunder.

Act to have overriding effect

60. The provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force.

Exclusion of jurisdiction of civil courts

61. No civil court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the [89] [Commission or the Appellate Tribunal] is empowered by or under this Act to determine and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act.

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[86] Subs. by Competition (Amendment) Act, 2007 for "Members, Director General, Registrar, officers and other employees, etc. of Commission to be public servants"

[87] Subs. by Competition (Amendment) Act, 2007 for :
"The Chairperson and other Members and the Director General, Additional, Joint, Deputy or Assistant Directors General and Registrar and officers and other employees of the Commission shall be deemed, while acting or purporting to act in pursuance of any of the provisions of this Act, to be public servants within the meaning of section 21 of the Indian Penal Code (45 of 1860)."

[88] Subs. by Competition (Amendment) Act, 2007 for "the Registrar or officers or other employees of the Commission"

[89] Subs. by Competition (Amendment) Act, 2007 for "Commission"

Application of other laws not barred

62. The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

Power to make rules

63. (1) The Central Government may, by notification, make rules to carry out the provisions of this Act;

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:-—

[90][(a) the term of the Selection Committee and the manner of selection of panel of names under sub-section (2) of Section 9;]

(b) the form and manner in which and the authority before whom the oath of office and of secrecy shall be made and subscribed to under sub-section (3) of section 10;

[91](c) [Omitted by Competition (Amendment) Act, 2007.

(d) the salary and the other terms and conditions of service including travelling expenses, house rent allowance and conveyance facilities, sumptuary allowance and medical facilities to be provided to the Chairperson and other Members under sub-section (1) of section 14;

[92][(da) the number of Additional, Joint, Deputy or Assistant Directors General or such officers or other employees in the office of Director General and the manner in which such Additional, Joint, Deputy or Assistant Directors General or such officers or other employees may be appointed under sub- section (1A) of section 16;]

(e) the salary, allowances and other terms and conditions of service of the Director General, Additional, Joint, Deputy or Assistant Directors General or [93][such officers or other employees] under sub-section (3) of section16;

(f) the qualifications for appointment of the Director General, Additional, Joint, Deputy or Assistant Directors General or [94][such officers or other employees] under sub-section (4) of section 16;

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90 Subs. by Competition (Amendment) Act, 2007 for:
" the manner in which the Chairperson and other Members shall be selected under section 9;"

91 Prior to omission, clause (c) of sub-section(2) of section 63 read as under:-
"the financial and administrative powers which may be vested in the Member Administration under section 13;"

92 Ins. by Competition (Amendment) Act, 2007

93 Subs. by Competition (Amendment) Act, 2007 for "such other advisers, consultants or officers"

94 Subs. by Competition (Amendment) Act, 2007 for "such other advisers, consultants or officers"

(g) the salaries and allowances and other terms and conditions of service of the [95] [Secretary] and officers and other employees payable, and the number of such officers and employees under sub-section (2) of section17;

[96](h) [Omitted by Competition (Amendment) Act, 2007]

[97](i) [Omitted by Competition (Amendment) Act, 2007]

[98](j) [Omitted by Competition (Amendment) Act, 2007]

(k) the form in which the annual statement of accounts shall be prepared under sub-section (1) of section 52;

(*l*) the time within which and the form and manner in which the Commission may furnish returns, statements and such particulars as the Central Government may require under sub-section (1) of section 53;

(m) the form in which and the time within which the annual report shall be prepared under sub-section (2) of section 53;

[99][(ma) the form in which an appeal may be filed before the Appellate Tribunal under sub-section (2) of section 53B and the fees payable in respect of such appeal;

(mb) the term of the Selection Committee and the manner of selection of panel of names under sub-section(2) of section 53E;

(mc) the salaries and allowances and other terms and conditions of service of the Chairperson and other Members of the Appellate Tribunal under sub- section (1) of section 53G;

(md) the salaries and allowances and other conditions of service of the officers and other employees of the Appellate Tribunal under sub-section (3) of section 53M;

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95 Subs. by Competition (Amendment) Act, 2007 for "Registrar"

96 Prior to omission, clause (h) of sub-section(2) of section 63 read as under:-
"for securing any case or matter which requires to be decided by a Bench composed of more than two Members under sub-section (4) of section 23;"

97 Prior to omission, clause (i) of sub-section(2) of section 63 read as under:-
"any other matter in respect of which the Commission shall have power under clause (g) of sub-section (2) of section 36;"

98 Prior to omission, clause (j) of sub-section(2) of section 63 read as under:-
"the promotion of competition advocacy, creating awareness and imparting training about competition issues under sub-section (3) of section49;"

99 Ins. by Competition (Amendment) Act, 2007

(me) the fee which shall be accompanied with every application made under sub-section (2) of section 53N;

(mf) the other matters under clause (i) of sub-section(2) of section 53O in respect of which the Appellate Tribunal shall have powers under the Code of Civil Procedure, 1908 (5 of 1908) while trying a suit;]

[100][(n) the manner in which the monies transferred to the Competition Commission of India or the Appellate Tribunal shall be dealt with by the Commission or the Appellate Tribunal, as the case may be, under the fourth proviso to sub-section(2) of section 66 ;]

(o) any other matter which is to be, or may be, prescribed, or in respect of which provision is to be, or may be, made by rules.

(3) Every notification issued under sub-section(3) of section 20 and section 54 and every rule made under this Act by the Central Government shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session, or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the notification or rule, or both Houses agree that the notification should not be issued or rule should not be made, the notification or rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that notification or rule, as the case may be.

Power to make regulations

64. (1) The Commission may, by notification, make regulations consistent with this Act and the rules made thereunder to carry out the purposes of this Act.

(2) In particular, and without prejudice to the generality of the foregoing provisions, such regulations may provide for all or any of the following matters, namely:—

(a) the cost of production to be determined under clause (b) of the Explanation to section 4;

(b) the form of notice as may be specified and the fee which maybe determined under sub-section(2) of section 6;

(c) the form in which details of the acquisition shall be filed under subsection(5) of Section 6;

[101][(d) the procedures to be followed for engaging the experts and professionals under sub-section(3) of section 17;

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100 Subs. by Competition (Amendment) Act, 2007 for:
" the manner in which the monies transferred to the Central Government shall be dealt with by that Government under the fourth proviso to sub-section (2) of section 66;"

101 Subs. by Competition (Amendment) Act, 2007 for:
(d) the fee which may be determined under clause (a) of sub-section (1) of section 19;
(e) any other matter in respect of which provision is to be, or may be, made by regulations."

(e) the fee which may be determined under clause (a) of sub-section(1) of section 19;

(f) the rules of procedure in regard to the transaction of business at the meetings of the Commission under sub-section(1) of section 22;

(g) the manner in which penalty shall be recovered under sub-section(1) of section 39;

(h) any other matter in respect of which provision is to be, or may be, made by regulations.]

(3) Every regulation made under this Act shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the regulation, or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.

Power to remove difficulties

65. (1) If any difficulty arises in giving effect to the provisions of this Act, the Central Government may, by order published in the Official Gazette, make such provisions, not inconsistent with the provisions of this Act as may appear to it to be necessary for removing the difficulty: Provided that no such order shall be made under this section after the expiry of a period of two years from the commencement of this Act.

(2) Every order made under this section shall be laid, as soon as may be after it is made, before each House of Parliament.

Repeal And saving

66.[(1) [102]The Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) is hereby repealed and the Monopolies and Restrictive Trade Practices Commission established under sub-section (1) of section 5 of the said Act (hereinafter referred to as the repealed Act) shall stand dissolved.

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[102] Subs. by Competition (Amendment) Act, 2007 for:

(1) "The Monopolies and Restrictive Trade Practices Act, 1969 is hereby repealed and the Monopolies and Restrictive Trade Practices Commission established under sub-section

(1) of section 5 of the said Act (hereinafter referred to as the repealed Act) (54 of 1969) shall stand dissolved."

[102 A][***]

(1A)The repeal of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) shall, however, not affect,-

a) the previous operation of the Act so repealed or anything duly done or Suffered thereunder; or

b) any right, privilege, obligation or liability acquired, accrued or incurred under the Act so repealed; or

c) any penalty, confiscation or punishment incurred in respect of any contravention under the Act so repealed; or

d) any proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, confiscation or punishment as aforesaid, and any such proceeding or remedy may be instituted, continued or enforced, and any such penalty, confiscation or punishment may be imposed or made as if that Act had not been repealed.]

2) On the dissolution of the Monopolies and Restrictive Trade Practices Commission, the person appointed as the Chairman of the Monopolies and Restrictive Trade Practices Commission and every other person appointed as Member and Director General of Investigation and Registration, Additional, Joint, Deputy, or Assistant Directors General of Investigation and Registration and any officer and other employee of that Commission and holding office as such immediately before such dissolution shall vacate their respective offices and such Chairman and other Members shall be entitled to claim compensation not exceeding three months' pay and allowances for the premature termination of term of their office or of any contract of service.

Provided that the Director General of Investigation and Registration, Additional, Joint, Deputy or Assistant Directors General of Investigation and Registration or any officer or other employee who has been, immediately before the dissolution of the Monopolies and Restrictive Trade Practices

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[102 A] The proviso and the explanation omitted by Act 39 of 2009, sec 2(a)(w.e.f14-10-2009).The proviso and the explanation, before ommission, stood as under:

"Provided that, notwithstanding anything contained in this sub-section, the Monopolies and Restrictive Trade Practices Commission established under sub section(1) of section 5 of the repealed Act, may continue to exercise jurisdiction and power under the repealed Act for a period of two years from the date of the commencement of this Act in respect of all cases or proceedings (including complaints received by it or references or applications made to it) filed before the commencement of this Act as if the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) had not been repealed and all the provisions of the said Act so repealed shall mutatis mutandis apply to such cases or proceedings or complaints or references or applications and to all other matters.

Explanation: For the removal of doubts, it is hereby declared that nothing in this proviso shall confer any jurisdiction or power upon the Monopolies and Restrictive Trade Practices Commission to decide or adjudicate any case or proceeding arising under the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) on or after the commencement of this Act."

Commission appointed on deputation basis to the Monopolies and Restrictive Trade Practices Commission, shall, on such dissolution, stand reverted to his parent cadre, Ministry or Department, as the case may be:

[103][Provided further that the Director-General of Investigation and Registration,

Additional, Joint, Deputy or Assistant Directors General of Investigation and Registration or any officer or other employee who has been, immediately before the dissolution of the Monopolies and Restrictive Trade Practices Commission, employed on regular basis by the Monopolies and Restrictive Trade Practices Commission, shall become, on and from such dissolution, the officer and employee, respectively, of the Competition Commission of India or the Appellate Tribunal, in such manner as may be specified by the Central Government, with the same rights and privileges as to pension, gratuity and other like matters as would have been admissible to him if the rights in relation to such Monopolies and Restrictive Trade Practices Commission had not been transferred to, and vested in, the Competition Commission of India or the Appellate Tribunal, as the case may be, and shall continue to do so unless and until his employment in the Competition Commission of India or the Appellate Tribunal, as the case may be, is duly terminated or until his remuneration, terms and conditions of employment are duly altered by the Competition Commission of India or the Appellate

Tribunal, as the case may be.]

Provided also that notwithstanding anything contained in the Industrial Disputes Act, 1947(14 of 1947), or in any other law for the time being in force, the transfer of the services of any Director General of Investigation and Registration, Additional, Joint, Deputy or Assistant Directors General of Investigation and Registration or any officer or other employee, employed in the Monopolies and Restrictive Trade Practices Commission, to [104][the Competition Commission of India or the Appellate Tribunal], as the case may be, shall not entitle such Director General of Investigation and Registration, Additional, Joint, Deputy or Assistant Directors General of Investigation and Registration or any officer or other employee any compensation under this Act or any other law for the time being in force and no such claim shall be entertained by any court, tribunal or other authority: Provided also that where the Monopolies and Restrictive Trade Practices Commission has established a provident fund, superannuation, welfare or other fund for the benefit of the Director

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103 Subs. by Competition (Amendment) Act, 2007 for:
"Provided further that the Director General of Investigation and Registration, Additional, Joint, Deputy or Assistant Directors General of Investigation and Registration or any officer or other employee who has been, immediately before the dissolution of the Monopolies and
Restrictive Trade Practices Commission, employed on regular basis by the Monopolies and Restrictive Trade Practices Commission, shall become, on and from such dissolution, the officer and employee, respectively, of the Central Government with the same rights and privileges as to pension, gratuity and other like matters as would have been admissible to him if the rights in relation to such Monopolies and Restrictive Trade Practices Commission had not been transferred to, and vested in, the Central Government and shall continue to do so unless and until his employment in the Central Government is duly terminated or until his remuneration, terms and conditions of employment are dulyaltered by that Government:"

104 Subs. by Competition (Amendment) Act, 2007 for "the Central Government"

General of Investigation and Registration, Additional, Joint, Deputy or Assistant Directors General of Investigation and Registration or the officers and other employees employed in the Monopolies and Restrictive Trade Practices Commission, the monies relatable to the officers and other employees whose services have been transferred by or under this Act to [105][the Competition Commission of India or the Appellate Tribunal, as the case may be, shall, out of the monies standing] on the dissolution of the Monopolies and Restrictive Trade Practices Commission to the credit of such provident fund, superannuation, welfare or other fund, stand transferred to, and vest in, [106][the Competition Commission of India or the Appellate Tribunal as the case may be, and such monies which stand so transferred shall be dealt with by the said Commission or the Tribunal, as the case may be, in such manner as may be prescribed.]

[107] (3.) All cases pertaining to monopolistic trade practices or restrictive trade practices pending (including such cases, in which any unfair trade practice has also been alleged), before the Monopolies and Restrictive Trade Practices Commission shall , [(107 A)] on the commencement of the competition Amendment Act,.2009 stand transferred to the Appellate Tribunal and shall be adjudicated by the Appellate Tribunal in accordance with the provisions of the repealed Act as if that Act had not been repealed.]

[(107B)] "Explanation-'For the removal of doubts, it is hereby declared that all cases referred to in this sub-section, sub-section(4)and sub-section (5)shall be deemed to include all applications made for the losses or damages under section 12(B)of the Monopolies and Restrictive Trade Practices Act,1969(54of1969)as it stood before its repeal";

4.) Subject to the provisions of sub-section(3), all cases pertaining to unfair trade practices other than those referred to in clause (x) of sub-section(1) of section 36A of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) and pending before

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105 Subs. by Competition (Amendment) Act, 2007 for "the Central Government shall, out of the monies standing"

106 Subs. by Competition (Amendment) Act, 2007 for:
"the Central Government and such monies which stand so transferred shall be dealt with by the said Government in such manner as may be prescribed."

107 Subs. by Competition (Amendment) Act, 2007 for:
" All cases pertaining to monopolistic trade practices or restrictive trade practices pending before the Monopolies and Restrictive Trade Practices Commission on or before the commencement of this Act, including such cases, in which any unfair trade practice has also been alleged, shall, on such commencement, stand transferred to the Competition Commission of India and shall be adjudicated by that Commission in accordance with the provisions of the repealed Act as if that Act had not been repealed." Subs by Act 39of 2009, sec 2(b)(i) w.e.f 14-10-2009) for "after the expiry of two years referred to in the proviso to subsection(1)" Explanation added by Act 39of 2009, sec 2(b)(ii) w.e.f 14-10-2009)

107 A Subs by Act 39 of 2009, Section 2(b)(i) w.e.f 14-10-2009, for" after the expiry of two year re ferred to in the proviso to the Subsection (i)"

107 B Explanation added by Act 39 of 2009, Section 2(b)(ii) w.e.f 14-10-2009.

the Monopolies and Restrictive Trade Practices Commission [108]["immediately before the commencement of the Competition (Amendment) Act, 2009 shall, on such commencement", shall, stand transferred to the National Commission constituted under the Consumer Protection Act, 1986 (68 of 1986) and the National Commission shall dispose of such cases as if they were cases filed under that Act:

Provided that the National Commission may, if it considers appropriate, transfer any case transferred to it under this sub-section, to the concerned State Commission established under section 9 of the Consumer Protection Act, 1986 (68 of 1986) and that State Commission shall dispose of such case as if it was filed under that Act.

[(108 A)] Provided further that all the cases relating to the unfair trade practices pending, before the National Commission under this sub-section, on or before the date on which the competition (Amendment) Bill, 2009 receives the assent of the President, shall, on and from that date, stand transferred to the Appellate Tribunal and be adjudicated by the Appellate Tribunal in accordance with the provisions of the repealed Act as if that Act had not been repealed.

5.) [(109)] All cases pertaining to unfair trade practices referred to in clause (x) of subsection (1) of section 36A of the Monopolies and Restrictive Trade Practices Act, 1969 and pending before the Monopolies and Restrictive Trade Practices Commission shall, ([109A]) "on the commencement of the Competition (Amendment) Act, 2009" stand transferred to the Appellate Tribunal and the Appellate Tribunal shall dispose of such cases as if they were cases filed under that Act.]

6.) All investigations or proceedings, other than those relating to unfair trade practices, pending before the Director General of Investigation and Registration on or before the commencement of this Act shall, on such commencement, stand transferred to the Competition Commission of India, and the Competition Commission of India may conduct or order for conduct of such investigation or proceedings in the manner as it deems fit.

7.) All investigations or proceedings, relating to unfair trade practices, other than those referred to in clause (x) of sub-section (1) of section 36A of the Monopolies

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108 Subs. by Act 39 of 2009, Section 2(c)(i) w.e.f 14-10-2009.for "on or before the expiry of two years referred to in the proviso to subsection (1)"

108 A Proviso inserted by Act 39 of 2009, Section 2(c)(ii) w.e.f 14-10-2009.

109 Subs. by Competition (Amendment) Act, 2007 for:
" All cases pertaining to unfair trade practices referred to in clause (x) of sub-section (1) of section 36A of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969) and pending before the Monopolies and Restrictive Trade Practices Commission on or before the commencement of this Act shall, on such commencement, stand transferred to the Competition Commission of India, and the Competition Commission of India shall dispose of such cases as if they were cases filed under that Act,."

109 A Subs by Act 39 of 2009, Section 2(d) w.e.f 14-10-2009 for "after the expiry of two years referred to in the proviso to subsection (1)"

and Restrictive Trade Practices Act, 1969(54 of 1969) and pending before the Director General of Investigation and Registration on or before the commencement of this Act shall, on such commencement, stand transferred to the National Commission constituted under the Consumer Protection Act, 1986 (68 of 1986) and the National Commission may conduct or order for conduct of such investigation or proceedings in the manner as it deems fit.

[109B] "Provided that all investigations or proceedings, relating to unfair trade practices pending before the National Commission, on or before the date on which the Competition (Amendment) Bill, 2009 receives the assent of the President shall, on and from that date, stand transferred to the Appellate Tribunal and the Appellate Tribunal may conduct or order for conduct of such investigation or proceedings in the manner as it deems fit."

8.) All investigations or proceedings relating to unfair trade practices referred to in clause (x) of subsection (1) of section 36A of the Monopolies and Restrictive Trade Practices Act, 1969(54 of 1969), and pending before the Director General of Investigation and Registration on or before the commencement of this Act shall, on such commencement, stand transferred to the Competition Commission of India and the Competition Commission of India may conduct or order for conduct of such investigation in the manner as it deems fit.

9.) Save as otherwise provided under sub-sections (3) to (8), all cases or proceedings pending before the Monopolies and Restrictive Trade Practices Commission shall abate.

10.) The mention of the particular matters referred to in sub-sections (3) to (8) shall not be held to prejudice or affect the general application of section 6 of the General Clauses Act, 1897 (10 of 1897) with regard to the effect of repeal.

[109 B] Proviso inserted by Act. 39 of 2009, Section 2(e) w.e.f 14-10-2009.

सत्यमेव जयते

National Intellectual Property Rights Policy

रचनात्मक भारत; अभिनव भारत

Creative India; Innovative India

सत्यमेव जयते

National Intellectual Property Rights Policy

12th May 2016

Government of India
Ministry of Commerce and Industry
Department of Industrial Policy & Promotion

सत्यमेव जयते

Minister of State (Independent Charge)
Commerce & Industry
India

MESSAGE

The National Intellectual Property Rights (IPR) Policy, recently approved by the Union Cabinet, is a gaint leap by the Government of India to spur creativity and stimulate innovation. The document lays the roadmap for the future of IPRs in India.

In the 21st century, a nation's progress is catalyzed through its knowledge economy, which is driven by the creative capabilities and leverage of its innovation. The policy reinforces the strengths of IPRs to acquire both economic and social benefits on a bigger and higher scale for India. A vibrant Intellectual Property (IP) ecosystem will not only enhance the economic development of India, but also promote public welfare by protecting the rights of all its citizens. The policy will also reinforce the IPR related service-delivery mechanism of the Government, besides encompassing research and development organisations, educational institutions, corporations, MSMEs, start-ups and other stakeholders in the creation of an innovation-conducive ambience.

The Department had set up an IPR Think Tank to prepare the Policy, and it has gone about its task very painstakingly and with full diligence. I take this opportunity to compliment all the members on the Think Tank.

Best wishes to the Department of Industrial Policy and Promotion and all other departments in smooth execution of the policy, which will definitely assure both domestic and foreign investors of the existence of a stable IPR regime in the country.

It's been a privilege to have been associated with the Naitonal IPR Policy right from the conceptualization stage, and it is expected that this will unlock the full potential of Intellectual Property towards India's economic growth and socio-cultural development.

(Nirmala Sitharaman)

सत्यमेव जयते

Secretary
Department of Industrial Policy & Promotion
Ministry of Commerce & Industry
Government of India

MESSAGE

The National Intellectual Property Rights (IPR) Policy of India is set to establish an ecosystem in the country conducive to innovation and creativity not only in terms of IP awareness and creation, but also commercialization and enforcement.

The National Intellectual Property Rights Policy seeks to reinforce the IPR framework in the country that will create public awareness about economic, social and cultural benefits of IPRs among all sections of the society, stimulate IPR generation and commercialization, modernize and strengthen service-oriented IPR administration as also the enforcement and adjudicatory mechanisms for combating IPR infringements.

The Department of Industrial Policy and Promotion (DIPP) has been nominated as the nodal department for nurturing Intellectual Property Rights in the country, an onerous responsibility that we accept with humility and shall endeavour to do our best to fulfil. To this end, a professionally-run Cell for IPR Promotion and Management (CIPAM) shall be set up under the aegis of the DIPP to facilitate promotion, creation and commercialization of IP assets.

This all-encompassing IPR Policy will protect public interest while simultaneously promoting an environment that allows India's Intellectual Property ecosystem to develop to its full potential. A strong Intellectual Property Rights structure will play a big role in attracting investment into India along with boosting the local business ecosystem.

I invite participation from all stakeholders to build a supportive and balanced Intellectual Property Rights system in India. Let us work together towards a creative and innovative India.

(Ramesh Abhishek)

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EXECUTIVE SUMMARY

Creativity and innovation have been a constant in growth and development of any knowledge economy. There is an abundance of creative and innovative energies flowing in India. India has a TRIPS compliant, robust, equitable and dynamic IPR regime. An all-encompassing IPR Policy will promote a holistic and conducive ecosystem to catalyse the full potential of intellectual property for India's economic growth and socio-cultural development, while protecting public interest. The rationale for the National IPR Policy lies in the need to create awareness about the importance of IPRs as a marketable financial asset and economic tool.

Vision Statement

An India where creativity and innovation are stimulated by Intellectual Property for the benefit of all; an India where intellectual property promotes advancement in science and technology, arts and culture, traditional knowledge and biodiversity resources; an India where knowledge is the main driver of development, and knowledge owned is transformed into knowledge shared.

Mission Statement

Stimulate a dynamic, vibrant and balanced intellectual property rights system in India to:

- foster creativity and innovation and thereby, promote entrepreneurship and enhance socio-economic and cultural development, and
- focus on enhancing access to healthcare, food security and environmental protection, among other sectors of vital social, economic and technological importance.

The Policy lays down seven objectives which are elaborated with steps to be undertaken by the identified nodal Ministry/ Department. The objectives are briefly mentioned below.

Objective 1

IPR Awareness: Outreach and Promotion - *To create public awareness about the economic, social and cultural benefits of IPRs among all sections of society*

The 21st century belongs to the knowledge era and is driven by the knowledge economy. A nation-wide program of promotion should be launched with an aim to improve the awareness about the benefits of IPRs and their value to the rights-holders and the public. Such a program will build an atmosphere where creativity and innovation are encouraged in public and private sectors, R&D centers, industry and academia, leading to generation of protectable IP that can be commercialized. It is also necessary to reach out to the less-visible IP generators and holders, especially in rural and remote areas. The clarion call of the program would be the holistic slogan

"Creative India; Innovative India:
रचनात्मक भारत; अभिनव भारत"

Objective 2

Generation of IPRs - *To stimulate the generation of IPRs*

India has a large talent pool of scientific and technological talent spread over R&D institutions, enterprises, universities and technical institutes. There is a need to tap this fertile knowledge resource and stimulate the creation of IP assets. A comprehensive base line survey or IP audit across sectors will enable assessment and evaluation of the potential in specific sectors, and thus formulate and implement targeted programmes. Focus will be placed on facilitating researchers and innovators regarding areas of national priority. The corporate sector also needs to be encouraged to generate and utilize IPRs. Steps also need to be taken to devise mechanisms so that benefits of the IPR regime reach all inventors, especially MSMEs, start-ups and grassroot innovators.

Objective 3

Legal and Legislative Framework - *To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest*

The existing IP laws in India were either enacted or revised after the TRIPS Agreement and are fully compliant with it. These laws along with various judicial decisions provide a stable and effective legal framework for protection and promotion of IPRs. India shall remain committed to the Doha

Declaration on TRIPS Agreement and Public Health. At the same time, India is rich in traditional medicinal knowledge which exists in diverse forms in our country, and it is important to protect it from misappropriation.

Objective 4

Administration and Management - *To modernize and strengthen serviceoriented IPR administration*
The Offices that administer the different Intellectual Property Rights (IPOs) are the cornerstone of an efficient and balanced IPR system. IPOs now have the twin challenges of making their operations more efficient, streamlined and cost effective, with expanding work load and technological complexity on one hand, and enhancing their user-friendliness by developing and providing value added services to the user community on the other. The administration of the Copyright Act, 1957 and the Semiconductor Integrated Circuits Layout-Design Act, 2000 is being brought under the aegis of DIPP, besides constituting a Cell for IPR Promotion and Management (CIPAM). This will facilitate more effective and synergetic working between various IP offices, as also promotion, creation and commercialization of IP assets.

Objective 5

Commercialization of IPR - *Get value for IPRs through commercialization*
The value and economic reward for the owners of IP rights comes only from their commercialization. Entrepreneurship should be encouraged so that the financial value of IPRs is captured. It is necessary to connect investors and IP creators. Another constraint faced is valuation of IP and assessment of the potential of the IPRs for the purpose of marketing it. Efforts should be made for creation of a public platform to connect creators and innovators to potential users, buyers and funding institutions.

Objective 6

Enforcement and Adjudication - *To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements*
There is a need to build respect for IPR among the general public and to sensitize the inventors and creators of IP on measures for protection and enforcement of their rights. At the same time, there is also a need to build the capacity of the enforcement agencies at various levels, including strengthening of IPR cells in State police forces. Measures to check counterfeiting and piracy also need to be identified and undertaken. Regular IPR workshops/ colloquia for judges would facilitate effective adjudication of IPR disputes. It would be desirable to adjudicate on IPR disputes through specialised commercial courts. Alternative Dispute Resolution mechanism may also be explored.

Objective 7

Human Capital Development - *To strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs*
In order to harness the full potential of IPRs for economic growth, it is essential to develop an increasing pool of IPR professionals and experts in spheres such as policy and law, strategy development, administration and enforcement. Such a reservoir of experts will facilitate in increasing generation of IP assets in the country and their utilization for development purposes.

Implementation

The present IP Policy aims to integrate IP as a policy and strategic tool in national development plans. It foresees a coordinated and integrated development of IP system in India and the need for a holistic approach to be taken on IP legal, administrative, institutional and enforcement related matters. While DIPP shall be the nodal point to coordinate, guide and oversee implementation and future development of IPRs in India, the responsibility for actual implementation of the plans of action will remain with the Ministries/ Departments concerned in their assigned sphere of work. Public and private sector institutions and other stakeholders, including State governments, will also be involved in the implementation process.

INTRODUCTION

Creativity and innovation have been a constant in growth and development of any knowledge economy. There is an abundance of creative and innovative energies flowing in India. The evolution of the film and music industry; the contribution of the Indian pharmaceutical sector in enabling access to affordable medicines globally and its transformation to being the pharmacy of the world; a strong and dynamic software industry; a considerably diverse handicraft and textile industry; richness and versatility of the Indian systems of medicines such as Ayurveda, Unani, Siddha and Yoga; the advances made in the Indian space programme and the pioneering role of our scientists in keeping it cost effective; these are but a few examples of these energies.

While India has always been an innovative society, much of the intellectual property (IP) created remains unprotected both on account of lack of awareness and the perception that IP protection is either not required or that the process to obtain it is unnecessarily complicated. The rationale for the National IPR Policy lies in the need to create awareness about the importance of intellectual property rights (IPRs) as a marketable financial asset and economic tool.

India has robust IP laws and a strong IP jurisprudence. The legal framework does reflect the underlying policy orientation and national priorities, which have evolved over time, taking into account development needs and international commitments.

An all-encompassing IPR Policy will promote a holistic and conducive ecosystem to catalyse the full potential of intellectual property for India's economic growth and socio-cultural development, while protecting public interest. Such a policy will nurture the IP culture, guiding and enabling all creators and inventors to realize their potential for generating, protecting and utilizing IPRs which would contribute to wealth creation, employment opportunities and business development.

This policy shall weave in the strengths of the Government, research and development organizations, educational institutions, corporate entities including MSMEs, start-ups and other stakeholders in the creation of an innovation-conducive environment. It will complement the strengths of our substantive laws with transparent, predictable and efficient administrative and procedural mechanisms as also well-informed adjudicatory structure.

OVERVIEW

The concrete measures taken by the Government in the last two decades in consonance with national development priorities and in conformity with international treaties, conventions and agreements to which India is a party has created and established a TRIPS compliant, robust, equitable and dynamic IPR regime. The continuous and unending improvements alongwith the sweeping and far-sighted changes at the legislative and administrative levels has resulted in strengthening the administration, management and enforcement of IPRs.

The statutes governing different kinds of IPRs in India are Patents Act, 1970; Trade Marks Act, 1999; Designs Act, 2000; Geographical Indications of Goods (Registration and Protection) Act, 1999; Copyright Act, 1957; Protection of Plant Varieties and Farmers' Rights Act, 2001; Semiconductor Integrated Circuits Layout-Design Act, 2000 and Biological Diversity Act, 2002.

The Department of Industrial Policy and Promotion (DIPP) is entrusted with matters concerning the specialised UN agency on IPRs, the World Intellectual Property Organisation (WIPO), including coordination with other concerned Ministries or Departments.

The Controller General of Patents, Designs and Trade Marks (CGPDTM) under the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry is entrusted with the responsibility of administering the laws relating to Patents, Designs, Trade Marks and Geographical Indications within the territory of India. The CGPDTM presently functions through Patent Offices at four locations (Chennai, Delhi, Kolkata, and Mumbai), Trademarks Offices at five locations (Ahmedabad, Chennai, Delhi, Kolkata and Mumbai), a Geographical Indications Registry at Chennai and a Designs Wing at Kolkata. The

Office of CGPDTM is also in charge of the Rajiv Gandhi National Institute of Intellectual Property Management at Nagpur.

Copyrights were administered by the Ministry of Human Resource Development. The Copyright Act is comprehensive and with the recent amendments, the rights of creators have been strengthened.

The Protection of Plant Varieties and Farmers' Rights Act, 2001 is a *sui generis* legislation in India providing protection for plant varieties and rights of farmers and is under the aegis of the Ministry of Agriculture.

The Department of Information Technology was responsible for Semiconductor Integrated Circuits Layout-designs; the first registration under the Semiconductor Integrated Circuits Layout-Design Act was granted in October 2014.

The preservation of biological diversity in India is under the Ministry of Environment and Forests; the Biological Diversity Act 2002 provides mechanism for regulating access and ensuring fair and equitable sharing of benefits arising out of the use of biological resources and associated traditional knowledge.

India has always been conscious of its obligations in the international arena, and has acceded to a number of international conventions to further the cause of IPRs globally. India was the first country to ratify the Marrakesh Treaty 2013 for Access to Published Works by visually impaired persons. The accession to the Madrid Protocol in 2013 is a step towards global alignment for proprietors of marks. The Indian Patent Office has been recognized as an International Search Authority and an International Preliminary Examination Authority.

The IPR regime in India has adequate safeguards in the form of judicial review and appellate provisions. Indian courts have consistently enforced IPRs, with judgements clearly expressing the intent and purpose of our laws. The Intellectual Property Appellate Board hears appeals arising from the decisions of Controllers of Patents as also Registrars of Trade Marks and GIs.

In a slew of initiatives, the IP offices under the CGPDTM have been modernized and there is a perceptible change for the better. Conscious efforts have been made to develop a robust e-service delivery system, including real-time public dissemination of dynamic IP knowledge through e-enabled innovative tools.

VISION STATEMENT

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MISSION STATEMENT

Stimulate a dynamic, vibrant and balanced intellectual property rights system in India to:

- foster creativity and innovation and thereby, promote entrepreneurship and enhance socio-economic and cultural development, and
- focus on enhancing access to healthcare, food security and environmental protection, among other sectors of vital social, economic and technological importance.

OBJECTIVES

The Policy lays down seven objectives which are elaborated with steps to be undertaken by the identified nodal Ministry/Department. The implementing or Nodal Ministry/Department shall coordinate with all other concerned stakeholders, including other Ministries/ Departments, towards attaining the objectives.

OBJECTIVE 1

IPR Awareness: Outreach and Promotion

To create public awareness about the economic, social and cultural benefits of IPRs among all sections of society

The 21st century belongs to the knowledge era and is driven by the knowledge economy- an economy that creates, disseminates and uses knowledge to enhance its growth and development. Traditionally, monetization of knowledge has never been the norm in India. While laudable and altruistic, this does not fit with the global regime of zealously protected IPRs. Hence, there is a need to propagate the value of transforming knowledge into IP assets. This requires a major paradigm shift of how knowledge is viewed and valued - not for what it is, but for what it can become.

Many IP holders are unaware of the benefits of IP rights or of their own capabilities to create IP assets or the value of their ideas. They are often discouraged by the complexities of the process of creating defendable IP rights. Conversely, they may be unaware of the value of others' IP rights and the need to respect the same. The policy proposes to tackle both perspectives through outreach and promotion programs.

A nation-wide program of promotion should be launched with an aim to improve the awareness about the benefits of IPRs and their value to the rights-holders and the public. Such a program will build an atmosphere where creativity and innovation are encouraged in public and private sectors, R&D centers, industry and academia, leading to generation of protectable IP that can be commercialized.

It is also necessary to reach out to the less-visible IP generators and holders, especially in rural and remote areas. Emphasis would be laid on creating awareness regarding the rich heritage of India in terms of our Geographical Indications, Traditional Knowledge, Genetic Resources, Traditional Cultural Expressions and Folklore.

The immediate economic rationale for individuals and the community, as well as the pride in being innovative, should be conveyed effectively to the public. The clarion call of the program would be the holistic slogan

"Creative India; Innovative India:
रचनात्मक भारत; अभिनव भारत"

The steps to be taken towards attaining this objective are outlined below:

1.1. Adopt the national slogan "Creative India; Innovative India" and launch an associated campaign on electronic, print and social media, including by linking the campaign with other national initiatives such as "Make in India", "Digital India", "Skill India", "Start Up India", "Smart Cities" and other new initiatives in the future.

1.2. Create a systematic campaign for promotion of India's IP strengths by conveying to all stakeholders the value and benefits of IP by:

1.2.1. Customizing programs for specific needs of industries, MSMEs, start-ups, R&D institutions, science and technology institutes, universities and colleges, inventors and creators, entrepreneurs;

1.2.2. Reaching out to the less visible and silent IP generators and holders, especially in the rural and remote areas, through campaigns tailored to their needs and concerns. These would include small businesses, farmers/ plant variety users, holders of traditional knowledge, traditional cultural expressions and folklore, designers and artisans;

1.2.3. Including case studies of successful use of IPRs in campaigns to create value in the respective domains;

1.2.4. Promoting the idea of high quality and cost-effective innovation as a particularly Indian competence leading to competitive advantage;

1.2.5. Involving eminent personalities as ‘ambassadors’ to spread awareness and importance of IP in India;

1.2.6. Using audio/ visual material in print/ electronic/ social media for propagation;

1.2.7. Creating moving exhibits (e.g. a train with a theme that will criss-cross the nation, road shows) that can travel to all parts of the country;

1.2.8. Creating materials for IP promotion in multiple languages and pictorial form for those who cannot read;

1.2.9. Studying best practices and success stories in other countries to design and launch public outreach programs.

1.3. Create awareness programs specifically targeting industry and R&D entities, both private and public by:

1.3.1. Providing scientists/ researchers with a deeper level of understanding about the need to protect their inventions even before publishing;

1.3.2. Engaging public funded research organizations and the private sector to create campaigns highlighting the process of IP creation and the value generated therefrom;

1.3.3. Encourage multi-national corporations and other large corporate entities to develop IP programs for their employees and adapt and propagate them to the public;

1.3.4. Creating materials for MSMEs highlighting special support mechanisms for them to develop and protect IP.

1.4. Create well-publicized events and ongoing programs to emphasize the importance of IP by:

1.4.1. Partnering with industry bodies, large corporations and institutions of R&D and higher learning for such events, and consider establishment of Innovation, Creativity and IP museum(s);

1.4.2. Announcing with the help of State governments, Innovation and IP Days especially in major industrial, innovation and university clusters; celebrate ‘World IP Day’ in different cities and institutions;

1.4.3. Setting up India’s ‘Hall of Fame’ to celebrate IP innovators and creators;

1.4.4. Instituting prizes and awards to encourage IP creation activity in specific sectors.

1.5. Create suitable course materials for:

1.5.1. Educational institutions at all levels to emphasize the importance of IP rights;

1.5.2. Online and distance learning programs for all categories of users;

1.5.3. Including IPRs in school curriculum at appropriate level.

1.6. Engage with the media to sensitize them regarding IP related issues.

OBJECTIVE 2
Generation of IPRs

To stimulate the generation of IPRs

The profile of IP filings and registrations/grants is one of the parameters, though not the only one, to assess the current status and potential of IP creation in a country. In India, the number of patent filings has increased in the last few years, but the percentage of filings by Indians is relatively low. In the case of trademarks, India is among the top five filers in the world, with the majority being filed by Indians. The number of design applications filed is nowhere near India's potential, given its vast pool of designers, artisans and artists. India has a large talent pool of scientific and technological talent spread over R&D institutions, enterprises, universities and technical institutes. There is a need to tap this fertile knowledge resource and stimulate the creation of IP assets.

GIs is an area of strength and optimism for India, where it has accorded protection to a number of hand-made and manufactured products, especially in the informal sector. The copyright based sector contributes significantly to the Indian economy and its future potential is immense. In the area of plant varieties and farmers' rights, the number of filings and registrations are very encouraging. There is considerable unexplored potential for developing, promoting and utilizing traditional knowledge, which is a unique endowment of India. Activities for promotion of traditional knowledge have to be conducted with effective participation of holders of such knowledge.

A comprehensive base line survey or IP audit across sectors will enable assessment and evaluation of the potential in specific sectors, and thus formulate and implement targeted programmes to tap this vast potential and help develop new technologies, products and solutions. This would include strengthening and spread of IPR facilitation centres and incubators, amongst other measures. Focus will be placed on facilitating researchers and innovators regarding areas of national priority. The corporate sector also needs to be encouraged to generate and utilize IPRs. It is also desirable to introduce IPRs as part of academic curriculum in educational institutions, especially universities, law and technical institutions.

Steps also need to be taken to devise mechanisms so that benefits of the IPR regime reach all inventors, especially MSMEs, start-ups and grassroot innovators. Incentives may be built-in to encourage filing by such targeted users. These may include schemes to facilitate domestic IPR filings, for the entire value chain from IPR generation to commercialization. R&D needs to be promoted through tax benefits available under various laws, through simplification of procedures for availing direct and indirect tax benefits.

The ambit of Traditional Knowledge Digital Library (TKDL) should also be expanded, while the possibility of using it for further R&D shall be explored.

The steps to be taken towards attaining this objective are outlined below:

2.1. Use the campaign "Creative India; Innovative India" to propagate the value of creativity and innovation, and the resultant benefit to the public; to create a mindset and culture that encourages knowledge generation and its application through IP.

2.2. Carry out a comprehensive IP audit or base line survey in various sectors in cooperation with stakeholders to assess and evaluate areas of strength and potential, prioritize target groups of inventors and creators, develop specific programs to address their needs, provide resources to enable them to create IP assets and utilize them for their own and social benefit.

2.3. Undertake studies to assess the contribution of IP content in different industries on the economy, employment, exports and technology transfer.

2.4. Focus on improving IPR output of national research laboratories, universities, technology institutions and other researchers by encouraging and facilitating the acquisition of Intellectual Property Rights by them.

2.5. Encourage researchers in public funded academic and R&D institutions in IPR creation by linking it with research funding & career progression.

2.6. Encourage researchers in public funded academic and R&D institutions by having uniform guidelines for division of royalties between the organizations and individual researchers and innovators.

2.7. Include IP creation as a key performance metric for public funded R&D entities as well as Technology Institutions, and gradually extend such evaluation from Tier-1 to Tier-2 Institutions.

2.8. Provide guidance to researchers and innovators about national priority areas to focus on, for instance in energy and food security, healthcare and agriculture, as well as specific sectors such as biotechnology, data analytics, nanotechnology, new materials and ICT.

2.9. Encourage public funded R&D institutes and industry to develop affordable drugs relating to neglected diseases.

2.10. Encourage R&D including open source based research such as Open Source Drug Discovery (OSDD) by the Council of Scientific and Industrial Research (CSIR) for new inventions for prevention, diagnosis and treatment of diseases, especially those that are life threatening and those that have high incidence in India.

2.11. Establish and strengthen IP facilitation centers as nodal points especially in industrial and innovation university clusters.

2.12. Create an industry-academia interface for encouraging cross-fertilization of ideas and IPR-driven research and innovation in jointly identified areas.

2.13. Stimulate large corporations, both Indian and foreign, that have R&D operations, to create, protect and utilize IPRs in India.

2.14. Improve awareness of the value of copyright for creators, the importance of their economic and moral rights.

2.15. Introduce support systems for MSMEs, start-ups and grass root innovators to reduce transaction costs linked to IP creation for the entire value chain from IPR generation to commercialization, including schemes to facilitate domestic IPR filings.

2.16. Consider incentives to promote R&D, including the following steps:

2.16.1. Promote R&D through tax benefits available under various laws, through simplification of procedures for availing direct and indirect tax benefits;

2.16.2. Consider financial support for a limited period on sale and export of products based on IPRs generated from public funded research;

2.16.3. Creation of an effective and simple loan guarantee scheme in order to encourage start-ups and cover the risk of genuine failures in commercialization based on IPRs as mortgage-able assets.

2.17. Promote 'infusion of funds to public R&D units' as a part of Corporate Social Responsibility to foster a culture of open innovation.

2.18. Provide special incentives for creation of IPRs in green technologies and manufacture of energy efficient equipment.

2.19. The ambit of Traditional Knowledge Digital Library (TKDL) should also be expanded to include other fields besides Ayurveda, Yoga, Unani and Siddha.

2.20. Public research institutions should be allowed access to TKDL for further R&D, while the possibility of using TKDL for further R&D by private sector may also be explored, provided necessary safeguards are in place to prevent misappropriation.

2.21. Document oral traditional knowledge, taking care that the integrity of the said knowledge is preserved and traditional ways of life of communities are not compromised.

2.22. Introduce IPRs as part of academic curriculum in educational institutions, especially universities, law and technical institutions.

2.23. Increase awareness of international mechanisms and treaties (e.g. PCT, Madrid, Hague) to encourage creation and protection of IPRs by Indian individuals and entities in global markets.

2.24. Encourage and incentivize IP generation and utilization among students at all levels, use awareness programs and educational materials to inculcate an appreciation for the value of IP.

2.25. Encourage innovations in the agriculture and pisciculture sector through application of IP for higher sustainable agricultural production.

2.26. Encourage the registration of Geographical Indications (GIs) through support institutions; assist GI producers to define and maintain acceptable quality standards, and providing better marketability.

2.27. Encourage creation of design related IP rights by identifying, nurturing and promoting the aspects of innovation protectable under the design law and educating designers to utilize and benefit from their designs; involve the NIDs, NIFTs and other institutions in sensitization campaigns.

2.28. IPR generation for ICT technologies, including those relating to cyber security for India, will be encouraged.

2.29. Take steps to increase domestic filings of patent applications.

2.30. Promote India's rich heritage of traditional knowledge with the effective involvement and participation of the holders of such knowledge. Traditional knowledge holders will be provided necessary support and incentives for furthering the knowledge systems that they have nurtured from the dawn of our civilization.

OBJECTIVE 3
Legal and Legislative Framework

To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest

It is an acknowledged fact that a strong and balanced legal framework encourages continuous flow of innovation and is among the bare necessities to fuel a vibrant knowledge economy. India recognizes that effective protection of IP rights is essential for making optimal use of the innovative and creative capabilities of its people. India has a long history of IP laws which have evolved taking into consideration national needs and international commitments. The existing laws were either enacted or revised after the TRIPS Agreement and are fully compliant with it. These laws along with various judicial decisions provide a stable and effective legal framework for protection and promotion of IPRs. India will continue to utilize the legislative space and flexibilities available in international treaties and the TRIPS Agreement, even as it continues to engage constructively in the negotiation of such international treaties and agreements. India shall remain committed to the Doha Declaration on TRIPS Agreement and Public Health.

At the same time, India is rich in traditional medicinal knowledge which exists in diverse forms in our country. Amongst them, well developed systems like Ayurveda, Yoga & Naturopathy, Unani, Siddha, Sowa-Rigpa and Homeopathy have immense economic value. It is important to protect such knowledge, be it oral or in codified form, from misappropriation, while providing space and environment for dynamic development of traditional knowledge for benefit of mankind.

Since it is difficult to predict the reach of existing laws in a changing and dynamic knowledge field, it becomes necessary to carry out legislative changes, as may be required from time to time. For this purpose, stakeholder consultation shall be done to keep the laws updated in consonance with national needs and priorities. The legal framework may also be utilized to enhance transparency and efficiency in the administration and enforcement of IPR laws.

The steps to be taken towards attaining this objective are outlined below:

3.1. Review existing IP laws, where necessary, to update and improve them or to remove anomalies and inconsistencies, if any, in consultation with stakeholders.

3.2. Engage constructively in the negotiation of international treaties and agreements in consultation with stakeholders; examine accession to some multilateral treaties which are in India's interest; and, become signatory to those treaties which India has de facto implemented to enable it to participate in their decision making process.

3.3. Continue to engage actively and constructively in the deliberations at various international fora to develop legally binding international instrument(s) to protect Traditional Knowledge (TK), Genetic Resources (GR) and Traditional Cultural Expressions (TCE).

3.4. Pursue transfer of clean technology and know-how from developed countries to India, as per the provisions of Article 4 of the UNFCCC, in order to meet the objectives of reducing anthropogenic emissions of GHGs and support activities of climate change adaptation.

3.5. Review and update IP related rules, guidelines, procedures and practices for clarity, simplification, streamlining, transparency and time bound processes in administration and enforcement of IP rights.

3.6. Undertake an in-depth study to determine the appropriateness and extent of applying the existing laws to protecting TK, GR and TCE, and to propose changes required, if any.

3.7. Indian Cinematography Act, 1952 may be suitably amended to provide for penal provisions for illegal duplication of films.

3.8. Identify important areas of study and research for future policy development, such as (the list is indicative, and not exhaustive):

3.8.1. Interplay amongst IP laws; and between IP laws and other laws to remove ambiguities and inconsistencies, if any;

3.8.2. IP interface with competition law and policy;

3.8.3. Guidelines for authorities whose jurisdictions impact administration or enforcement of IPRs such asPatents and Biodiversity;

3.8.4. Protection of Trade Secrets.

3.9. Examine the issues of technology transfer, know-how and licensing relating to SEPs on fair and reasonable terms and provide a suitable legal framework to address these issues, as may be required.

OBJECTIVE 4
Administration and Management

To modernize and strengthen service-oriented IPR administration

The Offices that administer the different Intellectual Property Rights are the cornerstone of an efficient and balanced IPR system, administering laws, granting or registering IP rights, providing IPR related services to users, including dissemination of IPR related information for the benefit of research & development and furthering of innovation in the country, as also serving as a bridge between the government, IP support institutions and the user community. As IPRs increase in significance and contribute to economic development, the importance and role of IP administration and management has also expanded. The IPR infrastructure is one of the key elements of enhanced competitiveness in the globalized international economic paradigm. This in turn influences the organization, structure and functions of modern IPOs.

Intellectual Property Offices (IPOs) now have the twin challenges of making their operations more efficient, streamlined and cost effective, with expanding work load and technological complexity on one hand, and enhancing their user-friendliness by developing and providing value added services to the user community on the other. Steps will continue to be taken towards modernization of various IP offices, including improvement of ICT infrastructure. Aiming towards a service oriented regime at IPOs, steps would be taken to fix and adhere to timelines for disposal of IPR applications. There is also need to augment manpower after analyzing the projected workload.

Sensitization of IPR officials at all levels with regard to the objects and reasons of our laws and international obligations; their continuous education and training and regular audit of their work will ensure a vibrant and service oriented IPR regime. The Rajiv Gandhi National Institute of Intellectual Property Management, Nagpur (RGNIIPM) needs to be strengthened to cater to the training needs in an evolving IP environment. Measures should also be taken to promote interaction between the IP Offices and various R&D organizations and Universities.

The administration of the Copyright Act, 1957, hitherto under the Department of Higher Education, and the Semiconductor Integrated Circuits Layout-Design Act, 2000, hitherto under the Department of Electronics and Information Technology is being brought under the aegis of the Department of Industrial Policy and Promotion leading to synergetic linkage between various IP offices under one umbrella, streamlining processes, and ensuring better services to the users. To facilitate promotion, creation and commercialization of IP assets, a Cell for IPR Promotion and Management (CIPAM) should be constituted under the aegis of DIPP.

Continued efforts should be made for promotion of technical cooperation with IP offices in other countries in areas such as capacity building, human resource development, training, access to databases, best practices in search and examinations, use of ICT and user oriented services.

The steps to be taken towards attaining this objective are outlined below:

4.1. The administration of the Copyright Act, 1957 alongwith the office of the Registrar of Copyrights, under the Department of Higher Education, is being transferred to the Department of Industrial Policy and Promotion.

4.2. The administration of the Semiconductor Integrated Circuits Layout-Design Act, 2000 alongwith the office of the Semiconductor Integrated Circuits Layout-Design Registry (SICLDR), under the Department of Electronics and Information Technology, is being transferred to the Department of Industrial Policy and Promotion.

4.3. Restructure, upgrade and modernize IPOs taking into account the rapid growth and diversity of IP users and services, higher responsibilities and increased workload.

4.4. Augment manpower after analyzing projected workload, speedy liquidation of backlog, requirements of global protection systems and productivity parameters.

4.5. Study and review the organizational and cadre structure, processes of recruitment, training, career development, performance based incentives to attract and retain the best talent to enhance efficiency and productivity.

4.6. Modernize further the physical and ICT infrastructure taking into account the expanding needs of the IPOs and to accelerate e-filings, e-processing and other e-services.

4.7. Promote interaction between various IP offices and public R&D institutions for sensitization of personnel and scientists.

4.8. Collaborate with various R&D Institutions, Universities, Funding Agencies, Chambers of Industry and Commerce in providing advisory services to improve IP creation, management and utilization.

4.9. Make efforts to include TKDL as a part of PCT minimum documentation.

4.10. Establish close cooperation between IPOs and create a common web portal for ease of access to statutes, regulations, guidelines and for better coordination.

4.11. Promote cooperation with IP offices in other countries in areas of Capacity Building, Human Resource Development, Training, Access to Databases, Best Practices in search and examinations, use of ICT and user oriented services.

4.12. Introduce approaches and mechanisms so that benefits of the IP system reach all inventors including MSMEs, informal innovators and holders of traditional knowledge.

4.13. Create a Cell for IPR Promotion and Management (CIPAM) under the aegis of DIPP to facilitate promotion, creation and commercialization of IP assets.

4.14. Explore the possibility of expedited examination of patent applications to promote manufacturing in India.

4.15. Enhance international and bilateral cooperation and coordinate with Indian Missions abroad to follow IP developments and advice on IP related matters.

4.16. Office of the Controller General of Patents Designs and Trademarks (CGPDTM), which administers patents, designs, trademarks and GIs, has undergone a sea change in the past few years, in up gradation and use of ICT. These changes shall be further advanced through such measures as:

4.16.1. Fix and adhere to timelines for grant of registrations and disposal of opposition matters;

4.16.2. Adopt best practices with respect to filing and docketing of documents, maintenance of records and digitizing the same including document work flow and tracking systems;

4.16.3. Create a service-oriented culture to make the IP office user friendly;

4.16.4. Take steps to expedite digitization of the Design office and enable online search and filing;

4.16.5. Ensure that public records in the IP office are easily available and accessible both online and offline;

4.16.6. Conduct periodic audits of processes being adopted in IP administration for efficient grant and management of IP rights;

4.16.7. Implement quality standards at all stages of operations with the aim to obtain ISO certification;

4.16.8. Establish effective coordination between its office and National Biodiversity Authority to enable harmonious implementation of guidelines relating to grant of patents on inventions using biological resources and associated TK;

4.16.9. Provide continuous training to staff of the IP Office to update them of developments in procedures (especially search and examination), substantive laws and technologies, with the Rajiv Gandhi National Institute of Intellectual Property Management, Nagpur (RGNIIPM);

4.16.10. Remove disparities, if any, among different branches of the trademark registries and patent offices and adopt standardized procedures in examination/ grant of applications including maintenance of rights;

4.16.11. Implement centralized priority field-wise on a national basis for patent applications;

4.16.12. Examine joining Centralized Access for Search and Examination (CASE) and WIPO Digital Access Services (DAS);

4.16.13. Existing guidelines published by the Patent Office shall be reviewed periodically and revised to reflect legislative provisions;

4.16.14. Value added services in the form of helpdesks, awareness and training materials, ease of remote access of the international patent search mechanisms and other IP related databases;

4.16.15. Implement incentives for MSMEs and grass root innovators to encourage filing by the said sector;

4.16.16. Conduct patent and trademark agent examinations at regular intervals; arrange training programs and involve them in capacity building activities.

4.17. Office of Registrar of Copyrights will:

4.17.1. Take measures to expedite modernization of the Copyright Office in terms of office space and infrastructure, organizational structure, e-filing facility including e-applications, processing and issue of final extracts of registrations;

4.17.2. Digitize copyright records and introduce on-line search facility; provide necessary manpower and adequate training facilities to personnel in the Copyright Office;

4.17.3. Take urgent measures for effective management and administration of copyright societies to ensure transparency and efficiency in the collection and disbursement of royalties in the best interest of the right holders;

4.17.4. Provide user friendly services in the form of helpdesks, awareness and training materials;

4.17.5. Streamline the processes to grant copyright permissions to individual creators, enterprises and institutions for their creative work.

4.18. The Protection of Plant Varieties and Farmers' Rights Authority- The Protection of Plant Varieties and Farmers' Rights Authority will:

4.18.1. Support increased registration of new, extant and essentially derived varieties of plants and streamline procedures;

4.18.2. Facilitate development of seeds and their commercialization by farmers;

4.18.3. Establish links between the Authority and Agricultural Universities, Research Institutions, Technology Development & Management Centers and Krishi Vigyan Kendras;

4.18.4. Coordinate with other IPOs for training, sharing expertise and adopting best practices;

4.18.5. Augment awareness building, training and teaching programs;

4.18.6. Modernize office infrastructure and use of ICT.

4.19. Registrar of Semiconductor Integrated Circuits Layout Design -

4.19.1. The Registrar will study the reasons for lack of interest in filings under the Semiconductor Integrated Circuits Layout Design Act, 2000 and suggest appropriate remedial measures;

4.19.2. Liaise with the concerned group in the Patent office and Design wing under the CGPDTM for further working.

4.20. National Biodiversity Authority (NBA) -

4.20.1. The Government will formalize a consultation and coordination mechanism between the NBA, IPOs and other concerned Ministries/ Departments like AYUSH, with a view to harmonious implementation of guidelines for grant of IP rights and access to biological resources and associated traditional knowledge and benefit sharing;

4.20.2. The NBA will streamline approvals for expeditious grant of IP rights, monetary and non-monetary benefit-sharing and introduce efficient and user friendly mechanisms for a meaningful interface between the NBA and applicants.

4.21. Re-designate the institution of the Controller General of Patents, Designs and Trademarks as Controller General of Intellectual Property Rights to reflect its mandate in view of the proposed change in its scope of responsibilities.

OBJECTIVE 5
Commercialization of IPRs

Get value for IPRs through commercialization

The value and economic reward for the owners of IP rights comes only from their commercialization. A concerted effort should be made for capitalizing the existing IP assets in the country. Entrepreneurship should be encouraged so that the financial value of IPRs may be captured. Existing mechanisms including Incubators and Accelerators set up to promote entrepreneurship should be strengthened with IP-oriented services.

Financing is a major impediment for entrepreneurs and therefore it is necessary to connect investors and IP creators. Another constraint faced is valuation of IP and assessment of the potential of the IPRs for the purpose of marketing it.

There is an urgent need to take stock of existing IP funding by different departments and bodies of the Government like BIRAC, NRDC and TIFAC, and take measures to consolidate the same, scaling up successful models while avoiding duplication of efforts. Public–funded research laboratories, academia and other institutions should stimulate commercialization of their research outcomes. They ought to be suitably state-supported in the development and deployment of their IPRs.

While certain larger organizations have the intent and capabilities to commercialize their technology/IPRs, several others do not. Hence, it becomes imperative to establish facilitative mechanisms that can address such limitations, especially in terms of MSMEs, academic institutions and individual innovators. One of the effective ways of achieving this would be by synergizing the activities of IP facilitation centres with the industry, especially industrial clusters. This would also include sensitization regarding licensing arrangements.

Efforts should be made for creation of a public platform to function as a common database of IPRs. Such a platform can help creators and innovators connect to potential users, buyers and funding institutions. It would also be helpful in scouting the technology landscape to identify white spaces and thereby help promote innovative activities in uncovered areas. Significant potential for innovation exists in new and emerging technologies like nano-technology, biotechnology, agribiotech, life sciences, green technologies, telecommunications, new materials, space technologies, etc.

The steps to be taken towards attaining this objective are outlined below:

5.1. CIPAM shall also undertake the following tasks:

5.1.1. Provide a platform for IPR owners and users of IPRs by acting as a facilitator for creators and innovators to be connected with potential users, buyers and funding agencies;

5.1.2. Undertake a study to examine the feasibility of an IPR Exchange;

5.1.3. Establish links among different organizations for exchange of information and ideas as also to develop promotional/ educational products and services;

5.1.4. Facilitate access to databases on Indian IP and global databases of creators/ innovators, market analysts, funding agencies, IP intermediaries;

5.1.5. Study and facilitate implementation of best practices for promotion and commercialization of IP within the country and outside;

5.1.6. Promote public sector initiatives for IPR commercialization.

5.2. Promote licensing and technology transfer for IPRs; devising suitable contractual and licensing guidelines to enable commercialization of IPRs; promote patent pooling and cross licensing to create IPR based products and services.

5.3. Provide support for MSMEs, Individual Inventors and Innovators from the informal sectors with enablers like facilitation centers for single window services to help them commercialize their IPRs.

5.4. Incentivize Indian inventors, MSMEs and start-ups to acquire and commercialize IPRs in other countries also.

5.5. Examine availability of Standard Essential Patents (SEPs) on fair, reasonable and nondiscriminatory (FRAND) terms.

5.6. Identify opportunities for marketing Indian IPR-based products, especially GIs, and services to a global audience.

5.7. Promote collaborative IP generation and commercialization efforts between R&D institutions, Industry, Academia and Funding Agencies.

5.8. Ensure enhanced access to affordable medicines and other healthcare solutions by (a) encouraging cross-sector partnerships between public sector, private sector, universities and NGOs; (b) promoting novel licensing models, and (c) developing novel technology platforms.

5.9. Streamline regulatory processes to ensure timely approval for manufacturing and marketing of drugs while maintaining safety and efficacy standards.

5.10. Make efforts to reduce dependency on active pharmaceutical ingredients (API) imports, including incentivizing manufacture of APIs in India and revitalizing public sector undertakings in health care sector.

5.11. Support the financial aspects of IPR commercialization by:

5.11.1. Enabling valuation of IP rights as intangible assets by application of appropriate methodologies and guidelines; facilitating securitization of IP rights and their use as collateral by creation of enabling legislative, administrative and market framework;

5.11.2. Facilitating investments in IP driven industries and services through the proposed IP Exchange for bringing investors/ funding agencies and IP owners/ users together;

5.11.3. Providing financial support to the less empowered groups of IP owners or creators like farmers, weavers, artisans, craftsmen, artists etc. through financial institutions like rural banks or cooperative banks offering IP friendly loans;

5.11.4. Providing financial support for development and commercialization of IP assets through links with financial institutions including banks, venture capital funds, angel funds, crowd funding mechanisms;

5.11.5. Utilizing Technology Acquisition and Development Fund under the Manufacturing Policy for licensing or procuring patented technologies;

5.11.6. Taking stock of all IP funding by the Government and suggesting measures to consolidate the same to the extent possible; scaling up the funding as needed and avoiding duplication; enhancing the visibility of IP and innovation related funds so that utilization is increased; performance based evaluation for continued funding.

5.12. Promote use of Free and Open Source Software along with adoption of open standards; possibility of creating Indian standard operating environments will be examined.

5.13. Promote going-to-market activities by:

5.13.1. Creating mechanisms to help MSMEs and research institutions to validate pilots and scale up through market testing;

5.13.2. Providing seed funding for marketing activities such as participating in trade fairs, industry standards bodies and other forums;

5.13.3. Providing guidance and support to IPR owners about commercial opportunities of e-commerce through Internet and mobile platforms;

5.13.4. Encouraging enterprises to create brand equity from their IP rights, such as Trademarks and GIs.

OBJECTIVE 6
Enforcement and Adjudication

To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements

IP rights are essentially private rights. The primary obligation of protecting IP rights is on the IPR owners who can seek legal remedies for enforcement of their rights. Along with providing an effective mechanism for enforcement of IP rights, it is equally important to balance the rights of the public in a manner conducive to social and economic welfare and to prevent misuse or abuse of IP rights.

There is a need to build respect for IPR among the general public and to sensitize the inventors and creators of IP on measures for protection and enforcement of their rights. At the same time, there is also a need to build the capacity of the enforcement agencies at various levels, including strengthening of IPR cells in State police forces.

Measures to check counterfeiting and piracy also need to be identified and undertaken. In this regard, the definitions of “counterfeit trademark goods” and “pirated copyright goods” as referred to in the footnote of Article 51 of the TRIPS Agreement shall serve as the guiding principles.

Regular IPR workshops/colloquia at judicial academies and other fora for judges would facilitate effective adjudication of IPR disputes. Multi-disciplinary IP courses/modules for other stakeholders are also needed.

It would be desirable to adjudicate on IPR disputes through specialised commercial courts. Alternative Dispute Resolution mechanism may also be explored. The steps to be taken towards attaining this objective are outlined below:

6.1. Create awareness of the value of IP and respect for IP culture by:

6.1.1. Educating the general public, especially the youth and students, on ills of counterfeit and pirated products;

6.1.2. Engaging with all levels of industry, including e-commerce, in order to create respect for IP rights and devise collaborative strategies and tools;

6.1.3. Sensitizing inventors, creators of IP on measures for protection and enforcement of their rights.

6.2. Take strong measures against attempts to treat generic drugs as spurious or counterfeit.

6.3. Undertake stringent measures to curb manufacture and sale of misbranded, adulterated and spurious drugs.

6.4. Public awareness as also legal and eforcement mechanisms, including technology based measures, will be reinforced to combat offline and online piracy.

6.5. Small technology firms will be supported in safeguarding their IP rights; for instance, support for IPR in ICT focus areas will be provided through easy to-use portals.

6.6. Assistance to smaller firms for protection of their IPRs internationally will be enhanced, such as DeitY’s Support for International

Patent Protection in Electronics and IT (SIP-EIT).

6.7. Pursue incidents of misappropriation of TK, GR and TCE in other countries vigorously.

6.8. Strengthen the enforcement mechanisms for better protection of IP rights by:

6.8.1. Enhanced coordination between the various agencies and providing direction and guidance on strengthening enforcement measures; coordinating with and sharing of intelligence and best practices at the national and international level; studying the extent of IP violations in various sectors; examining the implications of jurisdictional difficulties among enforcement authorities; and introducing appropriate technology based solutions for curbing digital piracy;

6.8.2. Working closely with state governments for establishment of IP cells for curbing IP offences;

6.8.3. Augmenting manpower, infrastructure facilities and technological capabilities of the enforcement agencies and building capacity to check proliferation of digital crimes;

6.8.4. Providing regular training, including refresher training, for officials in the enforcement agencies at their academies;

6.8.5. Encouraging application of technology based solutions in the enforcement of IP rights;

6.8.6. Initiating fact-finding studies in collaboration with stakeholders concerned to assess the extent of counterfeiting and piracy and the reasons behind it as well as measures to combat it;

6.8.7. Taking up the issue of Indian works and products being pirated and counterfeited abroad with countries concerned.

6.9. Licensing practices or conditions that may have an adverse effect on competition will be addressed through appropriate measures, including regulation of anti-competitive conduct in the market by the Competition Commission of India.

6.10. Facilitate effective adjudication of IP disputes through different measures including:

6.10.1. Adjudicate IP disputes through Commercial Courts, set up at appropriate level;

6.10.2. Creating IP modules including case laws for the benefit of judges who deal in IP; conducting regular IP workshops/colloquia at the judicial academies;

6.10.3. Promoting ADRs in the resolution of IP cases by strengthening mediation and conciliation centers, and developing ADR capabilities and skills in the field of IP.

OBJECTIVE 7
Human Capital Development

To strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs

The IPR scenario is dynamic and fast changing with increasing globalization, advancement of technologies, digital environment, development imperatives and global public policy issues. It is important to build national capacity for providing thought leadership in the IPR field. Continuous policy research is also needed on empirical and topical IPR areas of relevance with an interdisciplinary perspective at the national and international level. This research would enrich the process of policy, law, strategy development and international negotiations at the government and organizational levels. While apex level institutes or bodies exist for most sectors of national importance, such an institution is yet to be established for intellectual property rights development.

In order to harness the full potential of IPRs for economic growth, it is essential to develop an increasing pool of IPR professionals and experts in spheres such as policy and law, strategy development, administration and enforcement. IPR expertise would thus need to be developed and increased in industry, academia, legal practitioners, judiciary, IP users and civil society. In addition, there will be enhancement of multidisciplinary human and institutional capacity for policy development, teaching, training, research and skill building. Such a reservoir of experts will facilitate in increasing generation of IP assets in the country and their utilization for development purposes.

The steps to be taken towards attaining this objective are outlined below:

7.1. Strengthen and empower RGNIIPM, Nagpur to conduct training for IPR administrators and managers in industry and business, academicians, R&D institutions; IP professionals; inventors and civil society; train the trainers and develop training modules; develop links with other similar entities at the international level; provide legal training for examiners.

7.2. Strengthen IP Chairs in educational institutes of higher learning to provide quality teaching and research; develop teaching capacity and curricula and evaluate their work on performance based criteria.

7.3. Introduce multi-disciplinary IP courses/ modules in all major training institutes such as Judicial Academies, National Academy of Administration, Police and Customs Academies, Institute for Foreign Service Training, Forest Training Institutes.

7.4. Making IPR an integral part of the curriculum in all legal, technical, medical and management educational institutions, NIFTs, NIDs, AYUSH Educational Institutes, Agricultural Universities, centres of skill development and the like.

7.5. Strengthen existing and create new IPR cells and technology development and management units in NIDs, NIFTs, Agricultural Universities, Technology and Management Institutes and centres of skill development.

7.6. Encourage formulation of institutional IP Policy/ Strategy in Government Departments, Higher Education, Research and Technical Institutions.

7.7. Progressively introduce IP teaching in Schools, Colleges and other Educational Institutions and centres of skill development.

7.8. Facilitate Industry Associations, Inventor and Creators Associations and IP Support Institutions to raise awareness of IP issues and for Teaching, Training and Skill Building.

7.9. Develop distance learning and on-line courses on IP for all categories of users; strengthen IP teaching in open universities and centres of skill development.

7.10. Strengthen IP Teaching, Research and Training in collaboration with WIPO, WTO, other International Organizations and reputed Foreign Universities.

7.11. Encourage and support capacity building among Women Creators, Innovators, Entrepreneurs, Practitioners, Teachers and Trainers.

IMPLEMENTATION

Intellectual property in India is regulated by several laws, rules and regulations under the jurisdiction of different Ministries/ Departments. A number of authorities and offices administer the laws. The legal provisions need to be implemented harmoniously so as to avoid conflict, overlap or inconsistencies among them. It is necessary that the authorities concerned administer the laws in coordination with each other in the interest of efficient administration and user satisfaction. Legal, technological, economic and socio-cultural issues arise in different fields of IP which intersect with each other and need to be addressed and resolved by consensus in the best public interest. International, regional and bilateral negotiations require developing a common national position in consultation with different Ministries, authorities and stakeholders.

The present IP Policy aims to integrate IP as a policy and strategic tool in national development plans. It foresees a coordinated and integrated development of IP system in India and the need for a holistic approach to be taken on IP legal, administrative, institutional and enforcement related matters.

Thus, the Department of Industrial Policy and Promotion shall be the nodal point to coordinate, guide and oversee implementation and future development of IPRs in India. The responsibility for actual implementation of the plans of action will remain with the Ministries/ Departments concerned in their assigned sphere of work. Public and private sector institutions and other stakeholders, including State governments, will also be involved in the implementation process.

NOTES

सत्यमेव जयते

Government of India
Ministry of Commerce and Industry
Department of Industrial Policy & Promotion

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इस भाग में भिन्न पृष्ठ संख्या दी जाती है जिससे कि यह अलग संकलन के रूप में रखा जा सके।
Separate paging is given to this Part in order that it may be filed as a separate compilation.

MINISTRY OF LAW AND JUSTICE
(Legislative Department)

New Delhi, 8 June, 2012/*Jyaistha* 18, 1934 (*Saka*)

The following Act of Parliament received the assent of the President on the 7th June, 2012, and is hereby published for general information:—

THE COPYRIGHT (AMENDMENT) ACT, 2012
No. 27 OF 2012

An Act further to amend the Copyright Act, 1957.

[*7th June*, 2012]

BE it enacted by Parliament in the Sixty-third Year of the Republic of India as follows:—

Short title and commencement.

1. *(1)* This Act may be called the Copyright (Amendment) Act, 2012.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint.

14 of 1957.

Amendment of section 2.

2. In section 2 of the Copyright Act, 1957 (hereinafter referred to as the principal Act),—

(*i*) in clause (*f*), the portion beginning with the words "on any medium" and ending with the words "produced by any means" shall be omitted;

(*ii*) after clause (*f*), the following clause shall be inserted, namely:—

'(*fa*) "commercial rental" does not include the rental, lease or lending of a lawfully acquired copy of a computer programme, sound recording, visual recording or cinematograph film for non-profit purposes by a non-profit library or non-profit educational institution.';

Explanation.—For the purposes of this clause, a "non-profit library or non-profit educational institution" means a library or educational institution which receives grants from the Government or exempted from payment of tax under the Income-tax Act, 1961. 43 of 1961.

(*iii*) for clause (*ff*), the following shall be substituted, namely:—

'(*ff*) "communication to the public" means making any work or performance available for being seen or heard or otherwise enjoyed by the public directly or by any means of display or diffusion other than by issuing physical copies of it, whether simultaneously or at places and times chosen individually, regardless of whether any member of the public actually sees, hears or otherwise enjoys the work or performance so made available.

Explanation.—For the purposes of this clause, communication through satellite or cable or any other means of simultaneous communication to more than one household or place of residence including residential rooms of any hotel or hostel shall be deemed to be communication to the public;';

(*iv*) in clause (*qq*), the following proviso shall be inserted, namely:—

"Provided that in a cinematograph film a person whose performance is casual or incidental in nature and, in the normal course of the practice of the industry, is not acknowledged anywhere including in the credits of the film shall not be treated as a performer except for the purpose of clause (*b*) of section 38B;";

(*v*) after clause (*x*), the following clause shall be inserted, namely:—

'(*xa*) "Rights Management Information" means,—

(*a*) the title or other information identifying the work or performance;

(*b*) the name of the author or performer;

(*c*) the name and address of the owner of rights;

(*d*) terms and conditions regarding the use of the rights; and

(*e*) any number or code that represents the information referred to in sub-clauses (*a*) to (*d*),

but does not include any device or procedure intended to identify the user;';

(*vi*) after clause (*xx*), the following clause shall be inserted, namely:—

'(*xxa*) "visual recording" means the recording in any medium, by any method including the storing of it by any electronic means, of moving images or of the representations thereof, from which they can be perceived, reproduced or communicated by any method;';

Amendment of section 11.

3. In section 11 of the principal Act,—

(*a*) in sub-section (*1*), for the words "not less than two nor more than fourteen other memebers", the words "two other members" shall be substituted;

(*b*) for sub-section (*2*), the following sub-section shall be substituted, namely:—

"(*2*) The salaries and allowances payable to and the other terms and conditions of service of the Chairman and other members of the Copyright Board shall be such as may be prescribed:

Provided that neither the salary and allowances nor the other terms and conditions of service of the Chairman or any other member shall be varied to his disadvantage after appointment.";

(*c*) for sub-section (*4*), the following sub-section shall be substituted, namely:—

"(*4*) The Central Government may, after consultation with the Chairman of the Copyright Board, appoint a Secretary to the Copyright Board and such other officers and employees as may be considered necessary for the efficient discharge of the functions of the Copyright Board.".

4. In section 12 of the principal Act, in sub-section (*2*), for the words "members, each Bench consisting of not less than three members", the word "members" shall be substituted. Amendment of section 12.

5. In section 14 of the principal Act,— Amendment of section 14.

(*i*) in clause (*c*), for sub-clause (*i*), the following sub-clause shall be substituted, namely:—

"(*i*) to reproduce the work in any material form including—

(*A*) the storing of it in any medium by electronic or other means; or

(*B*) depiction in three-dimensions of a two-dimensional work; or

(*C*) depiction in two-dimensions of a three-dimensional work;";

(*ii*) in clause (*d*),—

(*a*) for sub-clause (*i*), the following sub-clause shall be substituted, namely:—

"(*i*) to make a copy of the film, including—

(*A*) a photograph of any image forming part thereof; or

(*B*) storing of it in any medium by electronic or other means;";

(*b*) for sub-clause (*ii*), the following sub-clause shall be substituted, namely:—

"(*ii*) to sell or give on commercial rental or offer for sale or for such rental, any copy of the film;";

(*iii*) in clause (*e*),—

(*a*) in sub-clause (*i*), after the words "embodying it", the words "including storing of it in any medium by electronic or other means" shall be inserted;

(*b*) for sub-clause (*ii*), the following sub-clause shall be substituted, namely:—

"(*ii*) to sell or give on commercial rental or offer for sale or for such rental, any copy of the sound recording;".

2 of 1911. 16 of 2000. 6. In section 15 of the principal Act, for the words and figures, "Designs Act, 1911", wherever they occur, the words and figures "Designs Act, 2000" shall be substituted. Amendment of section 15.

7. In section 17 of the principal Act, in clause (*e*), the following proviso shall be inserted at the end, namely:— Amendment of section 17.

Provided that in case of any work incorporated in a cinematograph work, nothing contained in clauses (*b*) and (*c*) shall affect the right of the author in the work referred to in clause (*a*) of sub-section (*1*) of section 13;".

8. In section 18 of the principal Act, in sub-section (*1*), after the proviso, the following provisos shall be inserted, namely:— Amendment of section 18.

"Provided further that no such assignment shall be applied to any medium or mode of exploitation of the work which did not exist or was not in commercial use at the time when the assignment was made, unless the assignment specifically referred to such medium or mode of exploitation of the work:

Provided also that the author of the literary or musical work included in a cinematograph film shall not assign or waive the right to receive royalties to be shared on an equal basis with the assignee of copyright for the utilisation of such work in any form other than for the communication to the public of the work along with the cinematograph film in a cinema hall, except to the legal heirs of the authors or to a copyright society for collection and distribution and any agreement to contrary shall be void:

Provided also that the author of the literary or musical work included in the sound recording but not forming part of any cinematograph film shall not assign or waive the right to receive royalties to be shared on an equal basis with the assignee of copyright for any utilisation of such work except to the legal heirs of the authors or to a collecting society for collection and distribution and any assignment to the contrary shall be void.".

Amendment of section 19.

9. In section 19 of the principal Act,—

(*i*) in sub-section *(3)*, for the words "royalty payable, if any", the words "royalty and any other consideration payable" shall be substituted;

(*ii*) after sub-section *(7)*, the following sub-sections shall be inserted, namely:—

"(*8*) The assignment of copyright in any work contrary to the terms and conditions of the rights already assigned to a copyright society in which the author of the work is a member shall be void.

(*9*) No assignment of copyright in any work to make a cinematograph film shall affect the right of the author of the work to claim an equal share of royalties and consideration payable in case of utilisation of the work in any form other than for the communication to the public of the work, along with the cinematograph film in a cinema hall.

(*10*) No assignment of the copyright in any work to make a sound recording which does not form part of any cinematograph film shall affect the right of the author of the work to claim an equal share of royalties and consideration payable for any utilisation of such work in any form."

Amendment of section 19A.

10. In section 19A of the principal Act,—

(*i*) in sub-section (*2*), in the second priviso, for the words "Provided further that", the following shall be substituted, namely:—

"Provided further that, pending the disposal of an application for revocation of assignment under this sub-section, the Copyright Board may pass such order, as it deems fit regarding implementation of the terms and conditions of assignment including any consideration to be paid for the enjoyment of the rights assigned:—

Provided also that";

(*ii*) after sub-section (*2*), the following sub-section shall be inserted, namely:—

"(*3*) Every complaint received under sub-section (*2*) shall be dealt with by the Copyright Board as far as possible and efforts shall be made to pass the final order in the matter within a period of six months from the date of receipt of the complaint and any delay in compliance of the same, the Copyright Board shall record the reasons thereof.".

Amendment of section 21.

11. In section 21 of the principal Act,—

(i) in sub-section *(1)*, for the words "the Registrar of Copyrights", the words "the Registrar of Copyrights or by way of public notice" shall be substituted;

(ii) after sub-section *(2)*, the following sub-section shall be inserted, namely:—

"(*2A*) The Registrar of Copyrights shall, within fourteen days from the publication of the notice in the Official Gazette, post the notice on the official website of the Copyright Office so as to remain in the public domain for a period of not less than three years.".

12. In section 22 of the principal Act, the brackets and words "(other than a photograph)" shall be omitted. Amendment of section 22.

13. Section 25 of the principal Act shall be omitted. Omission of section 25.

14. In section 30 of the principal Act, for the words "writing signed by him", the words "writing by him" shall be substituted. Amendment of section 30.

15. In section 30A of the principal Act and in its marginal heading, for the words, figures and letter, "section 19 and 19A", the word and figures "section 19" shall be substituted. Amendment of section 30A.

16. In section 31 of the principal Act,— Amendment of section 31.

(i) in sub-section *(1)*,—

(a) for the words "any Indian work", the words "any work" shall be substituted;

(b) for the words "licence to the complainant" the words "licence to such person or persons who, in the opinion of the Copyright Board, is or are qualified to do so" shall be substituted;

(c) the *Explanation* shall be omitted;

(ii) sub-section *(2)* shall be omitted.

17. In section 31A of the principal Act,— Amendment of section 31A.

(i) in the marginal heading, for the words "Indian works", the words "or published works" shall be substituted;

(ii) for sub-section *(1)*, the following sub-section shall be substituted, namely:—

"*(1)* Where, in the case of any unpublished work or any work published or communicated to the public and the work is withheld from the public in India, the author is dead or unknown or cannot be traced, or the owner of the copyright in such work cannot be found, any person may apply to the Copyright Board for a licence to publish or communicate to the public such work or a translation thereof in any language.".

18. After section 31A of the principal Act, the following sections shall be inserted, namely: — Insertion of new sections 31B, 31C and 31D.

'31B. *(1)* Any person working for the benefit of persons with disability on a profit basis or for business may apply to the Copyright Board, in such form and manner and accompanied by such fee as may be prescribed, for a compulsory licence to publish any work in which copyright subsists for the benefit of such persons, in a case to which clause *(zb)* of sub-section *(1)* of section 52 does not apply and the Copyright Board shall dispose of such application as expeditiously as possible and endeavour shall be made to dispose of such application within a period of two months from the date of receipt of the application. Compulsory licence for benefit of disabled.

(2) The Copyright Board may, on receipt of an application under sub-section *(1)*, inquire, or direct such inquiry as it considers necessary to establish the credentials of the applicant and satisfy itself that the application has been made in good faith.

(3) If the Copyright Board is satisfied, after giving to the owners of rights in the work a reasonable opportunity of being heard and after holding such inquiry as it may deem necessary, that a compulsory licence needs to be issued to make the work available to the disabled, it may direct the Registrar of Copyrights to grant to the applicant such a licence to publish the work.

(4) Every compulsory licence issued under this section shall specify the means and format of publication, the period during which the compulsory licence may be exercised and, in the case of issue of copies, the number of copies that may be issued including the rate or royalty:

Provided that where the Copyright Board has issued such a compulsory licence it may, on a further application and after giving reasonable opportunity to the owners of rights, extend the period of such compulsory licence and allow the issue of more copies as it may deem fit.

Statutory licence for cover versions.

31C. (*1*) Any person desirous of making a cover version, being a sound recording in respect of any literary, dramatic or musical work, where sound recordings of that work have been made by or with the licence or consent of the owner of the right in the work, may do so subject to the provisions of this section:

Provided that such sound recordings shall be in the same medium as the last recording, unless the medium of the last recording is no longer in current commercial use.

(*2*) The person making the sound recordings shall give prior notice of his intention to make the sound recordings in the manner as may be prescribed, and provide in advance copies of all covers or labels with which the sound recordings are to be sold, and pay in advance, to the owner of rights in each work royalties in respect of all copies to be made by him, at the rate fixed by the Copyright Board in this behalf:

Provided that such sound recordings shall not be sold or issued in any form of packaging or with any cover or label which is likely to mislead or confuse the public as to their identity, and in particular shall not contain the name or depict in any way any performer of an earlier sound recording of the same work or any cinematograph film in which such sound recording was incorporated and, further, shall state on the cover that it is a cover version made under this section.

(*3*) The person making such sound recordings shall not make any alteration in the literary or musical work which has not been made previously by or with the consent of the owner of rights, or which is not technically necessary for the purpose of making the sound recordings:

Provided that such sound recordings shall not be made until the expiration of five calendar years after the end of the year in which the first sound recordings of the work was made.

(*4*) One royalty in respect of such sound recordings shall be paid for a minimum of fifty thousand copies of each work during each calendar year in which copies of it are made:

Provided that the Copyright Board may, by general order, fix a lower minimum in respect of works in a particular language or dialect having regard to the potential circulation of such works.

(*5*) The person making such sound recordings shall maintain such registers and books of account in respect thereof, including full details of existing stock as may be prescribed and shall allow the owner of rights or his duly authorised agent or representative to inspect all records and books of account relating to such sound recording:

Provided that if on a complaint brought before the Copyright Board to the effect that the owner of rights has not been paid in full for any sound recordings purporting to be made in pursuance of this section, the Copyright Board is, *prima facie*, satisfied that the complaint is genuine, it may pass an order *ex parte* directing the person making the sound recording to cease from making further copies and, after holding such inquiry as it considers necessary, make such further order as it may deem fit, including an order for payment of royalty.

Explanation.—For the purposes of this section "cover version" means a sound recording made in accordance with this section.

Statutory licence for broadcasting of literary and musical works and sound recording.

31D. *(1)* Any broadcasting organisation desirous of communicating to the public by way of a broadcast or by way of performance of a literary or musical work and sound recording which has already been published may do so subject to the provisions of this section.

(2) The broadcasting organisation shall give prior notice, in such manner as may be prescribed, of its intention to broadcast the work stating the duration and territorial coverage of the broadcast, and shall pay to the owner of rights in each work royalties in the manner and at the rate fixed by the Copyright Board.

(3) The rates of royalty for radio broadcasting shall be different from television broadcasting and the Copyright Board shall fix separate rates for radio broadcasting and television broadcasting.

(4) In fixing the manner and the rate of royalty under sub-section (*2*), the Copyright Board may require the broadcasting organisation to pay an advance to the owners of rights.

(5) The names of the authors and the principal performers of the work shall, except in case of the broadcasting organisation communicating such work by way of performance, be announced with the broadcast.

(6) No fresh alteration to any literary or musical work, which is not technically necessary for the purpose of broadcasting, other than shortening the work for convenience of broadcast, shall be made without the consent of the owners of rights.

(7) The broadcasting organisation shall—

(*a*) maintain such records and books of account, and render to the owners of rights such reports and accounts; and

(*b*) allow the owner of rights or his duly authorised agent or representative to inspect all records and books of account relating to such broadcast,

in such manner as may be prescribed.

(8) Nothing in this section shall affect the operation of any licence issued or any agreement entered into before the commencement of the Copyright (Amendment) Act, 2012.'.

Amendment of section 33.

19. In section 33 of the principal Act,—

(*i*) in sub-section (*1*), for the words "provided further", the following shall be substituted, namely:—

"Provided further that the business of isuing or granting license in respect of literary, dramatic, musical and artistic works incorporated in a cinematograph films or sound recordings shall be carried out only through a copyright society duly registered under this Act:

Provided also";

(*ii*) after sub-section (*3*), the following shall be inserted, namely:—

"(*3A*) The registration granted to a copyright society under sub-section (*3*) shall be for a period of five years and may be renewed from time to time before the end of every five years on a request in the prescribed form and the Central Government may renew the registration after considering the report of Registrar of Copyrights on the working of the copyright society under section 36:

Provided that the renewal of the registration of a copyright society shall be subject to the continued collective control of the copyright society being shared with the authors of works in their capacity as owners of copyright or of the right to receive royalty:

Provided further that every copyright society already registered before the coming into force of the copyright (Amendment) Act, 2012 shall get itself registered under this

Chapter within a period of one year from the date of commencement of the Copyright (Amendment) Act, 2012.";

(*iii*) in sub-sections (*4*) and (*5*), for the words "owners of rights", the words "authors and other owners of right" shall be substituted;

(*iv*) in sub-section (*5*), after the word "concerned" the words "or for non-compliance of sections 33A, sub-section (*3*) of section 35 and section 36 or any change carried out in the instrument by which the copyright society is established or incorporated and registered by the Central Government without prior notice to it" shall be inserted.

Insertion of new section 33A.

20. After section 33 of the principal Act, the following section shall be inserted, namely:—

Tariff Scheme by copyright societies.

"33A. (*1*) Every copyright society shall publish its tariff scheme in such manner as may be prescribed.

(2) Any person who is aggrieved by the tariff scheme may appeal to the Copyright Board and the Board may, if satisfied after holding such inquiry as it may consider necessary, make such orders as may be required to remove any unreasonable element, anomaly or inconsistency therein:

Provided that the aggrieved person shall pay to the copyright society any fee as may be prescribed that has fallen due before making an appeal to the Copyright Board and shall continue to pay such fee until the appeal is decided, and the Board shall not issue any order staying the collection of such fee pending disposal of the appeal:

Provided further that the Copyright Board may after hearing the parties fix an interim tariff and direct the aggrieved parties to make the payment accordingly pending disposal of the appeal.".

Amendment of section 34.

21. In section 34 of the principal Act, for the words "owner of rights", wherever they occur, the words "author and other owners of right" shall be substituted.

Omission of section 34A.

22. Section 34A of the principal Act shall be omitted.

Amendment of section 35.

23. In section 35 of the principal Act and its marginal heading,—

(*a*) for the words "owners of rights", wherever they occur, the words "author and other owners of right" shall be substituted;

(*b*) after sub-section (*2*), the following sub-sections shall be inserted, namely:—

(*3*) Every copyright society shall have a governing body with such number of persons elected from among the members of the society consisting of equal number of authors and owners of work for the purpose of the administration of the society as may be specified.

(*4*) All members of copyrights society shall enjoy equal membership rights and there shall be no discrimination between authors and owners of rights in the distribution of royalties.

Amendment of section 36A.

24. In section 36A of the principal Act,—

(*a*) for the words "performing rights society", the words "copyright society" shall be substituted;

(*b*) for the words, brackets and figures "the Copyright (Amendment) Act, 1994", the words, brackets and figures "the Copyright (Amendment) Act, 2012" shall be substituted. 38 of 1994.

Amendment of section 37.

25. In section 37 of the principal Act, in sub-section *(3)*, for clause *(e)*, the following clause shall be substituted, namely:—

"*(e)* sells or gives on commercial rental or offer for sale or for such rental, any such sound recording or visual recording referred to in clause (*c*) or clause (*d*).".

26. In section 38 of the principal Act, sub-sections *(3)* and *(4)* shall be omitted. Amendment of section 38.

27. After section 38 of the principal Act, the following sections shall be inserted, namely:— Insertion of new sections 38A and 38B.

"38A. *(1)* Without prejudice to the rights conferred on authors, the performer's right which is an exclusive right subject to the provisions of this Act to do or authorise for doing any of the following acts in respect of the performance or any substantial part thereof, namely:— Exclusive right of performers.

(a) to make a sound recording or a visual recording of the performance, including—

(i) reproduction of it in any material form including the storing of it in any medium by electronic or any other means;

(ii) issuance of copies of it to the public not being copies already in circulation;

(iii) communication of it to the public;

(iv) selling or giving it on commercial rental or offer for sale or for commercial rental any copy of the recording;

(b) to broadcast or communicate the performance to the public except where the performance is already broadcast.

(2) Once a performer has, by written agreement, consented to the incorporation of his performance in a cinematograph film he shall not, in the absence of any contract to the contrary, object to the enjoyment by the producer of the film of the performer's right in the same film:

Provided that, notwithstanding anything contained in this sub-section, the performer shall be entitled for royalties in case of making of the performances for commercial use.

38B. The performer of a performance shall, independently of his right after assignment, either wholly or partially of his right, have the right,— Moral rights of the performer.

(a) to claim to be identified as the performer of his performance except where omission is dictated by the manner of the use of the performance; and

(b) to restrain or claim damages in respect of any distortion, mutilation or other modification of his performance that would be prejudicial to his reputation.

Explanation.—For the purposes of this clause, it is hereby clarified that mere removal of any portion of a performance for the purpose of editing, or to fit the recording within a limited duration, or any other modification required for purely technical reasons shall not be deemed to be prejudicial to the performer's reputation.

28. For section 39A of the principal Act, the following section shall be substituted, namely:— Substitution of a new section for section 39A.

"39A. *(1)* Sections 18, 19, 30, 30A, 33, 33A, 34, 35, 36, 53, 55, 58, 63, 64, 65, 65A, 65B and 66 shall, with necessary adaptations and modifications, apply in relation to the broadcast reproduction right in any broadcast and the performer's right in any performance as they apply in relation to copyright in a work: Certain provisions to apply in case of broadcast reproduction right and performer's rights.

Provided that where copyright or performer's right subsists in respect of any work or performance that has been broadcast, no licence to reproduce such broadcast, shall be given without the consent of the owner of right or performer, as the case may be, or both of them:

Provided further that the broadcast reproduction right or performer's right shall not subsist in any broadcast or performance if that broadcast or performance is an infringement of the copyright in any work.

(2) The broadcast reproduction right or the performer's right shall not affect the separate copyright in any work in respect of which, the broadcast or the performance, as the case may be, is made.".

Amendment of section 40.

29. In section 40 of the principal Act, in the proviso, in clause (*iii*), after the words "the order relates", the words "but such a term of copyright shall not exceed the term of copyright provided under this Act" shall be inserted.

Amendment of section 40A.

30. In section 40A of the principal Act, in sub-section (2), in clause (*ii*), the following proviso shall be inserted, namely:—

"Provided that it does not exceed the period provided under this Act;".

Amendment of section 45.

31. In section 45 of the principal Act, in sub-section (*1*), in the proviso,—

(*i*) for the words "relation to any goods", the words "relation to any goods or services" shall be substituted;

(*ii*) for the words and figures "section 4 of the Trade and Merchandise Marks Act, 1958" the words and figures "section 3 of the Trade Marks Act, 1999" shall be substituted. 43 of 1958. 47 of 1999.

Amendment of section 52.

32. In section 52 of the principal Act, in sub-section *(1)*,—

(*i*) for clause *(a)*, the following clause shall be substituted, namely:—

(a) a fair dealing with any work, not being a computer programme, for the purposes of—

(i) private or personal use, including research;

(ii) criticism or review, whether of that work or of any other work;

(iii) the reporting of current events and current affairs, including the reporting of a lecture delivered in public.

Explanation.—The storing of any work in any electronic medium for the purposes mentioned in this clause, including the incidental storage of any computer programme which is not itself an infringing copy for the said purposes, shall not constitute infringement of copyright.";

(*ii*) for clauses (*b*), (*c*), (*d*), (*e*), (*f*), (*g*), (*h*), (*i*) and (*j*), the following shall be substituted, namely:—

"*(b)* the transient or incidental storage of a work or performance purely in the technical process of electronic transmission or communication to the public;

(*c*) transient or incidental storage of a work or performance for the purpose of providing electronic links, access or integration, where such links, access or integration has not been expressly prohibited by the right holder, unless the person responsible is aware or has reasonable grounds for believing that such storage is of an infringing copy:

Provided that if the person responsible for the storage of the copy has received a written complaint from the owner of copyright in the work, complaining that such transient or incidental storage is an infringement, such person responsible for the storage shall refrain from facilitating such access for a period of twenty-one days or till he receives an order from the competent court refraining from facilitating access and in case no such order is received before the expiry of such period of twenty-one days, he may continue to provide the facility of such access;

(*d*) the reproduction of any work for the purpose of a judicial proceeding or for the purpose of a report of a judicial proceeding;

(*e*) the reproduction or publication of any work prepared by the Secretariat of a Legislature or, where the Legislature consists of two Houses, by the Secretariat of either House of the Legislature, exclusively for the use of the members of that Legislature;";

(*f*) the reproduction of any work in a certified copy made or supplied in accordance with any law for the time being in force;

(*g*) the reading or recitation in public of reasonable extracts from a published literacy or dramatic work;

(*h*) the publication in a collection, mainly composed of non-copyright matter, *bona fide* intended for instructional use, and so described in the title and in any advertisement issued by or on behalf of the publisher, of short passages from published literary or dramatic works, not themselves published for such use in which copyright subsists:

Provided that not more than two such passages from works by the same author are published by the same publisher during any period of five years.

Explanation.—In the case of a work of joint authorship, references in this clause to passages from works shall include references to passages from works by any one or more of the authors of those passages or by any one or more of those authors in collaboration with any other person;

(*i*) the reproduction of any work—

(*i*) by a teacher or a pupil in the course of instruction; or

(*ii*) as part of the questions to be answered in an examination; or

(*iii*) in answers to such questions;

(*j*) the performance, in the course of the activities of an educational institution, of a literary, dramatic or musical work by the staff and students of the institution, or of a cinematograph film or a sound recording if the audience is limited to such staff and students, the parents and guardians of the students and persons connected with the activities of the institution or the communication to such an audience of a cinematograph film or sound recording;";

(*iii*) for clause (*n*), the following clause shall be substituted, namely:—

"(*n*) the storing of a work in any medium by electronic means by a non-commercial public library, for preservation if the library already possesses a non-digital copy of the work;";

(*iv*) in clause (*o*), for the words "public library", the words, "non-commercial public library" shall be substituted;

(*v*) after clause (*v*), the following clause shall be inserted, namely:—

"(*w*) the making of a three-dimensional object from a two-dimensional artistic work, such as a technical drawing, for the purposes of industrial application of any purely functional part of a useful device;

(*vi*) in clause (*y*), for the words "dramatic or", the words "dramatic, artistic or" shall the substituted;

(*vii*) after clause (*za*) and the *Explanation* thereunder, the following shall be inserted, namely:—

"(*zb*) the adaptation, reproduction, issue of copies or communication to the public of any work in any accessible format, by—

(*i*) any person to facilitate persons with disability to access to works including sharing with any person with disability of such accessible format for private or personal use, educational purpose or research; or (*ii*) any organisation working for the benefit of the persons with disabilities in case the normal format prevents the enjoyment of such works by such persons:

Provided that the copies of the works in such accessible format are made available to the persons with disabilities on a non-profit basis but to recover only the cost of production:

Provided further that the organisation shall ensure that the copies of works in such accessible format are used only by persons with disabilities and takes reasonable steps to prevent its entry into ordinary channels of business.

Explanation.—For the purposes of this sub-clause, "any organisation" includes and organisation registered under section 12A of the Income-tax Act, 1961 and working for the benefit of persons with disability or recognised under Chapter X of the Persons with Disabilities (Equal Opportunities, Protection or Rights and full Participation) Act, 1995 or receiving grants from the government for facilitating access to persons with disabilities or an educational institution or library or archives recognised by the Government.".

43 of 1961.

1 of 1996.

(*zc*) the importation of copies of any literary or artistic work, such as labels, company logos or promotional or explanatory material, that is purely incidental to other goods or products being imported lawfully.".

Omission of section 52B.

33. Section 52B of the principal Act shall be omitted.

Substitution of new section for section 53.

34. For section 53 of the principal Act, the following section shall be substituted, namely:—

Importation of infringing copies.

"53. (*1*) The owner of any right conferred by this Act in respect of any work or any performance embodied in such work, or his duly authorised agent, may give notice in writing to the Commissioner of Customs, or to any other officer authorised in this behalf by the Central Board of Excise and Customs,—

(*a*) that he is the owner of the said right, with proof thereof; and

(*b*) that he requests the Commissioner for a period specified in the notice, which shall not exceed one year, to treat infringing copies of the work as prohibited goods, and that infringing copies of the work are expected to arrive in India at a time and a place specified in the notice.

(*2*) The Commissioner, after scrutiny of the evidence furnished by the owner of the right and on being satisfied may, subject to the provisions of sub-section (*3*), treat infringing copies of the work as prohibited goods that have been imported into India, excluding goods in transit:

Provided that the owner of the work deposits such amount as the Commissioner may require as security having regard to the likely expenses on demurrage, cost of storage and compensation to the importer in case it is found that the works are not infringing copies.

(*3*) When any goods treated as prohibited under sub-section (*2*) have been detained, the Customs Officer detaining them shall inform the importer as well as the person who gave notice under sub-section (*1*) of the detention of such goods within forty-eight hours of their detention.

(*4*) The Customs Officer shall release the goods, and they shall no longer be treated as prohibited goods, if the person who gave notice under sub-section (*1*) does not produce any order from a court having jurisdiction as to the temporary or permanent disposal of such goods within fourteen days from the date of their detention.".

35. In section 55 of the principal Act, in sub-section (*2*), for the portion beginning with the words "a name purporting to be" and ending with the words "as the case may be, appears", the following shall be substituted, namely:— Amendment of section 55.

"or, subject to the provisions of sub-section (*3*) of section 13, a cinematograph film or sound recording, a name purporting to be that of the author, or the publisher, as the case may be, of that work, appears".

36. In section 57 of the principal Act,— Amendment of section 57.

(*i*) in sub-section (*1*), in clause (*b*), the words "which is done before the expiration of the term of copyright" shall be omitted;

(*ii*) in sub-section (*2*), the words "other than the right to claim authorship of the work" shall be omitted.

37. After section 65 of the principal Act, the following sections shall be inserted, namely:— Insertion of new sections 65A and 65B.

"65A. (*1*) Any person who circumvents an effective technological measure applied for the purpose of protecting any of the rights conferred by this Act, with the intention of infringing such rights, shall be punishable with imprisonment which may extend to two years and shall also be liable to fine. Protection of technological measures.

(*2*) Nothing in sub-section (*1*) shall prevent any person from,—

(*a*) doing anything referred to therein for a purpose not expressly prohibited by this Act:

Provided that any person facilitating circumvention by another person of a technological measure for such a purpose shall maintain a complete record of such other person including his name, address and all relevant particulars necessary to identify him and the purpose for which he has been facilitated; or

(*b*) doing anything necessary to conduct encryption research using a lawfully obtained encrypted copy; or

(*c*) conducting any lawful investigation; or

(*d*) doing anything necessary for the purpose of testing the security of a computer system or a computer network with the authorisation of its owner; or

(*e*) operator; or

(*f*) doing anything necessary to circumvent technological measures intended for identification or surveillance of a user; or

(*g*) taking measures necessary in the interest of national security.

65B. Any person, who knowingly,— Protection of Rights Management Information.

(*i*) removes or alters any rights management information without authority, or

(*ii*) distributes, imports for distribution, broadcasts or communicates to the public, without authority, copies of any work, or performance knowing that electronic rights management information has been removed or altered without authority,

shall be punishable with imprisonment which may extend to two years and shall also be liable to fine:

Provided that if the rights management information has been tampered with in any work, the owner of copyright in such work may also avail of civil remedies provided under Chapter XII against the persons indulging in such acts.".

Amendment of section 66.

38. In section 66 of the principal Act, after the words "delivered up to the owner of the copyright," the words "or may make such order as it may deem fit regarding the disposal of such copies or plates" shall be inserted.

Amendment of section 78.

39. In section 78 of the principal Act, in sub-section (*2*),—

(*i*) for clause (*a*), the following clause shall be substituted, namely:—

(*a*) the salaries and allowances payable to and the other terms and conditions of service of the chairman and other members of the Copyright Board under sub-section (*2*) of section 11;

(*ii*) after clause (*c*), the following clauses shall be inserted, namely:—

"(*cA*) the form and manner in which an organisation may apply to the Copyright Board for compulsory licence for disabled and the fee which may accompany such application under sub-section (*1*) of section 31B;

(*cB*) the manner in which a person making sound recording may give prior notice of his intention to make sound recording under sub-section (*2*) of section 31C;

(*cC*) the register and books of account and the details of existing stock which a person making sound recording may maintain under sub-section (*5*) of section 31C;

(*cD*) the manner in which prior notice may be given by a broadcasting organisation under sub-section (*2*) of section 31D;

(*cE*) the reports and accounts which may be maintained under clause (*a*), and the inspection of records and books of account which may be made under clause (*b*) of sub-section (*7*) of section 31D;";

(*iii*) after clause (*cc*), the following clauses shall be inserted, namely:—

"(*ccA*) the manner in which a copyright society may publish its Tariff Scheme under sub-section (*1*) of section 33A;

(*ccB*) the fee which is to be paid before filing an appeal to the Copyright Board under sub-section (*2*) of section 33A;";

(*ccC*) the form of application for renewal of registration of a copyright society and the fee which may accompany such application under sub-section (*3A*) of section 33;

(*iv*) clause (*db*) shall be omitted.

V. K. BHASIN,
Secretary to the Govt. of India.

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Antitrust Guidelines for the Licensing of Intellectual Property

Issued by the
U.S. Department of Justice[*]
and the
Federal Trade Commission

April 6, 1995

[*] These Guidelines supersede section 3.6 in Part I, "Intellectual Property Licensing Arrangements," and cases 6, 10, 11, and 12 in Part II of the U.S. Department of Justice 1988 Antitrust Enforcement Guidelines for International Operations.

Table of Contents

1. Intellectual property protection and the antitrust laws

1.0 These Guidelines state the antitrust enforcement policy of the U.S. Department of Justice and the Federal Trade Commission (individually, "the Agency," and collectively, "the Agencies") with respect to the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how.[1] By stating their general policy, the Agencies hope to assist those who need to predict whether the Agencies will challenge a practice as anticompetitive. However, these Guidelines cannot remove judgment and discretion in antitrust law enforcement. Moreover, the standards set forth in these Guidelines must be applied in unforeseeable circumstances. Each case will be evaluated in light of its own facts, and these Guidelines will be applied reasonably and flexibly.[2]

In the United States, patents confer rights to exclude others from making, using, or selling in the United States the invention claimed by the patent for a period of seventeen years from the date of issue.[3] To gain patent protection, an invention (which may be a product, process, machine, or composition of matter) must be novel, nonobvious, and useful. Copyright protection applies to original works of authorship embodied in a tangible medium of expression.[4] A copyright protects only the expression, not the underlying

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[1] These Guidelines do not cover the antitrust treatment of trademarks. Although the same general antitrust principles that apply to other forms of intellectual property apply to trademarks as well, these Guidelines deal with technology transfer and innovation-related issues that typically arise with respect to patents, copyrights, trade secrets, and know-how agreements, rather than with product-differentiation issues that typically arise with respect to trademarks.

[2] As is the case with all guidelines, users should rely on qualified counsel to assist them in evaluating the antitrust risk associated with any contemplated transaction or activity. No set of guidelines can possibly indicate how the Agencies will assess the particular facts of every case. Parties who wish to know the Agencies' specific enforcement intentions with respect to any particular transaction should consider seeking a Department of Justice business review letter pursuant to 28 C.F.R. § 50.6 or a Federal Trade Commission Advisory Opinion pursuant to 16 C.F.R. §§ 1.1–1.4.

[3] *See* 35 U.S.C. § 154 (1988). Section 532(a) of the Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809, 4983 (1994) would change the length of patent protection to a term beginning on the date at which the patent issues and ending twenty years from the date on which the application for the patent was filed.

[4] *See* 17 U.S.C. § 102 (1988 & Supp. V 1993). Copyright protection lasts for the author's life plus 50 years, or 75 years from first publication (or 100 years from creation, whichever expires first) for works made for hire. *See* 17 U.S.C. § 302 (1988). The principles stated in these Guidelines also apply to protection of mask works fixed in a semiconductor chip product (*see* 17 U.S.C. § 901 *et seq.* (1988)), which is analogous to copyright protection for works of authorship.

ideas.[5] Unlike a patent, which protects an invention not only from copying but also from independent creation, a copyright does not preclude others from independently creating similar expression. Trade secret protection applies to information whose economic value depends on its not being generally known.[6] Trade secret protection is conditioned upon efforts to maintain secrecy and has no fixed term. As with copyright protection, trade secret protection does not preclude independent creation by others.

The intellectual property laws and the antitrust laws share the common purpose of promoting innovation and enhancing consumer welfare.[7] The intellectual property laws provide incentives for innovation and its dissemination and commercialization by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression. In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers. The antitrust laws promote innovation and consumer welfare by prohibiting certain actions that may harm competition with respect to either existing or new ways of serving consumers.

2. General principles

2.0 These Guidelines embody three general principles: (a) for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property; (b) the Agencies do not presume that intellectual property creates market power in the antitrust context; and (c) the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally procompetitive.

[5] *See* 17 U.S.C. § 102(b) (1988).

[6] Trade secret protection derives from state law. *See generally Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

[7] "[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition." *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990).

2.1 Standard antitrust analysis applies to intellectual property

The Agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property. That is not to say that intellectual property is in all respects the same as any other form of property. 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.[8]

Although there are clear and important differences in the purpose, extent, and duration of protection provided under the intellectual property regimes of patent, copyright, and trade secret, the governing antitrust principles are the same. Antitrust analysis takes differences among these forms of intellectual property into account in evaluating the specific market circumstances in which transactions occur, just as it does with other particular market circumstances.

Intellectual property law bestows on the owners of intellectual property certain rights to exclude others. These rights help the owners to profit from the use of their property. An intellectual property owner's rights to exclude are similar to the rights enjoyed by owners of other forms of private property. As with other forms of private property, certain types of conduct with respect to intellectual property may have anticompetitive effects against which the antitrust laws can and do protect. Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.

The Agencies recognize that the licensing of intellectual property is often international. The principles of antitrust analysis described in these Guidelines apply equally to domestic and international licensing arrangements. However, as described in the 1995 Department of Justice and Federal Trade Commission Antitrust Enforcement Guidelines for International Operations, considerations particular to international operations, such as jurisdiction and comity, may affect enforcement decisions when the arrangement is in an international context.

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[8] As with other forms of property, the power to exclude others from the use of intellectual property may vary substantially, depending on the nature of the property and its status under federal or state law. The greater or lesser legal power of an owner to exclude others is also taken into account by standard antitrust analysis.

2.2 Intellectual property and market power

Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.[9] The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although 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 potential close substitutes for such product, process, or work to prevent the exercise of market power.[10] If a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws. As with any other tangible or intangible asset that enables its owner to obtain significant supracompetitive profits, market power (or even a monopoly) that is solely "a consequence of a superior product, business acumen, or historic accident" does not violate the antitrust laws.[11] Nor does such market power impose on the intellectual property owner an obligation to license the use of that property to others. As in other antitrust contexts, however, market power could be illegally acquired or maintained, or, even if lawfully acquired and maintained, would be relevant to the ability of an intellectual property owner to harm competition through unreasonable conduct in connection with such property.

2.3 Procompetitive benefits of licensing

[9] Market power can be exercised in other economic dimensions, such as quality, service, and the development of new or improved goods and processes. It is assumed in this definition that all competitive dimensions are held constant except the ones in which market power is being exercised; that a seller is able to charge higher prices for a higher-quality product does not alone indicate market power. The definition in the text is stated in terms of a seller with market power. A buyer could also exercise market power (e.g., by maintaining the price below the competitive level, thereby depressing output).

[10] The Agencies note that the law is unclear on this issue. *Compare Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16 (1984) (expressing the view in dictum that if a product is protected by a patent, "it is fair to presume that the inability to buy the product elsewhere gives the seller market power") *with id.* at 37 n.7 (O'Connor, J., concurring) ("[A] patent holder has no market power in any relevant sense if there are close substitutes for the patented product."). *Compare also Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1354–55 (Fed. Cir. 1991) (no presumption of market power from intellectual property right), *cert. denied*, 112 S. Ct. 2993 (1992) *with Digidyne Corp. v. Data General Corp.,* 734 F.2d 1336, 1341–42 (9th Cir. 1984) (requisite economic power is presumed from copyright), *cert. denied,* 473 U.S. 908 (1985).

[11] *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966); *see also United States v. Aluminum Co. of America*, 148 F.2d 416, 430 (2d Cir. 1945) (Sherman Act is not violated by the attainment of market power solely through "superior skill, foresight and industry").

Intellectual property typically is one component among many in a production process and derives value from its combination with complementary factors. Complementary factors of production include manufacturing and distribution facilities, workforces, and other items of intellectual property. The owner of intellectual property has to arrange for its combination with other necessary factors to realize its commercial value. Often, the owner finds it most efficient to contract with others for these factors, to sell rights to the intellectual property, or to enter into a joint venture arrangement for its development, rather than supplying these complementary factors itself.

Licensing, cross-licensing, or otherwise transferring intellectual property (hereinafter "licensing") can facilitate integration of the licensed property with complementary factors of production. This integration can lead to more efficient exploitation of the intellectual property, benefiting consumers through the reduction of costs and the introduction of new products. Such arrangements increase the value of intellectual property to consumers and to the developers of the technology. By potentially increasing the expected returns from intellectual property, licensing also can increase the incentive for its creation and thus promote greater investment in research and development.

Sometimes the use of one item of intellectual property requires access to another. An item of intellectual property "blocks" another when the second cannot be practiced without using the first. For example, an improvement on a patented machine can be blocked by the patent on the machine. Licensing may promote the coordinated development of technologies that are in a blocking relationship.

Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible. These various forms of exclusivity can be used to give a licensee an incentive to invest in the commercialization and distribution of products embodying the licensed intellectual property and to develop additional applications for the licensed property. The restrictions may do so, for example, by protecting the licensee against free-riding on the licensee's investments by other licensees or by the licensor. They may also increase the licensor's incentive to license, for example, by protecting the licensor from competition in the licensor's own technology in a market niche that it prefers to keep to itself. These benefits of licensing restrictions apply to patent, copyright, and trade secret licenses, and to know-how agreements.

Example 1[12]

Situation: ComputerCo develops a new, copyrighted software program for inventory management. The program has wide application in the health field. ComputerCo licenses the program in an arrangement that imposes both field of use and territorial limitations. Some of ComputerCo's licenses permit use only in hospitals; others permit use only in group medical practices. ComputerCo charges different royalties for the different uses. All of ComputerCo's licenses permit use only in specified portions of the United States and in specified foreign countries.[13] The licenses contain no provisions that would prevent or discourage licensees from developing, using, or selling any other program, or from competing in any other good or service other than in the use of the licensed program. None of the licensees are actual or likely potential competitors of ComputerCo in the sale of inventory management programs.

Discussion: The key competitive issue raised by the licensing arrangement is whether it harms competition among entities that would have been actual or likely potential competitors in the absence of the arrangement. Such harm could occur if, for example, the licenses anticompetitively foreclose access to competing technologies (in this case, most likely competing computer programs), prevent licensees from developing their own competing technologies (again, in this case, most likely computer programs), or facilitate market allocation or price-fixing for any product or service supplied by the licensees. (*See* section 3.1.) If the license agreements contained such provisions, the Agency evaluating the arrangement would analyze its likely competitive effects as described in parts 3–5 of these Guidelines. In this hypothetical, there are no such provisions and thus the arrangement is merely a subdivision of the licensor's intellectual property among different fields of use and territories. The licensing arrangement does not appear likely to harm competition among entities that would have been actual or likely potential competitors if ComputerCo had chosen not to license the software program. The Agency therefore would be unlikely to object to this arrangement. Based on these facts, the result of the antitrust analysis would be the same whether the technology was protected by patent, copyright, or trade secret. The Agency's conclusion as to likely competitive effects could differ if, for example, the license barred licensees from using any other inventory management program.

[12] The examples in these Guidelines are hypothetical and do not represent judgments about, or analysis of, any actual market circumstances of the named industries.

[13] These Guidelines do not address the possible application of the antitrust laws of other countries to restraints such as territorial restrictions in international licensing arrangements.

3. Antitrust concerns and modes of analysis

3.1 Nature of the concerns

While intellectual property licensing arrangements are typically welfare-enhancing and procompetitive, antitrust concerns may nonetheless arise. For example, a licensing arrangement could include restraints that adversely affect competition in goods markets by dividing the markets among firms that would have competed using different technologies. *See, e.g.*, Example 7. An arrangement that effectively merges the research and development activities of two of only a few entities that could plausibly engage in research and development in the relevant field might harm competition for development of new goods and services. *See* section 3.2.3. An acquisition of intellectual property may lessen competition in a relevant antitrust market. *See* section 5.7. The Agencies will focus on the actual effects of an arrangement, not on its formal terms.

The Agencies will not require the owner of intellectual property to create competition in its own technology. However, antitrust concerns may arise when a licensing arrangement harms competition among entities that would have been actual or likely potential competitors[14] in a relevant market in the absence of the license (entities in a "horizontal relationship"). A restraint in a licensing arrangement may harm such competition, for example, if it facilitates market division or price-fixing. In addition, license restrictions with respect to one market may harm such competition in another market by anticompetitively foreclosing access to, or significantly raising the price of, an important input,[15] or by facilitating coordination to increase price or reduce output. When it appears that such competition may be adversely affected, the Agencies will follow the analysis set forth below. *See generally* sections 3.4 and 4.2.

3.2 Markets affected by licensing arrangements

Licensing arrangements raise concerns under the antitrust laws if they are likely to affect adversely the prices, quantities, qualities, or varieties of goods and services[16] either currently or potentially available. The competitive effects of licensing arrangements often can be

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[14] A firm will be treated as a likely potential competitor if there is evidence that entry by that firm is reasonably probable in the absence of the licensing arrangement.

[15] As used herein, "input" includes outlets for distribution and sales, as well as factors of production. *See, e.g.*, sections 4.1.1 and 5.3–5.5 for further discussion of conditions under which foreclosing access to, or raising the price of, an input may harm competition in a relevant market.

[16] Hereinafter, the term "goods" also includes services.

adequately assessed within the relevant markets for the goods affected by the arrangements. In such instances, the Agencies will delineate and analyze only goods markets. In other cases, however, the analysis may require the delineation of markets for technology or markets for research and development (innovation markets).

3.2.1 Goods markets

A number of different goods markets may be relevant to evaluating the effects of a licensing arrangement. A restraint in a licensing arrangement may have competitive effects in markets for final or intermediate goods made using the intellectual property, or it may have effects upstream, in markets for goods that are used as inputs, along with the intellectual property, to the production of other goods. In general, for goods markets affected by a licensing arrangement, the Agencies will approach the delineation of relevant market and the measurement of market share in the intellectual property area as in section 1 of the U.S. Department of Justice and Federal Trade Commission Horizontal Merger Guidelines.[17]

3.2.2 Technology markets

Technology markets consist of the intellectual property that is licensed (the "licensed technology") and its close substitutes—that is, the technologies or goods that are close enough substitutes significantly to constrain the exercise of market power with respect to the intellectual property that is licensed.[18] When rights to intellectual property are marketed separately from the products in which they are used,[19] the Agencies may rely on technology markets to analyze the competitive effects of a licensing arrangement.

Example 2

Situation: Firms Alpha and Beta independently develop different patented process technologies

[17] U.S. Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines (April 2, 1992) (hereinafter "1992 Horizontal Merger Guidelines"). As stated in section 1.41 of the 1992 Horizontal Merger Guidelines, market shares for goods markets "can be expressed either in dollar terms through measurement of sales, shipments, or production, or in physical terms through measurement of sales, shipments, production, capacity or reserves."

[18] For example, the owner of a process for producing a particular good may be constrained in its conduct with respect to that process not only by other processes for making that good, but also by other goods that compete with the downstream good and by the processes used to produce those other goods.

[19] Intellectual property is often licensed, sold, or transferred as an integral part of a marketed good. An example is a patented product marketed with an implied license permitting its use. In such circumstances, there is no need for a separate analysis of technology markets to capture relevant competitive effects.

to manufacture the same off-patent drug for the treatment of a particular disease. Before the firms use their technologies internally or license them to third parties, they announce plans jointly to manufacture the drug, and to assign their manufacturing processes to the new manufacturing venture. Many firms are capable of using and have the incentive to use the licensed technologies to manufacture and distribute the drug; thus, the market for drug manufacturing and distribution is competitive. One of the Agencies is evaluating the likely competitive effects of the planned venture.

Discussion: The Agency would analyze the competitive effects of the proposed joint venture by first defining the relevant markets in which competition may be affected and then evaluating the likely competitive effects of the joint venture in the identified markets. (*See* Example 4 for a discussion of the Agencies' approach to joint venture analysis.) In this example, the structural effect of the joint venture in the relevant goods market for the manufacture and distribution of the drug is unlikely to be significant, because many firms in addition to the joint venture compete in that market. The joint venture might, however, increase the prices of the drug produced using Alpha's or Beta's technology by reducing competition in the relevant market for technology to manufacture the drug.

The Agency would delineate a technology market in which to evaluate likely competitive effects of the proposed joint venture. The Agency would identify other technologies that can be used to make the drug with levels of effectiveness and cost per dose comparable to that of the technologies owned by Alpha and Beta. In addition, the Agency would consider the extent to which competition from other drugs that are substitutes for the drug produced using Alpha's or Beta's technology would limit the ability of a hypothetical monopolist that owned both Alpha's and Beta's technology to raise its price.

To identify a technology's close substitutes and thus to delineate the relevant technology market, the Agencies will, if the data permit, identify the smallest group of technologies and goods over which a hypothetical monopolist of those technologies and goods likely would exercise market power—for example, by imposing a small but significant and nontransitory price increase.[20] The Agencies recognize that technology often is licensed in ways that are not readily quantifiable in monetary terms.[21] In such

[20] This is conceptually analogous to the analytical approach to goods markets under the 1992 Horizontal Merger Guidelines. *Cf.* § 1.11. Of course, market power also can be exercised in other dimensions, such as quality, and these dimensions also may be relevant to the definition and analysis of technology markets.

[21] For example, technology may be licensed royalty-free in exchange for the right to use other technology, or it may be licensed as part of a package license.

circumstances, the Agencies will delineate the relevant market by identifying other technologies and goods which buyers would substitute at a cost comparable to that of using the licensed technology.

In assessing the competitive significance of current and likely potential participants in a technology market, the Agencies will take into account all relevant evidence. When market share data are available and accurately reflect the competitive significance of market participants, the Agencies will include market share data in this assessment. The Agencies also will seek evidence of buyers' and market participants' assessments of the competitive significance of technology market participants. Such evidence is particularly important when market share data are unavailable, or do not accurately represent the competitive significance of market participants. When market share data or other indicia of market power are not available, and it appears that competing technologies are comparably efficient,[22] the Agencies will assign each technology the same market share. For new technologies, the Agencies generally will use the best available information to estimate market acceptance over a two-year period, beginning with commercial introduction.

3.2.3 Research and development: innovation markets

If a licensing arrangement may adversely affect competition to develop new or improved goods or processes, the Agencies will analyze such an impact either as a separate competitive effect in relevant goods or technology markets, or as a competitive effect in a separate innovation market. A licensing arrangement may have competitive effects on innovation that cannot be adequately addressed through the analysis of goods or technology markets. For example, the arrangement may affect the development of goods that do not yet exist.[23] Alternatively, the arrangement may affect the development of new or improved

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[22] The Agencies will regard two technologies as "comparably efficient" if they can be used to produce close substitutes at comparable costs.

[23] *E.g.*, *Sensormatic*, FTC Inv. No. 941-0126, 60 Fed. Reg. 5428 (accepted for comment Dec. 28, 1994); *Wright Medical Technology, Inc.*, FTC Inv. No. 951-0015, 60 Fed. Reg. 460 (accepted for comment Dec. 8, 1994); *American Home Products*, FTC Inv. No. 941-0116, 59 Fed. Reg. 60,807 (accepted for comment Nov. 28, 1994); *Roche Holdings Ltd.*, 113 F.T.C. 1086 (1990); *United States v. Automobile Mfrs. Ass'n*, 307 F. Supp. 617 (C.D. Cal. 1969), *appeal dismissed sub nom. City of New York v. United States,* 397 U.S. 248 (1970), *modified sub nom. United States v. Motor Vehicles Mfrs. Ass'n*, 1982–83 Trade Cas. (CCH) ¶ 65,088 (C.D. Cal. 1982).

goods or processes in geographic markets where there is no actual or likely potential competition in the relevant goods.[24]

An innovation market consists of the research and development directed to particular new or improved goods or processes, and the close substitutes for that research and development. The close substitutes are research and development efforts, technologies, and goods[25] that significantly constrain the exercise of market power with respect to the relevant research and development, for example by limiting the ability and incentive of a hypothetical monopolist to retard the pace of research and development. The Agencies will delineate an innovation market only when the capabilities to engage in the relevant research and development can be associated with specialized assets or characteristics of specific firms.

In assessing the competitive significance of current and likely potential participants in an innovation market, the Agencies will take into account all relevant evidence. When market share data are available and accurately reflect the competitive significance of market participants, the Agencies will include market share data in this assessment. The Agencies also will seek evidence of buyers' and market participants' assessments of the competitive significance of innovation market participants. Such evidence is particularly important when market share data are unavailable or do not accurately represent the competitive significance of market participants. The Agencies may base the market shares of participants in an innovation market on their shares of identifiable assets or characteristics upon which innovation depends, on shares of research and development expenditures, or on shares of a related product. When entities have comparable capabilities and incentives to pursue research and development that is a close substitute for the research and development activities of the parties to a licensing arrangement, the Agencies may assign equal market shares to such entities.

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[24] *See* Complaint, *United States v. General Motors Corp.*, Civ. No. 93-530 (D. Del., filed Nov. 16, 1993).

[25] For example, the licensor of research and development may be constrained in its conduct not only by competing research and development efforts but also by other existing goods that would compete with the goods under development.

Example 3

Situation: Two companies that specialize in advanced metallurgy agree to cross-license future patents relating to the development of a new component for aircraft jet turbines. Innovation in the development of the component requires the capability to work with very high tensile strength materials for jet turbines. Aspects of the licensing arrangement raise the possibility that competition in research and development of this and related components will be lessened. One of the Agencies is considering whether to define an innovation market in which to evaluate the competitive effects of the arrangement.

Discussion: If the firms that have the capability and incentive to work with very high tensile strength materials for jet turbines can be reasonably identified, the Agency will consider defining a relevant innovation market for development of the new component. If the number of firms with the required capability and incentive to engage in research and development of very high tensile strength materials for aircraft jet turbines is small, the Agency may employ the concept of an innovation market to analyze the likely competitive effects of the arrangement in that market, or as an aid in analyzing competitive effects in technology or goods markets. The Agency would perform its analysis as described in parts 3–5.

If the number of firms with the required capability and incentive is large (either because there are a large number of such firms in the jet turbine industry, or because there are many firms in other industries with the required capability and incentive), then the Agency will conclude that the innovation market is competitive. Under these circumstances, it is unlikely that any single firm or plausible aggregation of firms could acquire a large enough share of the assets necessary for innovation to have an adverse impact on competition.

If the Agency cannot reasonably identify the firms with the required capability and incentive, it will not attempt to define an innovation market.

Example 4

Situation: Three of the largest producers of a plastic used in disposable bottles plan to engage in joint research and development to produce a new type of plastic that is rapidly biodegradable. The joint venture will grant to its partners (but to no one else) licenses to all patent rights and use of know-how. One of the Agencies is evaluating the likely competitive effects of the proposed joint venture.

Discussion: The Agency would analyze the proposed research and development joint venture using an analysis similar to that applied to other joint ventures.[26] The Agency would begin by defining the relevant markets in which to analyze the joint venture's likely competitive effects.

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[26] *See, e.g.*, U.S. Department of Justice and Federal Trade Commission, Statements of Enforcement Policy and Analytical Principles Relating to Health Care and Antitrust 20–23, 37–40, 72–74 (September 27, 1994). This type of transaction may qualify for treatment under the National Cooperative Research and Production Act of 1993, 15 U.S.C.A §§ 4301–05.

In this case, a relevant market is an innovation market—research and development for biodegradable (and other environmentally friendly) containers. The Agency would seek to identify any other entities that would be actual or likely potential competitors with the joint venture in that relevant market. This would include those firms that have the capability and incentive to undertake research and development closely substitutable for the research and development proposed to be undertaken by the joint venture, taking into account such firms' existing technologies and technologies under development, R&D facilities, and other relevant assets and business circumstances. Firms possessing such capabilities and incentives would be included in the research and development market even if they are not competitors in relevant markets for related goods, such as the plastics currently produced by the joint venturers, although competitors in existing goods markets may often also compete in related innovation markets.

Having defined a relevant innovation market, the Agency would assess whether the joint venture is likely to have anticompetitive effects in that market. A starting point in this analysis is the degree of concentration in the relevant market and the market shares of the parties to the joint venture. If, in addition to the parties to the joint venture (taken collectively), there are at least four other independently controlled entities that possess comparable capabilities and incentives to undertake research and development of biodegradable plastics, or other products that would be close substitutes for such new plastics, the joint venture ordinarily would be unlikely to adversely affect competition in the relevant innovation market (*cf.* section 4.3). If there are fewer than four other independently controlled entities with similar capabilities and incentives, the Agency would consider whether the joint venture would give the parties to the joint venture an incentive and ability collectively to reduce investment in, or otherwise to retard the pace or scope of, research and development efforts. If the joint venture creates a significant risk of anticompetitive effects in the innovation market, the Agency would proceed to consider efficiency justifications for the venture, such as the potential for combining complementary R&D assets in such a way as to make successful innovation more likely, or to bring it about sooner, or to achieve cost reductions in research and development.

The Agency would also assess the likelihood that the joint venture would adversely affect competition in other relevant markets, including markets for products produced by the parties to the joint venture. The risk of such adverse competitive effects would be increased to the extent that, for example, the joint venture facilitates the exchange among the parties of competitively sensitive information relating to goods markets in which the parties currently compete or facilitates the coordination of competitive activities in such markets. The Agency would examine whether the joint venture imposes collateral restraints that might significantly restrict competition among the joint venturers in goods markets, and would examine whether such collateral restraints were reasonably necessary to achieve any efficiencies that are likely to be attained by the venture.

3.3 Horizontal and vertical relationships

As with other property transfers, antitrust analysis of intellectual property licensing arrangements examines whether the relationship among the parties to the arrangement is primarily horizontal or vertical in nature, or whether it has substantial aspects of both. A licensing arrangement has a vertical component when it affects activities that are in a complementary relationship, as is typically the case in a licensing arrangement. For example, the licensor's primary line of business may be in research and development, and the licensees, as manufacturers, may be buying the rights to use technology developed by the licensor. Alternatively, the licensor may be a component manufacturer owning intellectual property rights in a product that the licensee manufactures by combining the component with other inputs, or the licensor may manufacture the product, and the licensees may operate primarily in distribution and marketing.

In addition to this vertical component, the licensor and its licensees may also have a horizontal relationship. For analytical purposes, the Agencies ordinarily will treat a relationship between a licensor and its licensees, or between licensees, as horizontal when they would have been actual or likely potential competitors in a relevant market in the absence of the license.

The existence of a horizontal relationship between a licensor and its licensees does not, in itself, indicate that the arrangement is anticompetitive. Identification of such relationships is merely an aid in determining whether there may be anticompetitive effects arising from a licensing arrangement. Such a relationship need not give rise to an anticompetitive effect, nor does a purely vertical relationship assure that there are no anticompetitive effects.

The following examples illustrate different competitive relationships among a licensor and its licensees.

Example 5

Situation: AgCo, a manufacturer of farm equipment, develops a new, patented emission control technology for its tractor engines and licenses it to FarmCo, another farm equipment manufacturer. AgCo's emission control technology is far superior to the technology currently owned and used by FarmCo, so much so that FarmCo's technology does not significantly constrain the prices that AgCo could charge for its technology. AgCo's emission control patent has a broad scope. It is likely that any improved emissions control technology that FarmCo could develop in the foreseeable future would infringe AgCo's patent.

Discussion: Because FarmCo's emission control technology does not significantly constrain AgCo's competitive conduct with respect to its emission control technology, AgCo's and FarmCo's emission control technologies are not close substitutes for each other. FarmCo is a consumer of AgCo's technology and is not an actual competitor of AgCo in the relevant market for superior emission control technology of the kind licensed by AgCo. Furthermore, FarmCo is not a likely potential competitor of AgCo in the relevant market because, even if FarmCo could develop an improved emission control technology, it is likely that it would infringe AgCo's patent. This means that the relationship between AgCo and FarmCo with regard to the supply and use of emissions control technology is vertical. Assuming that AgCo and FarmCo are actual or likely potential competitors in sales of farm equipment products, their relationship is horizontal in the relevant markets for farm equipment.

Example 6

Situation: FarmCo develops a new valve technology for its engines and enters into a cross-licensing arrangement with AgCo, whereby AgCo licenses its emission control technology to FarmCo and FarmCo licenses its valve technology to AgCo. AgCo already owns an alternative valve technology that can be used to achieve engine performance similar to that using FarmCo's valve technology and at a comparable cost to consumers. Before adopting FarmCo's technology, AgCo was using its own valve technology in its production of engines and was licensing (and continues to license) that technology for use by others. As in Example 5, FarmCo does not own or control an emission control technology that is a close substitute for the technology licensed from AgCo. Furthermore, as in Example 5, FarmCo is not likely to develop an improved emission control technology that would be a close substitute for AgCo's technology, because of AgCo's blocking patent.

Discussion: FarmCo is a consumer and not a competitor of AgCo's emission control technology. As in Example 5, their relationship is vertical with regard to this technology. The relationship between AgCo and FarmCo in the relevant market that includes engine valve technology is vertical in part and horizontal in part. It is vertical in part because AgCo and FarmCo stand in a complementary relationship, in which AgCo is a consumer of a technology supplied by FarmCo. However, the relationship between AgCo and FarmCo in the relevant market that includes engine valve technology is also horizontal in part, because FarmCo and AgCo are actual competitors in the licensing of valve technology that can be used to achieve similar engine performance at a comparable cost. Whether the firms license their valve technologies to others is not important for the conclusion that the firms have a horizontal relationship in this relevant market. Even if AgCo's use of its valve technology were solely captive to its own production, the fact that the two valve technologies are substitutable at comparable cost means that the two firms have a horizontal relationship.

As in Example 5, the relationship between AgCo and FarmCo is horizontal in the relevant markets for farm equipment.

3.4 Framework for evaluating licensing restraints

In the vast majority of cases, restraints in intellectual property licensing arrangements are evaluated under the rule of reason. 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. *See Federal Trade Commission v. Indiana Federation of Dentists*, 476 U.S. 447 (1986); *NCAA v. Board of Regents of the University of Oklahoma,* 468 U.S. 85 (1984); *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.,* 441 U.S. 1 (1979); 7 Phillip E. Areeda, *Antitrust Law* § 1502 (1986). *See also* part 4.

In some cases, however, the courts conclude that a restraint's "nature and necessary effect are so plainly anticompetitive" that it should be treated as unlawful per se, without an elaborate inquiry into the restraint's likely competitive effect. *Federal Trade Commission v. Superior Court Trial Lawyers Association*, 493 U.S. 411, 433 (1990); *National Society of Professional Engineers v. United States*, 435 U.S. 679, 692 (1978). Among the restraints that have been held per se unlawful are naked price-fixing, output restraints, and market division among horizontal competitors, as well as certain group boycotts and resale price maintenance.

To determine whether a particular restraint in a licensing arrangement is given per se or rule of reason treatment, the Agencies will assess whether the restraint in question can be expected to contribute to an efficiency-enhancing integration of economic activity. *See Broadcast Music*, 441 U.S. at 16–24. In general, licensing arrangements promote such integration because they facilitate the combination of the licensor's intellectual property with complementary factors of production owned by the licensee. A restraint in a licensing arrangement may further such integration by, for example, aligning the incentives of the licensor and the licensees to promote the development and marketing of the licensed technology, or by substantially reducing transactions costs. If there is no efficiency-enhancing integration of economic activity and if the type of restraint is one that has been accorded per se treatment, the Agencies will challenge the restraint under the per se rule. Otherwise, the Agencies will apply a rule of reason analysis.

Application of the rule of reason generally requires a comprehensive inquiry into market conditions. (*See* sections 4.1–4.3.) However, that inquiry may be truncated in certain circumstances. If the Agencies conclude that a restraint has no likely anticompetitive effects, they will treat it as reasonable, without an elaborate analysis of market power or the justifications for the restraint. Similarly, if a restraint facially appears to be of a kind that would always or almost always tend to reduce output or increase prices,[27] and the restraint is not reasonably related to efficiencies, the Agencies will likely challenge the restraint without an elaborate analysis of particular industry circumstances.[28] *See Indiana Federation of Dentists*, 476 U.S. at 459–60; *NCAA*, 468 U.S. at 109.

Example 7

Situation: Gamma, which manufactures Product X using its patented process, offers a license for its process technology to every other manufacturer of Product X, each of which competes world-wide with Gamma in the manufacture and sale of X. The process technology does not represent an economic improvement over the available existing technologies. Indeed, although most manufacturers accept licenses from Gamma, none of the licensees actually uses the licensed technology. The licenses provide that each manufacturer has an exclusive right to sell Product X manufactured using the licensed technology in a designated geographic area and that no manufacturer may sell Product X, however manufactured, outside the designated territory.

Discussion: The manufacturers of Product X are in a horizontal relationship in the goods market for Product X. Any manufacturers of Product X that control technologies that are substitutable at comparable cost for Gamma's process are also horizontal competitors of Gamma in the relevant technology market. The licensees of Gamma's process technology are technically in a vertical relationship, although that is not significant in this example because they do not actually use Gamma's technology.

The licensing arrangement restricts competition in the relevant goods market among manufacturers of Product X by requiring each manufacturer to limit its sales to an exclusive territory. Thus, competition among entities that would be actual competitors in the absence of the licensing arrangement is restricted. Based on the facts set forth above, the licensing arrangement does not involve a useful transfer of technology, and thus it is unlikely that the restraint on sales outside the designated territories contributes to an efficiency-enhancing integration of economic activity. Consequently, the evaluating Agency would be likely to challenge the arrangement under the per se rule as a horizontal territorial market allocation scheme and to view the intellectual property aspects of the arrangement as a sham intended to cloak its true nature.

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[27] Details about the Federal Trade Commission's approach are set forth in *Massachusetts Board of Registration in Optometry*, 110 F.T.C. 549, 604 (1988). In applying its truncated rule of reason inquiry, the FTC uses the analytical category of “inherently suspect” restraints to denote facially anticompetitive restraints that would always or almost always tend to decrease output or increase prices, but that may be relatively unfamiliar or may not fit neatly into traditional per se categories.

[28] Under the FTC's *Mass. Board* approach, asserted efficiency justifications for inherently suspect restraints are examined to determine whether they are plausible and, if so, whether they are valid in the context of the market at issue. *Mass. Board*, 110 F.T.C. at 604.

If the licensing arrangement could be expected to contribute to an efficiency-enhancing integration of economic activity, as might be the case if the licensed technology were an advance over existing processes and used by the licensees, the Agency would analyze the arrangement under the rule of reason applying the analytical framework described in this section.

In this example, the competitive implications do not generally depend on whether the licensed technology is protected by patent, is a trade secret or other know-how, or is a computer program protected by copyright; nor do the competitive implications generally depend on whether the allocation of markets is territorial, as in this example, or functional, based on fields of use.

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4. General principles concerning the Agencies' evaluation of licensing arrangements under the rule of reason

4.1 Analysis of anticompetitive effects

The existence of anticompetitive effects resulting from a restraint in a licensing arrangement will be evaluated on the basis of the analysis described in this section.

4.1.1 Market structure, coordination, and foreclosure

When a licensing arrangement affects parties in a horizontal relationship, a restraint in that arrangement may increase the risk of coordinated pricing, output restrictions, or the acquisition or maintenance of market power. Harm to competition also may occur if the arrangement poses a significant risk of retarding or restricting the development of new or improved goods or processes. The potential for competitive harm depends in part on the degree of concentration in, the difficulty of entry into, and the responsiveness of supply and demand to changes in price in the relevant markets. *Cf.* 1992 Horizontal Merger Guidelines §§ 1.5, 3.

When the licensor and licensees are in a vertical relationship, the Agencies will analyze whether the licensing arrangement may harm competition among entities in a horizontal relationship at either the level of the licensor or the licensees, or possibly in another relevant market. Harm to competition from a restraint may occur if it anticompetitively forecloses access to, or increases competitors' costs of obtaining, important inputs, or facilitates coordination to raise price or restrict output. The risk of anticompetitively foreclosing access or increasing competitors' costs is related to the proportion of the markets affected by the licensing restraint; other characteristics of the relevant markets, such as concentration, difficulty of entry, and the responsiveness of supply and demand to changes in price in the relevant markets; and the duration of the restraint. A licensing arrangement does not foreclose competition merely because some or all of the potential licensees in an industry choose to use the licensed technology to the exclusion of other technologies. Exclusive use may be an efficient consequence of the licensed technology having the lowest cost or highest value.

Harm to competition from a restraint in a vertical licensing arrangement also may occur if a licensing restraint facilitates coordination among entities in a horizontal relationship to raise prices or reduce output in a relevant market. For example, if owners of competing technologies impose similar restraints on their licensees, the licensors may find it easier to coordinate their pricing. Similarly, licensees that are competitors may find it easier to coordinate their pricing if they are subject to common restraints in licenses with a common licensor or competing licensors. The risk of anticompetitive coordination is increased when the relevant markets are concentrated and difficult to enter. The use of similar restraints may be common and procompetitive in an industry, however, because they contribute to efficient exploitation of the licensed property.

4.1.2 Licensing arrangements involving exclusivity

A licensing arrangement may involve exclusivity in two distinct respects. First, the licensor may grant one or more *exclusive licenses*, which restrict the right of the licensor to license others and possibly also to use the technology itself. Generally, an exclusive license may raise antitrust concerns only if the licensees themselves, or the licensor and its licensees, are in a horizontal relationship. Examples of arrangements involving exclusive licensing that may give rise to antitrust concerns include cross-licensing by parties collectively possessing market power (*see* section 5.5), grantbacks (*see* section 5.6), and acquisitions of intellectual property rights (*see* section 5.7).

A non-exclusive license of intellectual property that does not contain any restraints on the competitive conduct of the licensor or the licensee generally does not present antitrust concerns even if the parties to the license are in a horizontal relationship, because the non-exclusive license normally does not diminish competition that would occur in its absence.

A second form of exclusivity, *exclusive dealing*, arises when a license prevents or restrains the licensee from licensing, selling, distributing, or using competing technologies. *See* section 5.4. Exclusivity may be achieved by an explicit exclusive dealing term in the license or by other provisions such as compensation terms or other economic incentives. Such restraints may anticompetitively foreclose access to, or increase competitors' costs of obtaining, important inputs, or facilitate coordination to raise price or reduce output, but they also may have procompetitive effects. For example, a licensing arrangement that prevents the licensee from dealing in other technologies may encourage the licensee to develop and market the licensed technology or specialized applications of that technology. *See, e.g.*, Example 8. The Agencies will take into account such procompetitive effects in evaluating the reasonableness of the arrangement. *See* section 4.2.

The antitrust principles that apply to a licensor's grant of various forms of exclusivity to and among its licensees are similar to those that apply to comparable vertical restraints outside the licensing context, such as exclusive territories and exclusive dealing. However, the fact that intellectual property may in some cases be misappropriated more easily than other forms of property may justify the use of some restrictions that might be anticompetitive in other contexts.

As noted earlier, the Agencies will focus on the actual practice and its effects, not on the formal terms of the arrangement. A license denominated as non-exclusive (either in the sense of exclusive licensing or in the sense of exclusive dealing) may nonetheless give rise to the same concerns posed by formal exclusivity. A non-exclusive license may have the effect of exclusive licensing if it is structured so that the licensor is unlikely to license others or to practice the technology itself. A license that does not explicitly require exclusive dealing may have the effect of exclusive dealing if it is structured to increase significantly a licensee's cost when it uses competing technologies. However, a licensing arrangement will not automatically raise these concerns merely because a party chooses to deal with a single licensee or licensor, or confines his activity to a single field of use or location, or because only a single licensee has chosen to take a license.

Example 8

Situation: NewCo, the inventor and manufacturer of a new flat panel display technology, lacking the capability to bring a flat panel display product to market, grants BigCo an exclusive license to sell a product embodying NewCo's technology. BigCo does not currently sell, and is not developing (or likely to develop), a product that would compete with the product embodying the new technology and does not control rights to another display technology. Several firms offer competing displays, BigCo accounts for only a small proportion of the outlets for distribution of display products, and entry into the manufacture and distribution of display products is relatively easy. Demand for the new technology is uncertain and successful market penetration will require considerable promotional effort. The license contains an exclusive dealing restriction preventing BigCo from selling products that compete with the product embodying the licensed technology.

Discussion: This example illustrates both types of exclusivity in a licensing arrangement. The license is exclusive in that it restricts the right of the licensor to grant other licenses. In addition, the license has an exclusive dealing component in that it restricts the licensee from selling competing products.

The inventor of the display technology and its licensee are in a vertical relationship and are not actual or likely potential competitors in the manufacture or sale of display products or in the sale or development of technology. Hence, the grant of an exclusive license does not affect competition between the licensor and the licensee. The exclusive license may promote competition in the manufacturing and sale of display products by encouraging BigCo to develop and promote the new product in the face of uncertain demand by rewarding BigCo for its efforts if they lead to large sales. Although the license bars the licensee from selling competing products, this exclusive dealing aspect is unlikely in this example to harm competition by anticompetitively foreclosing access, raising competitors' costs of inputs, or facilitating anticompetitive pricing because the relevant product market is unconcentrated, the exclusive dealing restraint affects only a small proportion of the outlets for distribution of display products, and entry is easy. On these facts, the evaluating Agency would be unlikely to challenge the arrangement.

4.2 Efficiencies and justifications

If the Agencies conclude, upon an evaluation of the market factors described in section 4.1, that a restraint in a licensing arrangement is unlikely to have an anticompetitive effect, they will not challenge the restraint. If the Agencies conclude that the restraint has, or is likely to have, an anticompetitive effect, they will consider whether the restraint is reasonably necessary to achieve procompetitive efficiencies. If the restraint is reasonably necessary, the Agencies will balance the procompetitive efficiencies and the anticompetitive effects to determine the probable net effect on competition in each relevant market.

The Agencies' comparison of anticompetitive harms and procompetitive efficiencies is necessarily a qualitative one. The risk of anticompetitive effects in a particular case may be insignificant compared to the expected efficiencies, or vice versa. As the expected anticompetitive effects in a particular licensing arrangement increase, the Agencies will require evidence establishing a greater level of expected efficiencies.

The existence of practical and significantly less restrictive alternatives is relevant to a determination of whether a restraint is reasonably necessary. If it is clear that the parties could have achieved similar efficiencies by means that are significantly less restrictive, then the Agencies will not give weight to the parties' efficiency claim. In making this assessment, however, the Agencies will not engage in a search for a theoretically least restrictive alternative that is not realistic in the practical prospective business situation faced by the parties.

When a restraint has, or is likely to have, an anticompetitive effect, the duration of that restraint can be an important factor in determining whether it is reasonably necessary to achieve the putative procompetitive efficiency. The effective duration of a restraint may depend on a number of factors, including the option of the affected party to terminate the arrangement unilaterally and the presence of contract terms (e.g., unpaid balances on minimum purchase commitments) that encourage the licensee to renew a license arrangement. Consistent with their approach to less restrictive alternative analysis generally, the Agencies will not attempt to draw fine distinctions regarding duration; rather, their focus will be on situations in which the duration clearly exceeds the period needed to achieve the procompetitive efficiency.

The evaluation of procompetitive efficiencies, of the reasonable necessity of a restraint to achieve them, and of the duration of the restraint, may depend on the market context. A restraint that may be justified by the needs of a new entrant, for example, may not have a procompetitive efficiency justification in different market circumstances. *Cf. United States v. Jerrold Electronics Corp.*, 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam,* 365 U.S. 567 (1961).

4.3 Antitrust "safety zone"

Because licensing arrangements often promote innovation and enhance competition, the Agencies believe that an antitrust "safety zone" is useful in order to provide some degree of certainty and thus to encourage such activity.[29] Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement if (1) the restraint is not facially anticompetitive[30] and (2) the licensor and its licensees collectively account for no more than twenty percent of each relevant market significantly affected by the restraint. This "safety zone" does not apply to those transfers of intellectual property rights to which a merger analysis is applied. *See* section 5.7.

Whether a restraint falls within the safety zone will be determined by reference only to goods markets unless the analysis of goods markets alone would inadequately address the effects of the licensing arrangement on competition among technologies or in research and development.

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[29] The antitrust "safety zone" does not apply to restraints that are not in a licensing arrangement, or to restraints that are in a licensing arrangement but are unrelated to the use of the licensed intellectual property.

[30] "Facially anticompetitive" refers to restraints that normally warrant per se treatment, as well as other restraints of a kind that would always or almost always tend to reduce output or increase prices. *See* section 3.4.

If an examination of the effects on competition among technologies or in research development is required, and if market share data are unavailable or do not accurately represent competitive significance, the following safety zone criteria will apply. Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement that may affect competition in a technology market if (1) the restraint is not facially anticompetitive and (2) there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the licensing arrangement that may be substitutable for the licensed technology at a comparable cost to the user. Absent extraordinary circumstances, the Agencies will not challenge a restraint in an intellectual property licensing arrangement that may affect competition in an innovation market if (1) the restraint is not facially anticompetitive and (2) 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.[31]

The Agencies emphasize that licensing arrangements are not anticompetitive merely because they do not fall within the scope of the safety zone. Indeed, it is likely that the great majority of licenses falling outside the safety zone are lawful and procompetitive. The safety zone is designed to provide owners of intellectual property with a degree of certainty in those situations in which anticompetitive effects are so unlikely that the arrangements may be presumed not to be anticompetitive without an inquiry into particular industry circumstances. It is not intended to suggest that parties should conform to the safety zone or to discourage parties falling outside the safety zone from adopting restrictions in their license arrangements that are reasonably necessary to achieve an efficiency-enhancing integration of economic activity. The Agencies will analyze arrangements falling outside the safety zone based on the considerations outlined in parts 3–5.

The status of a licensing arrangement with respect to the safety zone may change over time. A determination by the Agencies that a restraint in a licensing arrangement qualifies for inclusion in the safety zone is based on the factual circumstances prevailing at the time of the conduct at issue.[32]

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[31] This is consistent with congressional intent in enacting the National Cooperative Research Act. *See* H.R. Conf. Rpt. No. 1044, 98th Cong., 2d Sess., 10, *reprinted in* 1984 U.S.C.C.A.N. 3105, 3134–35.

[32] The conduct at issue may be the transaction giving rise to the restraint or the subsequent implementation of the restraint.

5. Application of general principles

5.0 This section illustrates the application of the general principles discussed above to particular licensing restraints and to arrangements that involve the cross-licensing, pooling, or acquisition of intellectual property. The restraints and arrangements identified are typical of those that are likely to receive antitrust scrutiny; however, they are not intended as an exhaustive list of practices that could raise competitive concerns.

5.1 Horizontal restraints

The existence of a restraint in a licensing arrangement that affects parties in a horizontal relationship (a "horizontal restraint") does not necessarily cause the arrangement to be anticompetitive. As in the case of joint ventures among horizontal competitors, licensing arrangements among such competitors may promote rather than hinder competition if they result in integrative efficiencies. Such efficiencies may arise, for example, from the realization of economies of scale and the integration of complementary research and development, production, and marketing capabilities.

Following the general principles outlined in section 3.4, horizontal restraints often will be evaluated under the rule of reason. In some circumstances, however, that analysis may be truncated; additionally, some restraints may merit per se treatment, including price fixing, allocation of markets or customers, agreements to reduce output, and certain group boycotts.

Example 9

Situation: Two of the leading manufacturers of a consumer electronic product hold patents that cover alternative circuit designs for the product. The manufacturers assign their patents to a separate corporation wholly owned by the two firms. That corporation licenses the right to use the circuit designs to other consumer product manufacturers and establishes the license royalties. None of the patents is blocking; that is, each of the patents can be used without infringing a patent owned by the other firm. The different circuit designs are substitutable in that each permits the manufacture at comparable cost to consumers of products that consumers consider to be interchangeable. One of the Agencies is analyzing the licensing arrangement.

Discussion: In this example, the manufacturers are horizontal competitors in the goods market for the consumer product and in the related technology markets. The competitive issue with regard to a joint assignment of patent rights is whether the assignment has an adverse impact on competition in technology and goods markets that is not outweighed by procompetitive efficiencies, such as benefits in the use or dissemination of the technology. Each of the patent owners has a right to exclude others from using its patent. That right does not extend, however, to the agreement to assign rights jointly. To the extent that the patent rights cover technologies that are close substitutes, the joint determination of royalties likely would result in higher royalties and higher goods prices than would result if the owners licensed or used their technologies independently. In the absence of evidence establishing efficiency-enhancing integration from the joint assignment of patent rights, the Agency may conclude that the joint marketing of competing patent rights constitutes horizontal price fixing and could be challenged as a per se unlawful horizontal restraint of trade. If the joint marketing arrangement results in an efficiency-enhancing integration, the Agency would evaluate the arrangement under the rule of reason. However, the Agency may conclude that the anticompetitive effects are sufficiently apparent, and the claimed integrative efficiencies are sufficiently weak or not reasonably related to the restraints, to warrant challenge of the arrangement without an elaborate analysis of particular industry circumstances (*see* section 3.4).

5.2 Resale price maintenance

Resale price maintenance is illegal when "commodities have passed into the channels of trade and are owned by dealers." *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 408 (1911). It has been held per se illegal for a licensor of an intellectual property right in a product to fix a licensee's *resale* price of that product. *United States v. Univis Lens Co.,* 316 U.S. 241 (1942); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940).[33]

[33] *But cf. United States v. General Electric Co.*, 272 U.S. 476 (1926) (holding that an owner of a product patent may condition a license to manufacture the product on the fixing of the *first* sale price

Consistent with the principles set forth in section 3.4, the Agencies will enforce the per se rule against resale price maintenance in the intellectual property context.

5.3 Tying arrangements

A "tying" or "tie-in" or "tied sale" arrangement has been defined as "an agreement by a party to sell one product . . . on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that [tied] product from any other supplier." *Eastman Kodak Co. v. Image Technical Services, Inc.*, 112 S. Ct. 2072, 2079 (1992). Conditioning the ability of a licensee to license one or more items of intellectual property on the licensee's purchase of another item of intellectual property or a good or a service has been held in some cases to constitute illegal tying.[34] Although tying arrangements may result in anticompetitive effects, such arrangements can also result in significant efficiencies and procompetitive benefits. In the exercise of their prosecutorial discretion, the Agencies will consider both the anticompetitive effects and the efficiencies attributable to a tie-in. The Agencies would be likely to challenge a tying arrangement if: (1) the seller has market power in the tying product,[35] (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.[36] The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.

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of the patented product). Subsequent lower court decisions have distinguished the *GE* decision in various contexts. *See, e.g., Royal Indus. v. St. Regis Paper Co*., 420 F.2d 449, 452 (9th Cir. 1969) (observing that *GE* involved a restriction by a patentee who also manufactured the patented product and leaving open the question whether a nonmanufacturing patentee may fix the price of the patented product); *Newburgh Moire Co. v. Superior Moire Co*., 237 F.2d 283, 293–94 (3rd Cir. 1956) (grant of multiple licenses each containing price restrictions does not come within the *GE* doctrine); *Cummer-Graham Co. v. Straight Side Basket Corp.*, 142 F.2d 646, 647 (5th Cir.) (owner of an intellectual property right in a process to manufacture an unpatented product may not fix the sale price of that product), *cert. denied*, 323 U.S. 726 (1944); *Barber-Colman Co. v. National Tool Co.*, 136 F.2d 339, 343–44 (6th Cir. 1943) (same).

[34] *See, e.g., United States v. Paramount Pictures, Inc.,* 334 U.S. 131, 156–58 (1948) (copyrights); *International Salt Co. v. United States,* 332 U.S. 392 (1947) (patent and related product).

[35] *Cf.* 35 U.S.C. § 271(d) (1988 & Supp. V 1993) (requirement of market power in patent misuse cases involving tying).

[36] As is true throughout these Guidelines, the factors listed are those that guide the Agencies' internal analysis in exercising their prosecutorial discretion. They are not intended to circumscribe how the Agencies will conduct the litigation of cases that they decide to bring.

Package licensing—the licensing of multiple items of intellectual property in a single license or in a group of related licenses—may be a form of tying arrangement if the licensing of one product is conditioned upon the acceptance of a license of another, separate product. Package licensing can be efficiency enhancing under some circumstances. When multiple licenses are needed to use any single item of intellectual property, for example, a package license may promote such efficiencies. If a package license constitutes a tying arrangement, the Agencies will evaluate its competitive effects under the same principles they apply to other tying arrangements.

5.4 Exclusive dealing

In the intellectual property context, exclusive dealing occurs when a license prevents the licensee from licensing, selling, distributing, or using competing technologies. Exclusive dealing arrangements are evaluated under the rule of reason. *See Tampa Electric Co. v. Nashville Coal Co.*, 365 U.S. 320 (1961) (evaluating legality of exclusive dealing under section 1 of the Sherman Act and section 3 of the Clayton Act); *Beltone Electronics Corp.*, 100 F.T.C. 68 (1982) (evaluating legality of exclusive dealing under section 5 of the Federal Trade Commission Act). In determining whether an exclusive dealing arrangement is likely to reduce competition in a relevant market, the Agencies will take into account the extent to which the arrangement (1) promotes the exploitation and development of the licensor's technology and (2) anticompetitively forecloses the exploitation and development of, or otherwise constrains competition among, competing technologies.

The likelihood that exclusive dealing may have anticompetitive effects is related, inter alia, to the degree of foreclosure in the relevant market, the duration of the exclusive dealing arrangement, and other characteristics of the input and output markets, such as concentration, difficulty of entry, and the responsiveness of supply and demand to changes in price in the relevant markets. (*See* sections 4.1.1 and 4.1.2.) If the Agencies determine that a particular exclusive dealing arrangement may have an anticompetitive effect, they will evaluate the extent to which the restraint encourages licensees to develop and market the licensed technology (or specialized applications of that technology), increases licensors' incentives to develop or refine the licensed technology, or otherwise increases competition and enhances output in a relevant market. (*See* section 4.2 and Example 8.)

5.5 Cross-licensing and pooling arrangements

Cross-licensing and pooling arrangements are agreements of two or more owners of different items of intellectual property to license one another or third parties. These arrangements may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation. By promoting the dissemination of technology, cross-licensing and pooling arrangements are often procompetitive.

Cross-licensing and pooling arrangements can have anticompetitive effects in certain circumstances. For example, collective price or output restraints in pooling arrangements, such as the joint marketing of pooled intellectual property rights with collective price setting or coordinated output restrictions, may be deemed unlawful if they do not contribute to an efficiency-enhancing integration of economic activity among the participants. *Compare NCAA* 468 U.S. at 114 (output restriction on college football broadcasting held unlawful because it was not reasonably related to any purported justification) *with Broadcast Music*, 441 U.S. at 23 (blanket license for music copyrights found not per se illegal because the cooperative price was necessary to the creation of a new product). When cross-licensing or pooling arrangements are mechanisms to accomplish naked price fixing or market division, they are subject to challenge under the per se rule. *See United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952) (price fixing).

Settlements involving the cross-licensing of intellectual property rights can be an efficient means to avoid litigation and, in general, courts favor such settlements. When such cross-licensing involves horizontal competitors, however, the Agencies will consider whether the effect of the settlement is to diminish competition among entities that would have been actual or likely potential competitors in a relevant market in the absence of the cross-license. In the absence of offsetting efficiencies, such settlements may be challenged as unlawful restraints of trade. *Cf. United States v. Singer Manufacturing Co.,* 374 U.S. 174 (1963) (cross-license agreement was part of broader combination to exclude competitors).

Pooling arrangements generally need not be open to all who would like to join. However, exclusion from cross-licensing and pooling arrangements among parties that collectively possess market power may, under some circumstances, harm competition. *Cf. Northwest Wholesale Stationers, Inc. v. Pacific Stationery & Printing Co.*, 472 U.S. 284 (1985) (exclusion of a competitor from a purchasing cooperative not per se unlawful absent a showing of market power). In general, exclusion from a pooling or cross-licensing arrangement among competing technologies is unlikely to have anticompetitive effects unless (1) excluded firms cannot effectively compete in the relevant market for the good incorporating the licensed technologies and (2) the pool participants collectively possess market power in the relevant market. If these circumstances exist, the Agencies will evaluate whether the arrangement's limitations on participation are reasonably related to the efficient development and exploitation of the pooled technologies and will assess the net effect of those limitations in the relevant market. *See* section 4.2.

Another possible anticompetitive effect of pooling arrangements may occur if the arrangement deters or discourages participants from engaging in research and development, thus retarding innovation. For example, a pooling arrangement that requires members to grant licenses to each other for current and future technology at minimal cost may reduce the incentives of its members to engage in research and development because members of the pool have to share their successful research and development and each of the members can free ride on the accomplishments of other pool members. *See generally United States v. Mfrs. Aircraft Ass'n, Inc.*, 1976-1 Trade Cas. (CCH) ¶ 60,810 (S.D.N.Y. 1975); *United States v. Automobile Mfrs. Ass'n*, 307 F. Supp. 617 (C.D. Cal 1969), *appeal dismissed sub nom. City of New York v. United States,* 397 U.S. 248 (1970), *modified sub nom. United States v. Motor Vehicle Mfrs. Ass'n*, 1982–83 Trade Cas. (CCH) ¶ 65,088 (C.D. Cal. 1982). However, such an arrangement can have procompetitive benefits, for example, by exploiting economies of scale and integrating complementary capabilities of the pool members, (including the clearing of blocking positions), and is likely to cause competitive problems only when the arrangement includes a large fraction of the potential research and development in an innovation market. *See* section 3.2.3 and Example 4.

Example 10

Situation: As in Example 9, two of the leading manufacturers of a consumer electronic product hold patents that cover alternative circuit designs for the product. The manufacturers assign several of their patents to a separate corporation wholly owned by the two firms. That corporation licenses the right to use the circuit designs to other consumer product manufacturers and establishes the license royalties. In this example, however, the manufacturers assign to the separate corporation only patents that are blocking. None of the patents assigned to the corporation can be used without infringing a patent owned by the other firm.

Discussion: Unlike the previous example, the joint assignment of patent rights to the wholly owned corporation in this example does not adversely affect competition in the licensed technology among entities that would have been actual or likely potential competitors in the absence of the licensing arrangement. Moreover, the licensing arrangement is likely to have procompetitive benefits in the use of the technology. Because the manufacturers' patents are blocking, the manufacturers are not in a horizontal relationship with respect to those patents. None of the patents can be used without the right to a patent owned by the other firm, so the patents are not substitutable. As in Example 9, the firms are horizontal competitors in the relevant goods market. In the absence of collateral restraints that would likely raise price or reduce output in the relevant goods market or in any other relevant antitrust market and that are not reasonably related to an efficiency-enhancing integration of economic activity, the evaluating Agency would be unlikely to challenge this arrangement.

5.6 Grantbacks

A grantback is an arrangement under which a licensee agrees to extend to the licensor of intellectual property the right to use the licensee's improvements to the licensed technology. Grantbacks can have procompetitive effects, especially if they are nonexclusive. Such arrangements provide a means for the licensee and the licensor to share risks and reward the licensor for making possible further innovation based on or informed by the licensed technology, and both promote innovation in the first place and promote the subsequent licensing of the results of the innovation. Grantbacks may adversely affect competition, however, if they substantially reduce the licensee's incentives to engage in research and development and thereby limit rivalry in innovation markets.

A non-exclusive grantback allows the licensee to practice its technology and license it to others. Such a grantback provision may be necessary to ensure that the licensor is not prevented from effectively competing because it is denied access to improvements developed with the aid of its own technology. Compared with an exclusive grantback, a non-exclusive grantback, which leaves the licensee free to license improvements technology to others, is less likely to have anticompetitive effects.

The Agencies will evaluate a grantback provision under the rule of reason, *see generally Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 645–48 (1947) (grantback provision in technology license is not per se unlawful), considering its likely effects in light of the overall structure of the licensing arrangement and conditions in the relevant markets. An important factor in the Agencies' analysis of a grantback will be whether the licensor has market power in a relevant technology or innovation market. If the Agencies determine that a particular grantback provision is likely to reduce significantly licensees' incentives to invest in improving the licensed technology, the Agencies will consider the extent to which the grantback provision has offsetting procompetitive effects, such as (1) promoting dissemination of licensees' improvements to the licensed technology, (2) increasing the licensors' incentives to disseminate the licensed technology, or (3) otherwise increasing competition and output in a relevant technology or innovation market. *See* section 4.2. In addition, the Agencies will consider the extent to which grantback provisions in the relevant markets generally increase licensors' incentives to innovate in the first place.

5.7 Acquisition of intellectual property rights

Certain transfers of intellectual property rights are most appropriately analyzed by applying the principles and standards used to analyze mergers, particularly those in the 1992 Horizontal Merger Guidelines. The Agencies will apply a 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).[37] Such transactions may be assessed under section 7 of the Clayton Act, sections 1 and 2 of the Sherman Act, and section 5 of the Federal Trade Commission Act.

Example 11

Situation: Omega develops a new, patented pharmaceutical for the treatment of a particular disease. The only drug on the market approved for the treatment of this disease is sold by Delta. Omega's patented drug has almost completed regulatory approval by the Food and Drug Administration. Omega has invested considerable sums in product development and market testing, and initial results show that Omega's drug would be a significant competitor to Delta's. However, rather than enter the market as a direct competitor of Delta, Omega licenses to Delta the right to manufacture and sell Omega's patented drug. The license agreement with Delta is nominally nonexclusive. However, Omega has rejected all requests by other firms to obtain a license to manufacture and sell Omega's patented drug, despite offers by those firms of terms that are reasonable in relation to those in Delta's license.

Discussion: Although Omega's license to Delta is nominally nonexclusive, the circumstances indicate that it is exclusive in fact because Omega has rejected all reasonable offers by other firms for licenses to manufacture and sell Omega's patented drug. The facts of this example indicate that Omega would be a likely potential competitor of Delta in the absence of the licensing arrangement, and thus they are in a horizontal relationship in the relevant goods market that includes drugs for the treatment of this particular disease. The evaluating Agency would apply a merger analysis to this transaction, since it involves an acquisition of a likely potential competitor.

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[37] The safety zone of section 4.3 does not apply to transfers of intellectual property such as those described in this section.

6. Enforcement of invalid intellectual property rights

The Agencies may challenge the enforcement of invalid intellectual property rights as antitrust violations. Enforcement or attempted enforcement of a patent obtained by fraud on the Patent and Trademark Office or the Copyright Office may violate section 2 of the Sherman Act, if all the elements otherwise necessary to establish a section 2 charge are proved, or section 5 of the Federal Trade Commission Act. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) (patents); *American Cyanamid Co.*, 72 F.T.C. 623, 684–85 (1967), *aff'd sub. nom. Charles Pfizer & Co.*, 401 F.2d 574 (6th Cir. 1968), *cert. denied*, 394 U.S. 920 (1969) (patents); *Michael Anthony Jewelers, Inc. v. Peacock Jewelry, Inc.*, 795 F. Supp. 639, 647 (S.D.N.Y. 1992) (copyrights). Inequitable conduct before the Patent and Trademark Office will not be the basis of a section 2 claim unless the conduct also involves knowing and willful fraud and the other elements of a section 2 claim are present. *Argus Chemical Corp. v. Fibre Glass-Evercoat, Inc.,* 812 F.2d 1381, 1384–85 (Fed. Cir. 1987). Actual or attempted enforcement of patents obtained by inequitable conduct that falls short of fraud under some circumstances may violate section 5 of the Federal Trade Commission Act, *American Cyanamid Co., supra.* Objectively baseless litigation to enforce invalid intellectual property rights may also constitute an element of a violation of the Sherman Act. *See Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 113 S. Ct. 1920, 1928 (1993) (copyrights); *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1289 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985) (patents); *Handgards, Inc. v. Ethicon, Inc.,* 601 F.2d 986, 992–96 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) (patents); *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842 (1st Cir. 1985) (trade secrets), *cert. denied*, 475 U.S. 1016 (1986).

COMMUNICATION FROM THE COMMISSION

Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements

(2014/C 89/03)

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1. INTRODUCTION

1. These guidelines set out the principles for the assessment of technology transfer agreements under Article 101 of the Treaty on the Functioning of the European Union (1) ('Article 101'). Technology transfer agreements concern the licensing of technology rights where the licensor permits the licensee to exploit the licensed technology rights for the production of goods or services, as defined in Article 1(1)(c) of Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements ('the TTBER') (2).

2. The purpose of these guidelines is to provide guidance on the application of the TTBER as well as on the application of Article 101 of the Treaty on the Functioning of the European Union ('the Treaty') to technology transfer agreements that fall outside the scope of the TTBER. The TTBER and the guidelines are without prejudice to the possible parallel application of Article 102 of the Treaty to technology transfer agreements (3).

3. The standards set forth in these guidelines must be applied in the light of the circumstances specific to each case. This excludes a mechanical application. Each case must be assessed on its own facts and these guidelines must be applied reasonably and flexibly. Examples given serve as illustrations only and are not intended to be exhaustive.

4. These guidelines are without prejudice to the interpretation of Article 101 and the TTBER that may be given by the Court of Justice and the General Court.

2. GENERAL PRINCIPLES

2.1. Article 101 of the Treaty and intellectual property rights

5. The aim of Article 101 of the Treaty as a whole is to protect competition on the market with a view to promoting consumer welfare and an efficient allocation of resources. Article 101(1) prohibits all agreements and concerted practices between undertakings and decisions by associations of undertakings (4) which may affect trade between Member States (5) and which have as their object or effect the prevention, restriction or distortion of competition (6). As an exception to this rule Article 101(3) provides that the prohibition contained in Article 101(1) may be declared inapplicable in the case of agreements between undertakings which contribute to improving the production or distribution of products or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefits and which do not impose restrictions which are not indispensable to the attainment of these objectives and do not afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products concerned.

6. Intellectual property laws confer exclusive rights on holders of patents, copyright, design rights, trademarks and other legally protected rights. The owner of intellectual property is entitled under intellectual property laws to prevent unauthorised use of its intellectual property and to exploit it, for example, by licensing it to third parties. Once a product incorporating an intellectual property right, with the exception of performance rights (7), has been put on the market inside the European Economic Area (EEA) by the holder or with its consent, the intellectual property right is exhausted in the sense that the holder can no longer use it to control the sale of the product (principle of Union exhaustion) (8). The right holder has no right under intellectual property laws to prevent sales by licensees or buyers of such products incorporating the licensed technology. The principle of Union exhaustion is in line with the essential function of intellectual property rights, which is to grant the holder the right to exclude others from exploiting its intellectual property without its consent.

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(1) With effect from 1 December 2009, Articles 81 and 82 of the EC Treaty have become Articles 101 and 102, respectively, of the Treaty on the Functioning of the European Union ('TFEU'). The two sets of provisions are, in substance, identical. For the purposes of these Guidelines, references to Articles 101 and 102 of the TFEU should be understood as references to Articles 81 and 82, respectively, of the EC Treaty where appropriate. The TFEU also introduced certain changes in terminology, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout these Guidelines.

(2) OJ L 93, 28.3.2014. p. 17. The TTBER replaces Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (OJ L 123, 27.4.2004, p. 11).

(3) See by analogy Joined Cases C-395/96 P and C-396/96 P, *Compagnie Maritime Belge*, [2000] ECR I-1365, paragraph 130, and point 106 of the Commission Guidelines on the application of Article 81(3) of the Treaty, OJ C 101, 27.4.2004, p. 97.

(4) In the following the term 'agreement' includes concerted practices and decisions of associations of undertakings.

(5) See Commission Guidelines on the effect on trade concept contained in Articles 81 and 82 of the Treaty, OJ C 101, 27.4.2004, p. 81.

(6) In the following the term 'restriction' includes the prevention and distortion of competition.

(7) Which includes rental rights. See in this respect Case 158/86, *Warner Brothers and Metronome Video*, [1988] ECR 2605 and Case C-61/97, *Foreningen af danske videogramdistributører*, [1998] ECR I-5171.

(8) This principle of Union exhaustion is for example enshrined in Article 7(1) of Directive 2008/95/EC to approximate the laws of the Member States relating to trade marks (OJ L 299, 8.11.2008, p. 25), which provides that the trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Union under that trade mark by the proprietor or with its consent, and Article 4(2) of Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (OJ L 111, 5.5.2009, p. 16), which provides that the first sale in the Union of a copy of a program by the right holder or with its consent shall exhaust the distribution right within the Union of that copy, with the exception of the right to control further rental of the program or a copy thereof. See in this respect C-128/11, *UsedSoft Gmbh* v. *Oracle International Corp.*, [2012] ECR not yet published.

7. The fact that intellectual property laws grant exclusive rights of exploitation does not imply that intellectual property rights are immune from competition law intervention. Article 101 of the Treaty is in particular applicable to agreements whereby the holder licenses another undertaking to exploit its intellectual property rights [9]. Nor does it imply that there is an inherent conflict between intellectual property rights and the Union competition rules. Indeed, both bodies of law share the same basic objective of promoting consumer welfare and an efficient allocation of resources. Innovation constitutes an essential and dynamic component of an open and competitive market economy. Intellectual property rights promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. So does competition by putting pressure on undertakings to innovate. Therefore, both intellectual property rights and competition are necessary to promote innovation and ensure a competitive exploitation thereof.

8. In the assessment of licence agreements under Article 101 of the Treaty it must be kept in mind that the creation of intellectual property rights often entails substantial investment and that this is often a risky endeavour. In order not to reduce dynamic competition and to maintain the incentive to innovate, the innovator must not be unduly restricted in the exploitation of intellectual property rights that turn out to be valuable. For these reasons the innovator should be free to seek appropriate remuneration for successful projects that is sufficient to maintain investment incentives, taking failed projects into account. Technology rights licensing may also require the licensee to make significant sunk investments (that is to say, that upon leaving that particular field of activity the investment cannot be used by the licensee for other activities or sold other than at a significant loss) in the licensed technology and production assets necessary to exploit it. Article 101 cannot be applied without considering such ex ante investments made by the parties and the risks relating thereto. The risk facing the parties and the sunk investment that must be committed may thus lead to the agreement falling outside Article 101(1) or fulfilling the conditions of Article 101(3), as the case may be, for the period of time required to recoup the investment.

9. In assessing licensing agreements under Article 101 of the Treaty, the existing analytical framework is sufficiently flexible to take due account of the dynamic aspects of technology rights licensing. There is no presumption that intellectual property rights and licence agreements as such give rise to competition concerns. Most licence agreements do not restrict competition and create pro-competitive efficiencies. Indeed, licensing as such is pro-competitive as it leads to dissemination of technology and promotes innovation by the licensor and licensee(s). In addition, even licence agreements that do restrict competition may often give rise to pro-competitive efficiencies, which must be considered under Article 101(3) and balanced against the negative effects on competition [10]. The great majority of licence agreements are therefore compatible with Article 101.

2.2. **The general framework for applying Article 101**

10. Article 101(1) of the Treaty prohibits agreements which have as their object or effect the restriction of competition. Article 101(1) applies both to restrictions of competition between the parties to an agreement and to restrictions of competition between any of the parties and third parties.

11. The assessment of whether a licence agreement restricts competition must be made within the actual context in which competition would occur in the absence of the agreement with its alleged restrictions [11]. In making this assessment it is necessary to take account of the likely impact of the agreement on inter-technology competition (that is to say, competition between undertakings using competing technologies) and on intra-technology competition (that is to say, competition between undertakings using the same technology) [12]. Article 101(1) prohibits restrictions of both inter-technology competition and intra-technology competition. It is therefore necessary to assess to what extent the agreement affects or is likely to affect these two aspects of competition on the market.

12. The following two questions provide a useful framework for making this assessment. The first question relates to the impact of the agreement on inter-technology competition while the second question relates to the impact of the agreement on intra-technology competition. As restrictions may be capable of affecting both inter-technology competition and intra-technology competition at the same time, it may be necessary to analyse a restriction in the light of the two questions in points (a) and (b) before it can be concluded whether or not competition within the meaning of Article 101(1) is restricted:

(9) See e.g. Joined Cases 56/64 and 58/64, *Consten and Grundig*, [1966] ECR 429.

(10) The methodology for the application of Article 101(3) is set out in the Commission Guidelines on the application of Article 81(3) of the Treaty, cited in footnote 3.

(11) See Case 56/65, *Société Technique Minière*, [1966] ECR 337, and Case C-7/95 P, *John Deere*, [1998] ECR I-3111, paragraph 76.

(12) See in this respect e.g. judgment in *Consten and Grundig* cited in footnote 9.

(a) Does the licence agreement restrict actual or potential competition that would have existed without the contemplated agreement? If so, the agreement may be caught by Article 101(1). In making this assessment it is necessary to take into account competition between the parties and competition from third parties. For instance, where two undertakings established in different Member States cross licence competing technologies and undertake not to sell products in each other's home markets, (potential) competition that existed prior to the agreement is restricted. Similarly, where a licensor imposes obligations on its licensees not to use competing technologies and these obligations foreclose third party technologies, actual or potential competition that would have existed in the absence of the agreement is restricted.

(b) Does the licence agreement restrict actual or potential competition that would have existed in the absence of the contractual restraint(s)? If so, the agreement may be caught by Article 101(1). For instance, where a licensor restricts its licensees, who were not actual or potential competitors before the agreement, from competing with each other, (potential) competition that could have existed between the licensees in the absence of the restraints is restricted. Such restrictions include vertical price fixing and territorial or customer sales restrictions between licensees. However, certain restraints may in certain cases not be caught by Article 101(1) when the restraint is objectively necessary for the existence of an agreement of that type or that nature [13]. Such exclusion of the application of Article 101(1) can only be made on the basis of objective factors external to the parties themselves and not the subjective views and characteristics of the parties. The question is not whether the parties in their particular situation would not have accepted to conclude a less restrictive agreement, but whether, given the nature of the agreement and the characteristics of the market, a less restrictive agreement would not have been concluded by undertakings in a similar setting [14]. Claims that in the absence of a restraint the supplier would have resorted to vertical integration are not sufficient. Decisions on whether or not to vertically integrate depend on a broad range of complex economic factors, a number of which are internal to the undertaking concerned.

13. The fact that Article 101(1) of the Treaty distinguishes between those agreements that have a restriction of competition as their object and those agreements that have a restriction of competition as their effect should be taken into account in the application of the analytical framework set out in point (12) of these guidelines. An agreement or contractual restraint is only prohibited by Article 101(1) if its object or effect is to restrict inter-technology competition and/or intra-technology competition.

14. Restrictions of competition by object are those that by their very nature restrict competition. These are restrictions which in the light of the objectives pursued by the Union competition rules have such a high potential for negative effects on competition that it is not necessary for the purposes of applying Article 101(1) to demonstrate any effects on the market [15]. Moreover, the conditions of Article 101(3) are unlikely to be fulfilled in the case of restrictions by object. The assessment of whether or not an agreement has as its object a restriction of competition is based on a number of factors. These factors include, in particular, the content of the agreement and the objective aims pursued by it. It may also be necessary to consider the context in which it is (to be) applied or the actual conduct and behaviour of the parties on the market [16]. In other words, an examination of the facts underlying the agreement and the specific circumstances in which it operates may be required before it can be concluded whether a particular restriction constitutes a restriction by object of competition. The way in which an agreement is actually implemented may reveal a restriction by object even where the formal agreement does not contain an express provision to that effect. Evidence of subjective intent on the part of the parties to restrict competition is a relevant factor but not a necessary condition. An agreement may be regarded as having a restrictive object even if it does not have the restriction of competition as its sole aim but also pursues other legitimate objectives [17]. For licence agreements, the Commission considers that the restrictions covered by the list of hardcore restrictions of competition set out in Article 4 of the TTBER are restrictive by their very object [18].

15. If an agreement is not restrictive of competition by object it is necessary to examine whether it has restrictive effects on competition. Account must be taken of both actual

(13) See in this respect the judgment in *Société Technique Minière* cited in footnote 11 and Case 258/78, *Nungesser*, [1982] ECR 2015.

(14) For examples see points (126) to (127).

(15) See in this respect e.g. Case C-49/92 P, *Anic Partecipazioni*, [1999] ECR I-4125, paragraph 99.

(16) See Joined Cases 29/83 and 30/83, *CRAM and Rheinzink*, [1984] ECR 1679, paragraph 26, and Joined Cases 96/82 and others, *ANSEAU-NAVEWA*, [1983] ECR 3369, paragraphs 23-25. Case T-491/07 *Groupement des cartes bancaires* v *Commission*, judgment of 29 November 2012, paragraph 146.

(17) Case C-209/07 *Beef Industry Development Society and Barry Brothers* [2008] ECR I-8637, paragraph 21.

(18) Further guidance with regard to the notion of restriction of competition by object can be obtained in the Commission Guidelines on the application of Article 81(3) of the Treaty, cited in footnote 3. See also Joined Cases C-501/06 P, C-513/06 P, C-515/06 P and C-519/06 P *GlaxoSmithKline Services and Others* v *Commission and Others* [2009] ECR I-9291, paragraphs 59 to 64; Case C-209/07 *Beef Industry Development Society and Barry Brothers* [2008] ECR I 8637, paragraphs 21 to 39; Case C-8/08 *T-Mobile Netherlands and Others* [2009] ECR I-4529, paragraphs 31 and 36 to 39 and Case C 32/11 *Allianz Hungária Biztosító and Others*, judgment of 14 March 2013, paragraphs 33 to 38.

and potential effects [19]. In other words the agreement must have likely anti-competitive effects. For licence agreements to be restrictive of competition by effect they must affect actual or potential competition to such an extent that on the relevant market negative effects on prices, output, innovation or the variety or quality of goods and services can be expected with a reasonable degree of probability. The likely negative effects on competition must be appreciable [20]. Appreciable anti-competitive effects are likely to occur when at least one of the parties has or obtains some degree of market power and the agreement contributes to the creation, maintenance or strengthening of that market power or allows the parties to exploit such market power. Market power is the ability to maintain prices above competitive levels or to maintain output in terms of product quantities, product quality and variety or innovation below competitive levels for a not insignificant period of time [21]. The degree of market power normally required for a finding of an infringement under Article 101(1) is less than the degree of market power required for a finding of dominance under Article 102 [22].

16. For the purposes of analysing restrictions of competition by effect it is normally necessary to define the relevant market and to examine and assess, in particular, the nature of the products and technologies concerned, the market position of the parties, the market position of competitors, the market position of buyers, the existence of potential competitors and the level of entry barriers. In some cases, however, it may be possible to show anti-competitive effects directly by analysing the conduct of the parties to the agreement on the market. It may for example be possible to ascertain that an agreement has led to price increases.

17. However, licence agreements may also have substantial pro-competitive potential and the vast majority of those agreements are indeed pro-competitive. Licence agreements may promote innovation by allowing innovators to earn returns to cover at least part of their research and development costs. Licence agreements also lead to a dissemination of technologies, which may create value by reducing the production costs of the licensee or by enabling it to produce new or improved products. Efficiencies at the level of the licensee often stem from a combination of the licensor's technology with the assets and technologies of the licensee. Such integration of complementary assets and technologies may lead to a cost/output configuration that would not otherwise be possible. For instance, the combination of an improved technology of the licensor with more efficient production or distribution assets of the licensee may reduce production costs or lead to the production of a higher quality product. Licensing may also serve the pro-competitive purpose of removing obstacles to the development and exploitation of the licensee's own technology. In particular in sectors where large numbers of patents are prevalent licensing often occurs in order to create design freedom by removing the risk of infringement claims by the licensor. When the licensor agrees not to invoke its intellectual property rights to prevent the sale of the licensee's products, the agreement removes an obstacle to the sale of the licensee's product and thus generally promotes competition.

18. In cases where a licence agreement is caught by Article 101(1) of the Treaty the pro-competitive effects of the agreement must be balanced against its restrictive effects in the context of Article 101(3). When all four conditions of Article 101(3) are satisfied, the restrictive licence agreement in question is valid and enforceable, with no prior decision to that effect being required [23]. Hardcore restrictions are unlikely to fulfil the conditions of Article 101(3). Such agreements generally fail (at least) one of the first two conditions of Article 101(3). In general they do not create objective economic benefits or benefits for consumers. Moreover, these types of agreements generally fail the indispensability test (under the third condition). For example, if the parties fix the price at which the products produced under the licence must be sold, this will in principle lead to a lower output and a misallocation of resources and higher prices for consumers. The price restriction is also not indispensable to achieve the possible efficiencies resulting from the availability to both competitors of the two technologies.

2.3. **Market definition**

19. The Commission's approach to defining the relevant market is laid down in its Notice on the definition of the relevant market for the purposes of Community competition law [24]. These guidelines only address

(19) See the judgment in *John Deere*, [1998] cited in footnote 11.

(20) Guidance on the issue of appreciability can be found in the Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (OJ C 368, 22.12.2001, p. 13). This Notice defines appreciability in a negative way. Agreements, which fall outside the scope of the *de minimis* notice, do not necessarily have appreciable restrictive effects. An individual assessment is required.

(21) Case T-321/05 *Astra Zeneca* v *Commission* [2010] ECR II-2805, paragraph 267.

(22) Commission Guidelines on the application of Article 81(3) of the Treaty, point 26, cited in footnote 3.

(23) See Article 1(2) of Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty (OJ L 1, 4.1.2003, p. 1), last amended by Council Regulation (EC) No 1419/2006 of 25 September 2006 (OJ L 269, 28.9.2006, p. 1).

(24) OJ C 372, 9.12.1997, p. 5.

aspects of market definition that are of particular importance in the field of technology rights licensing.

20. Technology is an input, which is integrated either into a product or a production process. Technology right licensing can therefore affect competition both upstream in input markets and downstream in output markets. For instance, an agreement between two parties which sell competing products downstream and which also cross license technology rights relating to the production of these products upstream may restrict competition on the downstream goods or services market concerned. The cross licensing may also restrict competition on the upstream market for technology and possibly also on other upstream input markets. For the purposes of assessing the competitive effects of licence agreements it may therefore be necessary to define the relevant product market(s) as well as the relevant technology market(s) ([25]).

21. The relevant product market comprises the contract products (incorporating the licensed technology) and products which are regarded by the buyers as interchangeable with or substitutable for the contract products, by reason of the products' characteristics, their prices and their intended use. Contract products can be part of a final and/or an intermediate product market.

22. The relevant technology markets consist of the licensed technology rights and its substitutes, that is to say, other technologies which are regarded by the licensees as interchangeable with or substitutable for the licensed technology rights, by reason of the technologies' characteristics, their royalties and their intended use. Starting from the technology which is marketed by the licensor, it is necessary to identify those other technologies to which licensees could switch in response to a small but permanent increase in relative prices, that is to say, to the royalties. An alternative approach is to look at the market for products incorporating the licensed technology rights (cf. point (25) below).

23. The term 'relevant market' used in Article 3 of the TTBER and defined in Article 1(1)(m) refers to the relevant product market and the relevant technology market in both their product and geographic dimension.

24. The 'relevant geographic market' is defined in Article 1(1)(l) of the TTBER and comprises the area in which the undertakings concerned are involved in the supply of and demand for products or the licensing of technology, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas The geographic market of the relevant technology market(s) can differ from the geographic market of the relevant product market(s).

25. Once relevant markets have been defined, market shares can be assigned to the various sources of competition in the market and used as an indication of the relative strength of market players. In the case of technology markets, one way to proceed is to calculate market shares on the basis of each technology's share of total licensing income from royalties, representing a technology's share of the market where competing technologies are licensed. However, this may often be a merely theoretical and not a practical way to proceed because of lack of clear information on royalties. Another approach, which is the one used for calculating the safe harbour, as explained in Article 8(d) of the TTBER, is to calculate market shares on the technology market on the basis of sales of products incorporating the licensed technology on downstream product markets (see for more details point (86) ff.). In individual cases outside the safe harbour of the TTBER it may be necessary, where practically possible, to apply both of the described approaches in order to assess the market strength of the licensor more accurately and to take into account other available factors which give a good indication of the relative strength of the available technologies (see for more factors points (157) and (159) ff.) ([26]).

26. Some licence agreements may affect competition in innovation. In analysing such effects, however, the Commission will normally confine itself to examining the impact of the agreement on competition within existing product and technology markets ([27]). Competition on such markets may be affected by agreements that delay the introduction of improved products or new products that over time will replace existing products. In such cases innovation is a source of potential competition which must be taken into account when assessing the impact of the agreement on product markets and technology markets. In a limited number of cases, however, it may be useful and necessary to also analyse the effects on competition in innovation separately. This is particularly

([25]) See for example Commission Decision COMP/M.5675 *Syngenta/Monsanto* where the Commission analysed the merger of two vertically integrated sunflower breeders by examining both (i) the upstream market for the trading (namely the exchange and licensing) of varieties (parental lines and hybrids) and (ii) the downstream market for the commercialisation of hybrids. In COMP/M.5406, *IPIC/MAN Ferrostaal AG*, the Commission defined besides a market for the production of high-grade melamine also an upstream technology market for the supply of melamine production technology. See also COMP/M.269, *Shell/Montecatini*.

([26]) See also Commission Decision COMP/M.5675 Syngenta/Monsanto and Decision COMP/M.5406 IPIC/MAN Ferrostaal AG.

([27]) See also points 119 to 122 of the Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements ('Horizontal Guidelines'), OJ C 11, 14.1.2011, p. 1.

the case where the agreement affects innovation aiming at creating new products and where it is possible at an early stage to identify research and development poles ([28]). In such cases it can be analysed whether after the agreement there will be a sufficient number of competing research and development poles left for effective competition in innovation to be maintained.

2.4. **The distinction between competitors and non-competitors**

27. In general, agreements between competitors pose a greater risk to competition than agreements between non-competitors. However, competition between undertakings that use the same technology (intra-technology competition between licensees) constitutes an important complement to competition between undertakings that use competing technologies (inter-technology competition). For instance, intra-technology competition may lead to lower prices for the products incorporating the technology in question, which may not only produce direct and immediate benefits for consumers of these products, but also spur further competition between undertakings that use competing technologies. In the context of licensing the fact that licensees are selling their own product must also be taken into account. They are not re-selling a product supplied by another undertaking. There may thus be greater scope for product differentiation and quality-based competition between licensees than in the case of vertical agreements for the resale of products.

28. In order to determine the competitive relationship between the parties it is necessary to examine whether the parties would have been actual or potential competitors in the absence of the agreement. If without the agreement the parties would not have been actual or potential competitors in any relevant market affected by the agreement they are deemed to be non-competitors.

29. In principle, the parties to an agreement are not considered competitors if they are in a one-way or two-way blocking position. A one-way blocking position exists where a technology right cannot be exploited without infringing upon another valid technology right, or where one party cannot be active in a commercially viable way on the relevant market without infringing the other party's valid technology right. This is, for instance, the case where one technology right covers an improvement of another technology right and the improvement cannot be legally used without a licence of the basic technology right. A two-way blocking position exists where neither technology right can be exploited without infringing upon the other valid technology right or where neither party can be active in a commercially viable way on the relevant market without infringing the other party's valid technology right and where the parties thus need to obtain a licence or a waiver from each other. ([29]) However, in practice there will be cases where there is no certainty whether a particular technology right is valid and infringed.

30. The parties are actual competitors on the product market if prior to the agreement both are already active on the same relevant product market. The fact that both parties are already active on the same relevant product market, without having entered into a licensing arrangement, is a strong indicator that the parties are not blocking each other. In such a scenario, the parties can be presumed to be actual competitors, unless and until a blocking position is proven (in particular by a final court judgment).

31. The licensee can be considered a potential competitor on the product market if it is likely that, in the absence of the agreement, it would undertake the necessary additional investments to enter the relevant market in response to a small but permanent increase in product prices. Likely entry should be assessed on realistic grounds, that is to say based on the facts of the case at hand. Entry is more likely if the licensee possesses assets that can easily be used to enter the market without incurring significant sunk costs or if it has already developed plans, or otherwise started to invest, to enter the market. There have to be real concrete possibilities for the licensee to enter the relevant market and compete with established undertakings ([30]). Accordingly, the licensee cannot be described as a potential competitor if its entry into a market is not an economically viable strategy ([31]).

32. In the specific context of intellectual property rights, an additional factor for assessing whether the parties are potential competitors on a particular market is the possibility that their intellectual property rights are in a blocking position, that is to say that the licensee cannot enter the respective market without infringing the intellectual property rights of the other party.

33. In the absence of certainty, for example in the form of a final court decision, that a blocking position exists, the parties, when addressing the question whether they are potential competitors, will have to base themselves on all the available evidence at the time, including the possibility that intellectual property rights are infringed and whether there are effective possibilities to work around existing intellectual property rights. Substantial investments already made or advanced plans to enter

([28]) See also point (157).

([29]) In a scenario where undertakings have given a general commitment to license certain intellectual property rights, for instance a License of Right or a FRAND commitment, the parties cannot be considered to be in a blocking position on the basis of these intellectual property rights.

([30]) Joined Cases T-374/94, T-375/94, T-384/94 and T-388/94, *European Night Services and Others* v *Commission* [1998] ECR II-3141, paragraph 137.

([31]) Case T-461/07, *Visa Europe Ltd and Visa International Service* v *European Commission* [2011] ECR II-1729, paragraph 167.

a particular market, can support the view that the parties are at least potential competitors, even if a blocking position cannot be excluded. Particularly convincing evidence of the existence of a blocking position may be required where the parties have a common interest in claiming the existence of a blocking position in order to be qualified as non-competitors, for instance where the alleged blocking position concerns technologies that are technological substitutes (see point (22)) or if there is a significant financial inducement from the licensor to the licensee.

34. In order to constitute a realistic competitive constraint entry has to be likely to occur within a short period [32]. Normally a period of one to two years is appropriate. However, in individual cases longer periods can be taken into account. The period of time needed for undertakings already on the market to adjust their capacities can be used as a yardstick to determine this period. For instance, the parties are likely to be considered potential competitors on the product market where the licensee produces on the basis of its own technology in one geographic market and starts producing in another geographic market on the basis of a licensed competing technology. In such circumstances, it is likely that the licensee would have been able to enter the second geographic market on the basis of its own technology, unless such entry is precluded by objective factors, including the existence of blocking intellectual property rights.

35. The parties are actual competitors on the technology market if they are either already both licensing out substitutable technology rights, or the licensee is already licensing out its technology rights and the licensor enters the technology market by granting a license for competing technology rights to the licensee.

36. The parties are considered to be potential competitors on the technology market if they own substitutable technologies and the licensee is not licensing-out its own technology, provided that it would be likely to do so in the event of a small but permanent increase in technology prices. In the case of technology markets, it is generally more difficult to assess whether the parties are potential competitors. This is why, for the application of the TTBER, potential competition on the technology market is not taken into account (see point (83)) and the parties are treated as non-competitors.

37. In some cases it may also be possible to conclude that while the licensor and the licensee produce competing products, they are non-competitors on the relevant product market and the relevant technology market because the licensed technology represents such a drastic innovation that the technology of the licensee has become obsolete or uncompetitive. In such cases the licensor's technology either creates a new market or excludes the licensee's technology from the existing market. It is, however, often not possible to come to this conclusion at the time the agreement is concluded. It is usually only when the technology or the products incorporating it have been available to consumers for some time that it becomes apparent that the older technology has become obsolete or uncompetitive. For instance, when CD technology was developed and players and discs were put on the market, it was not obvious that this new technology would replace LP technology. This only became apparent some years later. The parties will therefore be considered to be competitors if at the time of the conclusion of the agreement it is not obvious that the licensee's technology is obsolete or uncompetitive. However, given that both Articles 101(1) and Article 101(3) of the Treaty must be applied in the light of the actual context in which the agreement occurs, the assessment is sensitive to material changes in the facts. The classification of the relationship between the parties will therefore change into a relationship of non-competitors, if at a later point in time the licensee's technology becomes obsolete or uncompetitive on the market.

38. In some cases the parties may become competitors subsequent to the conclusion of the agreement because the licensee develops or acquires and starts exploiting a competing technology. In such cases the fact that the parties were non-competitors at the time of conclusion of the agreement and that the agreement was concluded in that context must be taken into account. The Commission will therefore mainly focus on the impact of the agreement on the licensee's ability to exploit its own (competing) technology. In particular, the list of hardcore restrictions applying to agreements between competitors will not be applied to such agreements unless the agreement is subsequently amended in any material respect after the parties have become competitors (see Article 4(3) of the TTBER).

39. The undertakings party to an agreement may also become competitors subsequent to the conclusion of the agreement where the licensee was already active on the relevant market where the contract product is sold prior to the licence and where the licensor subsequently enters the relevant market either on the basis of the licensed technology rights or a new technology. In this case also the hardcore list relevant for agreements between non-competitors will continue to apply to the agreement unless the agreement is subsequently amended in any material respect (see Article 4(3) of the TTBER). A material amendment includes the conclusion of a new technology transfer agreement between the parties concerning competing technology rights which can be used for the production of products competing with the contract products.

(32) Case T-461/07, *Visa Europe Ltd and Visa International Service* v *European Commission* [2011] ECR II-1729, paragraph 189.

3. APPLICATION OF THE TTBER

3.1. The effects of the TTBER

40. Categories of technology transfer agreements that fulfil the conditions set out in the TTBER are exempted from the prohibition rule contained in Article 101(1) of the Treaty. Block exempted agreements are legally valid and enforceable. Such agreements can only be prohibited for the future and only upon withdrawal of the block exemption by the Commission and the competition authorities of the Member States. Block exempted agreements cannot be prohibited under Article 101 by national courts in the context of private litigation.

41. Block exemption of categories of technology transfer agreements is based on the presumption that — to the extent that they are caught by Article 101(1) of the Treaty — those agreements fulfil the four conditions laid down in Article 101(3). It is thus presumed that the agreements give rise to economic efficiencies, that the restrictions contained in the agreements are indispensable to the attainment of these efficiencies, that consumers within the affected markets receive a fair share of the efficiency gains and that the agreements do not afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products in question. The market share thresholds (Article 3), the hardcore list (Article 4) and the excluded restrictions (Article 5) set out in the TTBER aim at ensuring that only restrictive agreements that can reasonably be presumed to fulfil the four conditions of Article 101(3) are block exempted.

42. As set out in section 4 of these guidelines, many licence agreements fall outside Article 101(1) of the Treaty, either because they do not restrict competition at all or because the restriction of competition is not appreciable ([33]). To the extent that such agreements would anyhow fall within the scope of the TTBER, there is no need to determine whether they are caught by Article 101(1) ([34]).

43. Outside the scope of the block exemption it is relevant to examine whether in the individual case the agreement is caught by Article 101(1) of the Treaty and if so, whether the conditions of Article 101(3) are satisfied. There is no presumption that technology transfer agreements falling outside the block exemption are caught by Article 101(1) or fail to satisfy the conditions of Article 101(3). In particular, the mere fact that the market shares of the parties exceed the market share thresholds set out in Article 3 of the TTBER is not a sufficient basis for finding that the agreement is caught by Article 101(1). Individual assessment of the likely effects of the agreement is required. It is only where agreements contain hardcore restrictions of competition, that it can normally be presumed that they are prohibited by Article 101.

3.2. Scope and duration of the TTBER

3.2.1. *The concept of technology transfer agreements*

44. The TTBER and these guidelines cover agreements for the transfer of technology. According to Article 1(1)(b) of the TTBER the concept of 'technology rights' covers know-how as well as patents, utility models, design rights, topographies of semiconductor products, supplementary protection certificates for medicinal products or other products for which such supplementary protection certificates may be obtained, plant breeder's certificates and software copyrights or a combination thereof as well as applications for these rights and for registration of these rights. The licensed technology rights should allow the licensee, with or without other input, to produce the contract products. The TTBER only applies in Member States where the licensor holds relevant technology rights. Otherwise, there are no technology rights to be transferred within the meaning of the TTBER.

45. Know-how is defined in Article 1(1)(i) of the TTBER as a package of practical information, resulting from experience and testing, which is secret, substantial and identified:

(a) 'Secret' means that the know-how is not generally known or easily accessible.

(b) 'Substantial' means that the know-how includes information which is significant and useful for the production of the products covered by the licence agreement or the application of the process covered by the licence agreement. In other words, the information must significantly contribute to or facilitate the production of the contract products. In cases where the licensed know-how relates to a product as opposed to a process, this condition implies that the know-how is useful for the production of the contract product. This condition is not satisfied where the contract product can be produced on the basis of freely available technology. However, the condition does not require that the contract product is of higher value than products produced with freely available technology. In the case of process technologies, this condition implies that the know-how is useful in the sense that it can reasonably be expected at the date of conclusion of the agreement to be capable of significantly improving the competitive position of the licensee, for instance by reducing its production costs.

([33]) See in this respect the Notice on agreements of minor importance cited in footnote 20.

([34]) According to Article 3(2) of Regulation (EC) No 1/2003, agreements which may affect trade between Member States but which are not prohibited by Article 101 can also not be prohibited by national competition law.

(c) 'Identified' means that it is possible to verify that the licensed know-how fulfils the criteria of secrecy and substantiality. This condition is satisfied where the licensed know-how is described in manuals or other written form. However, in some cases this may not be reasonably possible. The licensed know-how may consist of practical knowledge possessed by the licensor's employees. For instance, the licensor's employees may possess secret and substantial knowledge about a certain production process which is passed on to the licensee in the form of training of the licensee's employees. In such cases it is sufficient to describe in the agreement the general nature of the know-how and to list the employees that will be or have been involved in passing it on to the licensee.

46. Provisions in technology transfer agreements relating to the purchase of products by the licensee are only covered by the TTBER if, and to the extent that, those provisions are directly related to the production or sale of the contract products. Therefore the TTBER does not apply to those parts of a technology transfer agreement relating to input and/or equipment that are used for other purposes than the production of the contract products. For instance, where milk is sold together with licensing of technology to produce cheese, only the milk used for the production of cheese with the licensed technology will be covered by the TTBER.

47. Provisions in technology transfer agreements relating to the licensing of other types of intellectual property such as trademarks and copyright, other than software copyright (on software copyright see points (44) and (62)), are only covered by the TTBER if, and to the extent that, they are directly related to the production or sale of the contract products. This condition ensures that provisions covering other types of intellectual property rights are block exempted to the extent that these other intellectual property rights serve to enable the licensee to better exploit the licensed technology rights. For instance, where a licensor authorises a licensee to use its trademark on the products incorporating the licensed technology, this trademark licence may allow the licensee to better exploit the licensed technology by allowing consumers to make an immediate link between the product and the characteristics imputed to it by the licensed technology rights. An obligation on the licensee to use the licensor's trademark may also promote the dissemination of technology by allowing the licensor to identify itself as the source of the underlying technology. The TTBER covers technology transfer agreements in this scenario even if the principal interest of the parties lies in the exploitation of the trademark rather than the technology [35].

48. The TTBER does not cover licensing of copyright other than software copyright (except for the situation set out in point (47)). The Commission will, however, as a general rule apply the principles set out in the TTBER and these guidelines when assessing licensing of copyright for the production of contract products under Article 101 of the Treaty.

49. On the other hand, the licensing of rental rights and public performance rights protected by copyright, in particular for films or music, is considered to raise particular issues and it may not be warranted to assess such licensing on the basis of the principles developed in these guidelines. In the application of Article 101 the specificities of the work and the way in which it is exploited must be taken into account [36]. The Commission will therefore not apply the TTBER and the present guidelines by way of analogy to the licensing of these other rights.

50. The Commission will also not extend the principles developed in the TTBER and these guidelines to trademark licensing (except for the situation set out in point (47)). Trademark licensing often occurs in the context of distribution and resale of goods and services and is generally more akin to distribution agreements than technology licensing. Where a trademark licence is directly related to the use, sale or resale of goods and services and does not constitute the primary object of the agreement, the licence agreement is covered by Commission Regulation (EU) No 330/2010 [37].

3.2.2. *The concept of 'transfer'*

51. The concept of 'transfer' implies that technology must flow from one undertaking to another. Such transfers normally take the form of licensing whereby the licensor grants the licensee the right to use its technology rights against payment of royalties.

52. As set out in Article 1(1)(c) of the TTBER, assignments where part of the risk associated with the exploitation of the technology rights remains with the assignor are also deemed to be technology transfer agreements. In particular, this is the case where the sum payable in consideration of the assignment is dependent on the turnover obtained by the assignee in respect of products produced with the assigned technology, the quantity of such products produced or the number of operations carried out employing the technology.

(35) The TTBER could now cover the technology transfer agreement assessed in the Commission Decision in *Moosehead/Whitbread* (OJ L 100, 20.4.1990, p. 32), see in particular paragraph 16 of that decision.

(36) See in this respect Case 262/81, *Coditel (II)*, [1982] ECR 3381.

(37) OJ L 102, 23.4.2010, p. 1.

53. An agreement whereby the licensor commits not to exercise its technology rights against the licensee can also be seen as a transfer of technology rights. Indeed, the essence of a pure patent licence is the right to operate inside the scope of the exclusive right of the patent. It follows that the TTBER also covers so-called non-assertion agreements and settlement agreements whereby the licensor permits the licensee to produce within the scope of the patent ([38]).

3.2.3. *Agreements between two parties*

54. According to Article 1(1)(c) of the TTBER, the Regulation only covers technology transfer agreements 'between two undertakings'. Technology transfer agreements between more than two undertakings are not covered by the TTBER ([39]). The decisive factor in terms of distinguishing between agreements between two undertakings and multiparty agreements is whether the agreement in question is concluded between more than two undertakings.

55. Agreements concluded by two undertakings fall within the scope of the TTBER even if the agreement stipulates conditions for more than one level of trade. For instance, the TTBER applies to a licence agreement concerning not only the production stage but also the distribution stage, stipulating the obligations that the licensee must or may impose on resellers of the products produced under the licence ([40]).

56. Agreements establishing technology pools and licensing out from technology pools are generally multiparty agreements and are therefore not covered by the TTBER ([41]). The notion of technology pools covers agreements whereby two or more parties agree to pool their respective technologies and license them as a package. The notion of technology pools also covers arrangements whereby two or more undertakings agree to license a third party and authorise it to license-on the package of technologies.

57. Licence agreements concluded between more than two undertakings often give rise to the same issues as licence agreements of the same nature concluded between two undertakings. In its individual assessment of licence agreements which are of the same nature as those covered by the block exemption but which are concluded between more than two undertakings, the Commission will apply by analogy the principles set out in the TTBER. However, technology pools and licensing out from technology pools are specifically dealt with in section 4.4.

3.2.4. *Agreements for the production of contract products*

58. It follows from Article 1(1)(c) of the TTBER that for licence agreements to be covered by it they must be entered into 'for the purpose of the production of contract products', that is to say, products incorporating or produced with the licensed technology rights. The licence must permit the licensee and/or its sub-contractor(s) to exploit the licensed technology for the purpose of producing goods or services (see also recital 7 in the preamble of the TTBER).

59. Where the purpose of the agreement is not the production of contract products but, for instance, merely to block the development of a competing technology, the licence agreement is not covered by the TTBER and these guidelines may also not be appropriate for the agreement's assessment. More generally, if the parties refrain from exploiting the licensed technology rights, no efficiency enhancing activity takes place, in which case the very rationale of the block exemption is absent. However, exploitation does not need to take the form of an integration of assets. Exploitation also occurs where the licence creates design freedom for the licensee by allowing it to exploit its own technology without facing the risk of infringement claims by the licensor. In the case of licensing between competitors, the fact that the parties do not exploit the licensed technology may be an indication that the arrangement is a disguised cartel. For these reasons the Commission will examine cases of non-exploitation very closely.

60. The TTBER applies to licence agreements for the purpose of the production of contract products by the licensee and/or its sub-contractor(s). Therefore, the TTBER does not apply to (those parts of) technology transfer agreements that allow for sublicensing. However, the Commission will apply by analogy the principles set out in the TTBER and these guidelines to 'master licensing' agreements between licensor and licensee (that is to say an agreement whereby the licensor allows the licensee to sublicense the technology). Agreements between the licensee and sub-licensees for the production of contract products are covered by the TTBER.

([38]) The terms 'licensing' and 'licensed' used in these Guidelines also include non-assertion and settlement arrangements as long as a transfer of technology rights takes place as described in this section. See further on settlement agreements points (234) ff.

([39]) Under Regulation (EEC) No 19/65 of the Council of 2 March 1965 on application of Article 85(3) of the Treaty to certain categories of agreements and concerted practices, OJ Special Edition Series I 1965-1966, p. 35, the Commission is not empowered to block exempt technology transfer agreements concluded between more than two undertakings.

([40]) See recital 6 of the TTBER and further section 3.2.6.

([41]) See for more details point (247).

61. The term ‘contract products’ encompasses goods and services produced with the licensed technology rights. This is the case both where the licensed technology is used in the production process and where it is incorporated into the product itself. In these guidelines the term ‘products incorporating the licensed technology’ covers both situations. The TTBER applies in all cases where technology rights are licensed for the purposes of producing goods and services. The framework of the TTBER and these guidelines is based on the premise that there is a direct link between the licensed technology rights and a contract product. In cases where no such link exists, that is to say where the purpose of the agreement is not to enable the production of a contract product, the analytical framework of the TTBER and these guidelines may not be appropriate.

62. The licensing of software copyright for the purpose of mere reproduction and distribution of the protected work, that is to say, the production of copies for resale, is not considered to be ‘production’ within the meaning of the TTBER and thus is not covered by the TTBER and these guidelines. Such reproduction for distribution is instead covered by analogy by Commission Regulation (EU) No 330/2010 [42] and the Guidelines on Vertical Restraints [43]. Reproduction for distribution exists where a licence is granted to reproduce the software on a carrier, regardless of the technical means by which the software is distributed. For instance, the TTBER and these guidelines do not cover the licensing of software copyright whereby the licensee is provided with a master copy of the software in order to reproduce and sell on the software to end users. Nor do they cover the licensing of software copyright and distribution of software by means of ‘shrink wrap’ licences, that is, a set of conditions included in the package of the hard copy which the end user is deemed to have accepted by opening the wrapping of the package, or the licensing of software copyright and distribution of software by means of online downloading.

63. However, where the licensed software is incorporated by the licensee in the contract product this is not considered as mere reproduction but production. For instance, the TTBER and these guidelines cover the licensing of software copyright where the licensee has the right to reproduce the software by incorporating it into a device with which the software interacts.

64. The TTBER covers ‘subcontracting’ whereby the licensor licenses technology rights to the licensee who undertakes to produce certain products on the basis thereof exclusively for the licensor. Subcontracting may also involve the supply of equipment by the licensor to be used in the production of the goods and services covered by the agreement. For the latter type of subcontracting to be covered by the TTBER as part of a technology transfer agreement, the supplied equipment must be directly related to the production of the contract products. Subcontracting is also covered by the Commission Notice on subcontracting agreements [44]. According to that notice, which remains applicable, subcontracting agreements whereby the subcontractor undertakes to produce certain products exclusively for the contractor generally fall outside Article 101(1) of the Treaty. Subcontracting agreements whereby the contractor determines the transfer price of the intermediate contract product between subcontractors in a value chain of subcontracting generally also fall outside Article 101(1) provided the contract products are exclusively produced for the contractor. However, other restrictions imposed on the subcontractor such as the obligation not to conduct or exploit its own research and development may be caught by Article 101 [45].

65. The TTBER also applies to agreements whereby the licensee must carry out development work before obtaining a product or a process that is ready for commercial exploitation, provided that a contract product has been identified. Even if such further work and investment is required, the object of the agreement is the production of an identified contract product, that is to say, products produced with the licensed technology rights.

66. The TTBER and these guidelines do not cover agreements whereby technology rights are licensed for the purpose of enabling the licensee to carry out further research and development in various fields, including further developing a product arising out of such research and development [46]. For instance, the TTBER and the guidelines do not cover the licensing of a technological research tool used in the process of further research activity. Nor do they cover research and development sub-contracting whereby the licensee undertakes to carry out research and development in the field of the licensed

(42) Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ L 102, 23.4.2010, p. 1.
(43) OJ C 130, 19.5.2010, p. 1.
(44) Commission Notice of 18 December 1978 concerning its assessment of certain subcontracting agreements in relation to Article 85(1) of the EEC Treaty, OJ C 1, 3.1.1979, p. 2.
(45) See point 3 of Commission Notice on subcontracting agreements cited in footnote 44.
(46) See also section 3.2.6.1.

technology and to hand back the improved technology package to the licensor [47]. The main object of such agreements is the provision of research and development services aimed at improving the technology as opposed to the production of goods and services on the basis of the licensed technology.

3.2.5. *Duration*

67. Subject to the duration of the TTBER, which expires on 30 April 2026, the block exemption applies for as long as the licensed property right has not lapsed, expired or been declared invalid. In the case of know-how the block exemption applies as long as the licensed know-how remains secret, except where the know-how becomes publicly known as a result of action by the licensee, in which case the exemption applies for the duration of the agreement (see Article 2 of the TTBER).

68. The block exemption applies to each licensed technology right covered by the agreement and ceases to apply on the date of expiry, invalidity or the coming into the public domain of the last technology right within the meaning of the TTBER.

3.2.6. *Relationship with other block exemption regulations*

69. The TTBER covers agreements between two undertakings concerning the licensing of technology rights for the purpose of the production of contract products. However, technology rights can also be an element of other types of agreements. In addition, the products incorporating the licensed technology are subsequently sold on the market. It is therefore necessary to address the interface between the TTBER and Commission Regulation (EU) No 1218/2010 [48] on specialisation agreements, Commission Regulation (EU) No 1217/2010 on research and development agreements [49] and Commission Regulation (EU) No 330/2010 [50] on vertical agreements.

3.2.6.1. The Block Exemption Regulations on specialisation and R&D agreements

70. The TTBER does not apply to licensing in the context of specialisation agreements which are covered by Regulation (EU) No 1218/2010 or to licensing in the context of research and development agreements which are covered by Regulation (EU) No 1217/2010 (see recital 7 and Article 9 of the TTBER).

71. According to Article 1(1)(d) of Regulation (EU) No 1218/2010 on specialisation agreements, that Regulation covers, in particular, joint production agreements by virtue of which two or more parties agree to produce certain products jointly. The Regulation extends to provisions concerning the assignment or use of intellectual property rights, provided that they do not constitute the primary object of the agreement, but are directly related to and necessary for its implementation.

72. Where undertakings establish a production joint venture and license the joint venture to exploit technology, which is used in the production of the products produced by the joint venture, such licensing is subject to Regulation (EU) No 1218/2010 on specialisation agreements and not to the TTBER. Accordingly, licensing in the context of a production joint venture normally falls to be considered under Regulation (EU) No 1218/2010. However, where the joint venture engages in licensing of the technology to third parties, the activity is not linked to production by the joint venture and therefore not covered by that Regulation. Such licensing arrangements, which bring together the technologies of the parties, constitute technology pools, which are dealt with in section 4.4 of these guidelines.

73. Regulation (EU) No 1217/2010 on research and development agreements covers agreements whereby two or more undertakings agree to jointly carry out research and development and to jointly exploit the results thereof. According to Article 1(1)(m) of that Regulation, research and development and the exploitation of the results are carried out jointly where the work involved is carried out by a joint team, organisation or undertakings, jointly entrusted to a third party or allocated between the parties by way of specialisation in research, development, production and distribution, including licensing. That Regulation also covers paid-for research and development agreements whereby two or more undertakings agree that the research and development is carried out by one party and financed by another party, with or without joint exploitation of the results thereof (see Article 1(1)(a) (vi) of Regulation (EU) No 1217/2010).

74. It follows that Regulation (EU) No 1217/2010 on research and development agreements covers licensing between the parties and by the parties to a joint entity in the context of a research and development agreement. Such licensing is subject only to Regulation (EU) No 1217/2010 and not to the TTBER. In the context of such agreements the parties can also determine the conditions for licensing the fruits of the research and development agreement to third parties. However, since third party licensees are not party to the research and development agreement, the individual licence agreement

(47) However, this last example is covered by Regulation (EU) No 1217/2010 cited in footnote 49, see also section 3.2.6.1. below.
(48) Commission Regulation (EU) No 1218/2010 of 14 December 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of specialisation agreements, OJ L 335, 18.12.2010, p. 43.
(49) Commission Regulation (EU) No 1217/2010 of 14 December 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of research and development agreements, OJ L 335, 18.12.2010, p. 36.
(50) Cited in footnote 42.

concluded with third parties is not covered by Regulation (EU) No 1217/2010. That licence agreement is covered by the block exemption in the TTBER if the conditions of it are fulfilled.

3.2.6.2. The Block Exemption Regulation on vertical agreements

75. Commission Regulation (EU) No 330/2010 on vertical agreements covers agreements entered into between two or more undertakings each operating, for the purposes of the agreement, at different levels of the production or distribution chain, and relating to the conditions under which the parties may purchase, sell or resell certain goods or services. It thus covers supply and distribution agreements ([51]).

76. Given that the TTBER only covers agreements between two parties and that a licensee, selling products incorporating the licensed technology, is a supplier for the purposes of Regulation (EU) No 330/2010, those two block exemption regulations are closely related. The agreement between licensor and licensee is subject to the TTBER whereas agreements concluded between a licensee and buyers of the contract products are subject to Regulation (EU) No 330/2010 and the Guidelines on Vertical Restraints ([52]).

77. The TTBER also exempts agreements between the licensor and the licensee where the agreement imposes obligations on the licensee as to the way in which it must sell the products incorporating the licensed technology. In particular, the licensee can be obliged to establish a certain type of distribution system such as exclusive distribution or selective distribution. However, the distribution agreements concluded for the purposes of implementing such obligations must, in order to be covered by a block exemption, comply with Regulation (EU) No 330/2010. For instance, the licensor can oblige the licensee to establish a system based on exclusive distribution in accordance with specified rules. However, it follows from Article 4(b) of Regulation (EU) No 330/2010 that generally distributors must be free to make passive sales into the territories of other exclusive distributors of the licensee.

78. Furthermore, under Regulation (EU) No 330/2010 on vertical agreements distributors must in principle be free to sell both actively and passively into territories covered by the distribution systems of other suppliers, that is to say, other licensees producing their own products on the basis of the licensed technology rights. This is because for the purposes of Regulation (EU) No 330/2010 each licensee is a separate supplier. However, the reasons underlying the block exemption of active sales restrictions within a supplier's distribution system contained in that Regulation, may also apply where the products incorporating the licensed technology are sold by different licensees under a common brand belonging to the licensor. When the products incorporating the licensed technology are sold under a common brand identity there may be the same efficiency reasons for applying the same types of restraints between licensees' distribution systems as within a single vertical distribution system. In such cases the Commission would be unlikely to challenge restraints where by analogy the requirements of Regulation (EU) No 330/2010 are fulfilled. For a common brand identity to exist the products must be sold and marketed under a common brand, which is predominant in terms of conveying quality and other relevant information to the consumer. It does not suffice that in addition to the licensees' brands the product carries the licensor's brand, which identifies it as the source of the licensed technology.

3.3. **The market share thresholds of the safe harbour**

79. According to Article 3 of the TTBER, the block exemption of restrictive agreements, or in other words the safe harbour of the TTBER, is subject to market share thresholds, confining the scope of the block exemption to agreements that although they may be restrictive of competition can generally be presumed to fulfil the conditions of Article 101(3) of the Treaty. Outside the safe harbour created by the market share thresholds individual assessment is required. The fact that market shares exceed the thresholds does not give rise to any presumption either that the agreement is caught by Article 101(1) or that the agreement does not fulfil the conditions of Article 101(3). In the absence of hardcore restrictions as set out in Article 4 of the TTBER, market analysis is required.

Relevant market share thresholds

80. The market share threshold to be applied for the purpose of the safe harbour of the TTBER depends on whether the agreement is concluded between competitors or non-competitors.

81. The market share thresholds apply both to the relevant market(s) of the licensed technology rights and the relevant market(s) of the contract products. If the applicable market share threshold is exceeded on one or several product and technology market(s), the block exemption does not apply to the agreement for that relevant market(s). For instance, if the licence agreement concerns two separate product markets, the block exemption may apply to one of the markets and not to the other.

([51]) See also the brochure 'Competition policy in Europe — The competition rules for supply and distribution agreements', European Commission, Publications Office of the European Union 2012, Luxembourg.

([52]) Respectively OJ L 102, 23.4.2010, p. 1, and OJ C 130, 19.5.2010, p. 1.

82. According to Article 3(1) TTBER the safe harbour provided for in Article 2 TTBER applies to agreements between competitors on condition that the combined market share of the parties does not exceed 20 % on any relevant market. The market share threshold of Article 3(1) of the TTBER is applicable if the parties are actual competitors or potential competitors on the product market(s) and/or actual competitors on the technology market (for the distinction between competitors and non-competitors, see points (27) ff.).

83. Potential competition on the technology market is not taken into account for the application of the market share threshold or the hardcore list relating to agreements between competitors. Outside the safe harbour of the TTBER potential competition on the technology market is taken into account but does not lead to the application of the hardcore list relating to agreements between competitors.

84. Where the undertakings party to the licensing agreement are not competitors, the market share threshold of Article 3(2) of the TTBER applies. An agreement between non-competitors is covered if the market share of each party does not exceed 30 % on the affected relevant technology and product markets.

85. Where the parties become competitors within the meaning of Article 3(1) TTBER at a later point in time, for instance where the licensee was already present, before the licensing, on the relevant market where the contract products are sold and the licensor subsequently becomes an actual or potential supplier on the same relevant market, the 20 % market share threshold will apply from the point in time when they became competitors. However, in that case the hardcore list relevant for agreements between non-competitors will continue to apply to the agreement unless the agreement is subsequently amended in any material respect (see Article 4(3) of the TTBER and point (39) of these guidelines).

Calculating market shares for technology market(s) for the application of the safe harbour

86. The calculation of market shares on the relevant markets where the technology rights are licensed, under the TTBER, deviates from the usual practice for the reasons explained in point (87) of these guidelines. In the case of technology markets, it follows from Article 8(d) of the TTBER that, both for the product and the geographic dimension of the relevant market, the licensor's market share is to be calculated on the basis of the sales of the licensor and all its licensees of products incorporating the licensed technology. Under this approach the combined sales of the licensor and its licensees of contract products are calculated as part of all sales of competing products, irrespective of whether these competing products are produced with a technology that is being licensed.

87. This approach of calculating the market share of the licensor on the technology market as its 'footprint' at the product level, has been chosen because of the practical difficulties in calculating a licensor's market share based on royalty income (see point (25)). In addition to the general difficulty of obtaining reliable royalty income data, the actual royalty income may also seriously underestimate a technology's position on the market in the event that royalty payments are reduced as a result of cross licensing or of the supply of tied products. Basing the licensor's market share on the technology market on the products produced with that technology as compared with products produced with competing technologies would not carry that risk. Such a footprint at the product level will in general reflect the market position of the technology well.

88. Ideally that footprint would be calculated by excluding from the product market the products produced with in-house technologies that are not licensed out, as those in-house technologies are only an indirect constraint on the licensed technology. However, as it may be difficult in practice for licensor and licensees to know whether other products in the same product market are produced with licensed or in-house technologies, the calculation of the technology market share, for the purposes of the TTBER, is based on the products produced with the licensed technology as part of all products sold in that product market. This approach based on the technology's footprint on the overall product market(s) can be expected to reduce the calculated market share by including products produced with in-house technologies, but will nonetheless in general provide a good indicator of the strength of the technology. First, it captures any potential competition from undertakings that are producing with their own technology and that are likely to start licensing in the event of a small but permanent increase in the price for licenses. Secondly, even where it is unlikely that other technology owners would start licensing, the licensor does not necessarily have market power on the technology market even if it has a high share of licensing income. If the downstream product market is competitive, competition at this level may effectively constrain the licensor. An increase in royalties upstream affects the costs of the licensee, which makes it less competitive and thereby may cause it to lose sales. A technology's market share on the product market also captures this element and is thus normally a good indicator of licensor market power on the technology market.

89. To estimate the strength of the technology, the geographic dimension of the technology market has also to be taken into acount. This might sometimes differ from the geographic dimension of the respective downstream product market. For the purpose of applying the TTBER, the geographic dimension of the relevant technology market is also determined by the product market(s). However, outside the TTBER safe harbour it may be appropriate to also consider a possibly wider geographic area, in which the licensor and licensees of competing technologies are involved in the licensing of these technologies, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas.

90. In the case of new technologies that did not generate any sales in the preceding calendar year, a zero market share is assigned. When sales commence the technology will start accumulating market share. If the market share rises subsequently above the relevant threshold of 20 % or 30 %, the safe harbour will continue to apply for a period of two consecutive calendar years following the year in which the threshold was exceeded (see Article 8(e) of the TTBER).

Calculating market shares for product market(s) for the application of the safe harbour

91. In the case of relevant markets where the contract products are sold, the licensee's market share is to be calculated on the basis of the licensee's sales of products incorporating the licensor's technology and competing products, that is to say, the total sales of the licensee on the product market in question. Where the licensor is also a supplier of products on the relevant market, the licensor's sales on the product market in question must also be taken into account. In the calculation of market shares for product markets, however, sales made by other licensees are not taken into account when calculating the licensee's and/or licensor's market share.

92. Market shares should be calculated on the basis of sales value data of the preceding year where such data are available. Such data normally provide a more accurate indication of the strength of a technology than volume data. However, where value based data are not available, estimates based on other reliable market information may be used, including market sales volume data.

93. The principles set out in section 3.3 of these guidelines can be illustrated by the following examples:

Licensing between non-competitors

Example 1

Company A is specialised in developing bio-technological products and techniques and has developed a new product Xeran. It is not active as a producer of Xeran, for which it has neither the production nor the distribution facilities. Company B is one of the producers of competing products, produced with freely available non-proprietary technologies. In year 1, B sold EUR 25 million worth of products produced with the freely available technologies. In year 2, A gives a licence to B to produce Xeran. In that year B sells EUR 15 million produced with the help of the freely available technologies and EUR 15 million of Xeran. In year 3 and the following years B produces and sells only Xeran worth EUR 40 million annually. In addition in year 2, A also licenses to C. C was not active on that product market before. C produces and sells only Xeran, EUR 10 million in year 2 and EUR 15 million in year 3 and thereafter. It is established that the total market of Xeran and its substitutes where B and C are active is worth EUR 200 million in each year.

In year 2, the year the licence agreements are concluded, A's market share on the technology market is 0 % as its market share has to be calculated on the basis of the total sales of Xeran in the preceding year. In year 3 A's market share on the technology market is 12,5 %, reflecting the value of Xeran produced by B and C in the preceding year 2. In year 4 and thereafter A's market share on the technology market is 27,5 %, reflecting the value of Xeran produced by B and C in the preceding year.

In year 2 B's market share on the product market is 12,5 %, reflecting B's EUR 25 million sales in year 1. In year 3 B's market share is 15 % because its sales have increased to EUR 30 million in year 2. In year 4 and thereafter B's market share is 20 % as its sales are EUR 40 million annually. C's market share on the product market is 0 % in year 1 and 2, 5 % in year 3 and 7,5 % thereafter.

As the licence agreements between A and B, and between A and C, are between non-competitors and the individual market shares of A, B and C are below 30 % each year, each agreement falls within the safe harbour of the TTBER.

Example 2

The situation is the same as in example 1, however now B and C are operating in different geographic markets. It is established that the total market of Xeran and its substitutes is worth EUR 100 million annually in each geographic market.

In this case, A's market share on the relevant technology markets has to be calculated on the basis of product sales data of each of the two geographic product markets separately. In the market where B is active A's market share depends on the sale of Xeran by B. As in this example the total market is assumed to be EUR 100 million, that is to say, half the size of the market in example 1, the market share of A is 0 % in year 2, 15 % in year 3 and 40 % thereafter. B's market share is 25 % in year 2, 30 % in year 3 and 40 % thereafter. In year 2 and 3 both A's and B's market share does not exceed the 30 % threshold. The threshold is however exceeded from year 4 and this means that, in line with Article 8(e) of the TTBER, after year 6 the licence agreement between A and B can no longer benefit from the safe harbour but has to be assessed on an individual basis.

In the market where C is active A's market share depends on the sale of Xeran by C. A's market share on the technology market, based on C's sales in the previous year, is therefore 0 % in year 2, 10 % in year 3 and 15 % thereafter. The market share of C on the product market is the same: 0 % in year 2, 10 % in year 3 and 15 % thereafter. The licence agreement between A and C therefore falls within the safe harbour for the whole period.

Licensing between competitors

Example 3

Companies A and B are active on the same relevant product and geographic market for a certain chemical product. They also each own a patent on different technologies used to produce this product. In year 1 A and B sign a cross licence agreement licensing each other to use their respective technologies. In year 1 A and B produce only with their own technology and A sells EUR 15 million of the product and B sells EUR 20 million of the product. From year 2 they both use their own and the other's technology. From that year onward A sells EUR 10 million of the product produced with its own technology and EUR 10 million of the product produced with B's technology. From year 2 B sells EUR 15 million of the product produced with its own technology and EUR 10 million of the product produced with A's technology. It is established that the total market of the product and its substitutes is worth EUR 100 million in each year.

To assess the licence agreement under the TTBER, the market shares of A and B have to be calculated both on the technology market and the product market. The market share of A on the technology market depends on the amount of the product sold in the preceding year that was produced, by both A and B, with A's technology. In year 2 the market share of A on the technology market is therefore 15 %, reflecting its own production and sales of EUR 15 million in year 1. From year 3 A's market share on the technology market is 20 %, reflecting the EUR 20 million sale of the product produced with A's technology and produced and sold by A and B (EUR 10 million each). Similarly, in year 2 B's market share on the technology market is 20 % and thereafter 25 %.

The market shares of A and B on the product market depend on their respective sales of the product in the previous year, irrespective of the technology used. The market share of A on the product market is 15 % in year 2 and 20 % thereafter. The market share of B on the product market is 20 % in year 2 and 25 % thereafter.

As the agreement is between competitors, their combined market share, both on the technology and on the product market, has to be below the 20 % market share threshold in order to benefit from the safe harbour. It is clear that this is not the case here. The combined market share on the technology market and on the product market is 35 % in year 2 and 45 % thereafter. This agreement between competitors will therefore have to be assessed on an individual basis.

3.4. **Hardcore restrictions of competition under the Block Exemption Regulation**

3.4.1. *General principles*

94. Article 4 of the TTBER contains a list of hardcore restrictions of competition. The classification of a restraint as a hardcore restriction of competition is based on the nature of the restriction and experience showing that such restrictions are almost always anti-competitive. In line with the case law of the Court of Justice and the General Court ([53]) such a restriction may result from the clear objective of the agreement or from the circumstances of the individual case (see point (14)). Hardcore restrictions may be objectively necessary in exceptional cases for an agreement of a particular type or nature ([54]) and therefore fall outside Article 101(1) of the Treaty. In addition, undertakings can always plead an efficiency defence under Article 101(3) in an individual case ([55]).

95. It follows from Article 4(1) and 4(2) of the TTBER that, when a technology transfer agreement contains a hardcore restriction of competition, the agreement as a whole falls outside the scope of the block exemption. For the purposes of the TTBER hardcore restrictions cannot be severed from the rest of the agreement. Moreover, the Commission considers that in the context of individual assessment it is unlikely that hardcore restrictions of competition fulfil the four conditions of Article 101(3) (see point (18)).

96. Article 4 of the TTBER distinguishes between agreements between competitors and agreements between non-competitors.

3.4.2. *Agreements between competitors*

97. Article 4(1) TTBER lists the hardcore restrictions for licensing between competitors. According to Article 4(1), the TTBER does not cover agreements which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object any of the following:

(a) the restriction of a party's ability to determine its prices when selling products to third parties;

([53]) See e.g. the case law cited in footnote 16.

([54]) See point 18 of the Commission Guidelines on the application of Article 81(3) of the Treaty, cited in footnote 3.

([55]) Case T-17/93 *Matra* [1994] ECR II-595, paragraph 85.

(b) the limitation of output, except limitations on the output of contract products imposed on the licensee in a non-reciprocal agreement or imposed on only one of the licensees in a reciprocal agreement;

(c) the allocation of markets or customers except:

(i) the obligation on the licensor and/or the licensee, in a non-reciprocal agreement, not to produce with the licensed technology rights within the exclusive territory reserved for the other party and/or not to sell, actively and/or passively, into the exclusive territory or to the exclusive customer group reserved for the other party;

(ii) the restriction, in a non-reciprocal agreement, of active sales by the licensee into the exclusive territory or to the exclusive customer group allocated by the licensor to another licensee provided that the latter was not a competing undertaking of the licensor at the time of the conclusion of its own licence;

(iii) the obligation on the licensee to produce the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products;

(iv) the obligation on the licensee, in a non-reciprocal agreement, to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer;

(d) the restriction of the licensee's ability to exploit its own technology rights or the restriction of the ability of any of the parties to the agreement to carry out research and development, unless such latter restriction is indispensable to prevent the disclosure of the licensed know-how to third parties.

Distinction between reciprocal and non-reciprocal agreements between competitors

98. For a number of hardcore restrictions the TTBER makes a distinction between reciprocal and non-reciprocal agreements. The hardcore list is stricter for reciprocal agreements than for non-reciprocal agreements between competitors. Reciprocal agreements are cross licensing agreements where the licensed technologies are competing technologies or can be used for the production of competing products. A non-reciprocal agreement is an agreement where only one of the parties is licensing its technology rights to the other party or where, in the case of cross licensing, the licensed technologies rights are not competing technologies and the rights licensed cannot be used for the production of competing products. An agreement is not reciprocal for the purposes of the TTBER merely because the agreement contains a grant back obligation or because the licensee licenses back own improvements of the licensed technology. Where a non-reciprocal agreement subsequently becomes a reciprocal agreement due to the conclusion of a second licence between the same parties, those parties may have to revise the first licence in order to avoid the agreement containing a hardcore restriction. In the assessment of the individual case the Commission will take into account the time lapsed between the conclusion of the first and the second licence.

Price restrictions between competitors

99. The hardcore restriction of competition contained in Article 4(1)(a) TTBER concerns agreements between competitors that have as their object the fixing of prices for products sold to third parties, including the products incorporating the licensed technology. Price fixing between competitors constitutes a restriction of competition by its very object. Price fixing can take the form of a direct agreement on the exact price to be charged or on a price list with certain allowed maximum rebates. It is immaterial whether the agreement concerns fixed, minimum, maximum or recommended prices. Price fixing can also be implemented indirectly by applying disincentives to deviate from an agreed price level, for example, by providing that the royalty rate will increase if product prices are reduced below a certain level. However, an obligation on the licensee to pay a certain minimum royalty does not in itself amount to price fixing.

100. When royalties are calculated on the basis of individual product sales, the amount of the royalty has a direct impact on the marginal cost of the product and thus a direct impact on product prices [56]. Competitors can therefore use cross licensing with reciprocal running royalties as a means of coordinating and/or increasing

[56] See in this respect point 98 of the Guidelines on the application of Article 81(3) of the Treaty cited in footnote 3.

prices on downstream product markets ([57]). However, the Commission will only treat cross licences with reciprocal running royalties as price fixing where the agreement is devoid of any pro-competitive purpose and therefore does not constitute a bona fide licensing arrangement. In such cases where the agreement does not create any value and therefore has no valid business justification, the arrangement is a sham and amounts to a cartel.

101. The hardcore restriction contained in Article 4(1)(a) TTBER also covers agreements whereby royalties are calculated on the basis of all product sales irrespective of whether the licensed technology is being used. Such agreements are also caught by Article 4(1)(d) according to which the licensee must not be restricted in its ability to use its own technology rights (see point (116) of these guidelines). In general such agreements restrict competition since the agreement raises the cost of using the licensee's own competing technology rights and restricts competition that existed in the absence of the agreement ([58]). This is so both in the case of reciprocal and non-reciprocal arrangements.

102. Exceptionally, however, an agreement whereby royalties are calculated on the basis of all product sales may fulfil the conditions of Article 101(3) in an individual case where on the basis of objective factors it can be concluded that the restriction is indispensable for pro-competitive licensing to occur. This may be the case where in the absence of the restraint it would be impossible or unduly difficult to calculate and monitor the royalty payable by the licensee, for instance because the licensor's technology leaves no visible trace on the final product and practicable alternative monitoring methods are unavailable.

Output restrictions between competitors

103. The hardcore restriction of competition set out in Article 4(1)(b) TTBER concerns reciprocal output restrictions on the parties. An output restriction is a limitation on how much a party may produce and sell. Article 4(1)(b) does not apply to output limitations on the licensee in a non-reciprocal agreement or output limitations on one of the licensees in a reciprocal agreement provided that the output limitation only concerns products produced with the licensed technology. Article 4(1)(b) thus identifies as hardcore restrictions reciprocal output restrictions on the parties and output restrictions on the licensor in respect of its own technology. When competitors agree to impose reciprocal output limitations, the object and likely effect of the agreement is to reduce output in the market. The same is true of agreements that reduce the incentive of the parties to expand output, for example by applying reciprocal running royalties per unit which increase as output increases or by obliging each party to make payments if a certain level of output is exceeded.

104. The more favourable treatment of non-reciprocal quantity limitations is based on the consideration that a one-way restriction does not necessarily lead to a lower output on the market while the risk that the agreement is not a bona fide licensing arrangement is also lower when the restriction is non-reciprocal. When a licensee is willing to accept a one-way restriction, it is likely that the agreement leads to a real integration of complementary technologies or an efficiency enhancing integration of the licensor's superior technology with the licensee's productive assets. Similarly, in a reciprocal agreement an output restriction on only one of the licensees is likely to reflect the higher value of the technology licensed by one of the parties and may serve to promote pro-competitive licensing.

Market and customer allocation between competitors

105. The hardcore restriction of competition set out in Article 4(1)(c) TTBER concerns the allocation of markets and customers. Agreements whereby competitors share markets and customers have as their object the restriction of competition. An agreement whereby competitors agree, in a reciprocal agreement, not to produce in certain territories or not to sell actively and/or passively into certain territories or to certain customers reserved for the other party, is considered a hardcore restriction. Thus for instance reciprocal exclusive licensing between competitors is considered market sharing.

106. Article 4(1)(c) applies irrespective of whether the licensee remains free to use its own technology rights. Once the licensee has tooled up to use the licensor's technology to produce a given product, it may be costly to maintain a separate production line using another technology in order to serve customers covered by the restrictions. Moreover, given the anti-competitive potential of the restraints the licensee may have little incentive to produce under its own technology. Such restrictions are also highly unlikely to be indispensable for pro-competitive licensing to occur.

([57]) This is also the case where one party grants a licence to the other party and accepts to buy a physical input from the licensee. The purchase price can serve the same function as the royalty.

([58]) See in this respect Case 193/83, *Windsurfing International*, [1986] ECR 611, paragraph 67.

107. Under Article 4(1)(c)(i) it is not a hardcore restriction for the licensor in a non-reciprocal agreement to grant the licensee an exclusive licence to produce on the basis of the licensed technology in a particular territory and thus agree not to produce itself the contract products in or provide the contract products from that territory. Such exclusive licences are block exempted irrespective of the scope of the territory. If the licence is world-wide, the exclusivity implies that the licensor will abstain from entering or remaining on the market. The block exemption also applies if in a non-reciprocal agreement the licensee is not allowed to produce in an exclusive territory reserved for the licensor. The purpose of such agreements may be to give the licensor and/or licensee an incentive to invest in and develop the licensed technology. The object of the agreement is therefore not necessarily to share markets.

108. According to Article 4(1)(c)(i) and for the same reason, the block exemption also applies to non-reciprocal agreements whereby the parties agree not to sell actively or passively into an exclusive territory or to an exclusive customer group reserved for the other party. For the application of the TTBER, the Commission interprets 'active' and 'passive' sales as defined in the Guidelines on Vertical Restraints. [59] Restrictions on licensee or licensor to sell actively and/or passively into the other party's territory or customer group are only block exempted if that territory or customer group has been exclusively reserved to that other party. However, in some specific circumstances, agreements containing such sales restrictions may, in an individual case, also fulfil the conditions of Article 101(3) if the exclusivity is shared on an ad hoc basis, for instance if necessary to alleviate a temporary shortage in the production of the licensor or licensee to which the territory or customer group is exclusively allocated. In such cases, the licensor or licensee is still likely to be sufficiently protected against active and/or passive sales to have the incentive to license its technology or invest to work with the licensed technology. Such restraints, even where restrictive of competition, would promote pro-competitive dissemination and integration of that technology into the production assets of the licensee.

109. By implication the fact that the licensor appoints the licensee as its sole licensee in a particular territory, implying that third parties will not be licensed to produce on the basis of the licensor's technology in the territory in question, does not constitute a hardcore restriction either. In the case of such sole licences the block exemption applies irrespective of whether the agreement is reciprocal or not given that the agreement does not affect the ability of the parties to fully exploit their own technology rights in their respective territories.

110. Article 4(1)(c)(ii) excludes from the hardcore list, and thus block exempts up to the market share threshold, restrictions in a non-reciprocal agreement on active sales by a licensee into the territory or to the customer group allocated by the licensor to another licensee. However, this presupposes that the protected licensee was not a competitor of the licensor when the agreement was concluded. It is not warranted to treat such restrictions in that situation as hardcore restrictions. By allowing the licensor to grant a licensee, who was not already on the market, protection against active sales by licensees which are competitors of the licensor and which for that reason were already established on the market, such restrictions are likely to induce the licensee to exploit the licensed technology more efficiently. On the other hand, if the licensees were to agree between themselves not to sell actively or passively into certain territories or to certain customer groups, the agreement would amount to a cartel amongst the licensees. Given that such an agreement does not involve any transfer of technology it would in addition fall outside the scope of the TTBER.

111. Article 4(1)(c)(iii) contains a further exception to the hardcore restriction of Article 4(1)(c), namely captive use restrictions, that is to say, requirements whereby the licensee may produce the products incorporating the licensed technology only for its own use. Where the contract product is a component the licensee can thus be obliged to produce that component only for incorporation into its own products and can be obliged not to sell the components to other producers. The licensee must be able, however, to sell the components as spare parts for its own products and must thus be able to supply third parties that perform after sale services on these products. Captive use restrictions may be necessary to encourage the dissemination of technology, particularly between competitors, and are covered by the block exemption. Such restrictions are also dealt with in section 4.2.5.

112. Finally, Article 4(1)(c)(iv) excludes from the hardcore list an obligation on the licensee in a non-reciprocal agreement to produce the contract products only for a particular customer with a view to creating an alternative source of supply for that customer. It is thus a condition for the application of Article 4(1)(c)(iv) that the licence is limited to creating an alternative source of supply for that particular customer. It is not a condition, however, that only one such licence is granted. Article 4(1)(c)(iv) also covers situations where more than one undertaking is licensed to supply the same specified customer.

[59] OJ C 130, 19.5.2010, p. 1, point 51.

Article 4(1)(c)(iv) applies regardless of the duration of the licence agreement. For instance, a one-off licence to fulfil the requirements of a project of a particular customer is covered by this exception. The potential of such agreements to share markets is limited where the licence is granted only for the purpose of supplying a particular customer. In such circumstances it can, in particular, not be assumed that the agreement will cause the licensee to cease exploiting its own technology.

113. Restrictions in agreements between competitors that limit the licence to one or more product markets or technical fields of use [60] are not hardcore restrictions. Such restrictions are block exempted up to the market share threshold of 20 % irrespective of whether the agreement is reciprocal or not. Such restrictions are not considered to have as their object the allocation of markets or customers. It is a condition for the application of the block exemption, however, that the field of use restrictions do not go beyond the scope of the licensed technologies. For instance, where licensees are also limited in the technical fields in which they can use their own technology rights, the agreement amounts to market sharing.

114. The block exemption applies irrespective of whether the field of use restriction is symmetrical or asymmetrical. An asymmetrical field of use restriction in a reciprocal licence agreement implies that both parties are allowed to use the respective technologies that they license-in only within different fields of use. As long as the parties are unrestricted in the use of their own technologies, there is no assumption that the agreement leads the parties to abandon or refrain from entering the field(s) covered by the licence to the other party. Even if the licensees tool up to use the licensed technology within the licensed field of use, there may be no impact on assets used to produce outside the scope of the licence. It is important in this regard that the restriction relates to distinct product markets, industrial sectors or fields of use and not to customers, allocated by territory or by group, who purchase products falling within the same product market or technical field of use. The risk of market sharing is considered substantially greater in the latter case (see point (106) above). In addition, field of use restrictions may be necessary to promote pro-competitive licensing (see point (212) below).

Restrictions on the parties' ability to carry out research and development

115. The hardcore restriction of competition set out in Article 4(1)(d) covers restrictions on any of the parties' ability to carry out research and development. Both parties must be free to carry out independent research and development. This rule applies irrespective of whether the restriction applies to a field covered by the licence or to other fields. However, the mere fact that the parties agree to provide each other with future improvements of their respective technologies does not amount to a restriction on independent research and development. The effect on competition of such agreements must be assessed in the light of the circumstances of the individual case. Article 4(1)(d) also does not extend to restrictions on a party to carry out research and development with third parties, where such restriction is necessary to protect the licensor's know-how against disclosure. In order to be covered by the exception, the restrictions imposed to protect the licensor's know-how against disclosure must be necessary and proportionate to ensure such protection. For instance, where the agreement designates particular employees of the licensee to be trained in and responsible for the use of the licensed know-how, it may be sufficient to oblige the licensee not to allow those employees to be involved in research and development with third parties. Other safeguards may be equally appropriate.

Restrictions on the use of the licensee's own technology

116. According to Article 4(1)(d) the licensee must also be unrestricted in the use of its own competing technology rights provided that in doing so it does not make use of the technology rights licensed from the licensor. In relation to its own technology rights the licensee must not be subject to limitations in terms of where it produces or sells, the technical fields of use or product markets within which it produces, how much it produces or sells and the price at which it sells. It must also not be obliged to pay royalties on products produced on the basis of its own technology rights (see point (101)). Moreover, the licensee must not be restricted in licensing its own technology rights to third parties. When restrictions are imposed on the licensee's use of its own technology rights or its right to carry out research and development, the competitiveness of the licensee's technology is reduced. The effect of this is to reduce competition on existing product and technology markets and to reduce the licensee's incentive to invest in the development and improvement of its technology. Article 4(1)(d) does not extend to restrictions on the licensee's use of third party technology which competes with the licensed technology. Although such non-compete obligations may have foreclosure effects on third party

[60] Field of use restrictions are further dealt with in points (208) ff.

technologies (see section 4.2.7), they usually do not have the effect of reducing the incentive of licensees to invest in the development and improvement of their own technologies.

3.4.3. *Agreements between non-competitors*

117. Article 4(2) TTBER lists the hardcore restrictions for licensing between non-competitors. According to this provision, the TTBER does not cover agreements which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object any of the following:

(a) the restriction of a party's ability to determine its prices when selling products to third parties, without prejudice to the possibility to impose a maximum sale price or recommend a sale price, provided that it does not amount to a fixed or minimum sale price as a result of pressure from, or incentives offered by, any of the parties;

(b) the restriction of the territory into which, or of the customers to whom, the licensee may passively sell the contract products, except:

(i) the restriction of passive sales into an exclusive territory or to an exclusive customer group reserved for the licensor;

(ii) the obligation to produce the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products;

(iii) the obligation to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer;

(iv) the restriction of sales to end users by a licensee operating at the wholesale level of trade;

(v) the restriction of sales to unauthorised distributors by the members of a selective distribution system;

(c) the restriction of active or passive sales to end users by a licensee which is a member of a selective distribution system and which operates at the retail level, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorised place of establishment.

Price fixing

118. The hardcore restriction of competition set out in Article 4(2)(a) concerns the fixing of prices charged when selling products to third parties. More specifically, that provision covers restrictions which have as their direct or indirect object the establishment of a fixed or a minimum selling price or a fixed or minimum price level to be observed by the licensor or the licensee when selling products to third parties. In the case of agreements that directly establish the selling price, the restriction is clear-cut. However, the fixing of selling prices can also be achieved through indirect means. Examples of the latter are agreements fixing margins, fixing the maximum level of discounts, linking the sales price to the sales prices of competitors, threats, intimidation, warnings, penalties, or contract terminations in relation to observance of a given price level. Direct or indirect means of achieving price fixing can be made more effective when combined with measures to identify price-cutting, such as the implementation of a price monitoring system, or the obligation on licensees to report price deviations. Similarly, direct or indirect price fixing can be made more effective when combined with measures that reduce the licensee's incentive to lower its selling price, such as the licensor obliging the licensee to apply a most-favoured-customer clause, that is to say, an obligation to grant a customer any more favourable terms granted to any other customer. The same means can be used to make maximum or recommended prices work as fixed or minimum selling prices. However, the provision of a list of recommended prices to or the imposition of a maximum price on the licensee by the licensor is not considered in itself as leading to fixed or minimum selling prices.

Restrictions on passive sales by the licensee

119. Article 4(2)(b) identifies as hardcore restrictions of competition agreements or concerted practices that have as their direct or indirect object the restriction of passive sales [61] by licensees of products incorporating the licensed technology [62]. Passive sales restrictions on the licensee may be the result of direct obligations, such

(61) For a definition of passive sales, see point (108) of these guidelines and the Guidelines on Vertical Restraints cited in footnote 52, point 51.

(62) This hardcore restriction applies to technology transfer agreements concerning trade within the Union. In so far as technology transfer agreements concern exports outside the Union or imports/re-imports from outside the Union see judgment of the Court of Justice in Case C-306/96, *Javico* v *Yves Saint Laurent* [1998] ECR I-1983. In that judgment the ECJ held in paragraph 20 that 'an agreement in which the reseller gives to the producer an undertaking that it will sell the contractual products on a market outside the Community cannot be regarded as having the object of appreciably restricting competition within the common market or as being capable of affecting, as such, trade between Member States'.

as the obligation not to sell to certain customers or to customers in certain territories or the obligation to refer orders from these customers to other licensees. It may also result from indirect measures aimed at inducing the licensee to refrain from making such sales, such as financial incentives and the implementation of a monitoring system aimed at verifying the effective destination of the licensed products. Quantity limitations may be an indirect means to restrict passive sales. The Commission will not assume that quantity limitations as such serve this purpose. However, it will assume otherwise where quantity limitations are used to implement an underlying market partitioning agreement. Indications thereof include the adjustment of quantities over time to cover only local demand, the combination of quantity limitations and an obligation to sell minimum quantities in the territory, as well as minimum royalty obligations linked to sales in the territory, differentiated royalty rates depending on the destination of the products and the monitoring of the destination of products sold by individual licensees. The general hardcore restriction covering passive sales by licensees is subject to a number of exceptions, which are dealt with in points (120) to (125).

120. Exception 1: Article 4(2)(b) does not cover sales restrictions (both active and passive) on the licensor. All sales restrictions on the licensor are block exempted up to the market share threshold of 30 %. The same applies to all restrictions on active sales by the licensee, with the exception of what is said on active selling in point (125). The block exemption of restrictions on active selling is based on the assumption that such restrictions promote investments, non-price competition and improvements in the quality of services provided by the licensees by solving free rider problems and hold-up problems. In the case of restrictions of active sales between licensees' territories or customer groups, it is not necessary that the protected licensee has been granted an exclusive territory or an exclusive customer group. The block exemption also applies to active sales restrictions where more than one licensee has been appointed for a particular territory or customer group. Efficiency enhancing investment is likely to be promoted where a licensee can be sure that it will only face active sales competition from a limited number of licensees inside the territory and not also from licensees outside the territory.

121. Exception 2: Restrictions on active and passive sales by licensees into an exclusive territory or to an exclusive customer group reserved for the licensor do not constitute hardcore restrictions of competition (see Article 4(2)(b)(i)) and are block exempted. It is presumed that up to the market share threshold such restraints, where restrictive of competition, promote pro-competitive dissemination of technology and integration of such technology into the production assets of the licensee. For a territory or customer group to be reserved for the licensor, the licensor does not actually have to be producing with the licensed technology in the territory or for the customer group in question. A territory or customer group can also be reserved by the licensor for later exploitation.

122. Exception 3: Article 4(2)(b)(ii) brings under the block exemption a restriction whereby the licensee is obliged to produce products incorporating the licensed technology only for its own (captive) use. Where the contract product is a component the licensee can thus be obliged to use that product only for incorporation into its own products and can be obliged not to sell the product to other producers. The licensee must however be able to actively and passively sell the products as spare parts for its own products and must thus be able to supply third parties that perform after sale services on these products. Captive use restrictions are also dealt with in section 4.2.5.

123. Exception 4: As in the case of agreements between competitors (see point (112) above) the block exemption also applies to agreements whereby the licensee is obliged to produce the contract products only for a particular customer in order to provide that customer with an alternative source of supply, regardless of the duration of the licence agreement (cf. Article 4(2)(b)(iii)). In the case of agreements between non-competitors, such restrictions are unlikely to be caught by Article 101(1) of the Treaty.

124. Exception 5: Article 4(2)(b)(iv) brings under the block exemption an obligation on the licensee, if operating at the wholesale level of trade, not to sell to end users and thus only to sell to retailers. Such an obligation allows the licensor to assign the licensee to the wholesale distribution function and normally falls outside Article 101(1) ([63]).

125. Exception 6: Finally Article 4(2)(b)(v) brings under the block exemption a restriction on the licensee not to sell to unauthorised distributors. This exception allows the licensor to impose an obligation on the licensees to form part of a selective distribution system. In that case, however, the licensees must according to Article 4(2)(c) be permitted to sell both actively and passively to end users, without prejudice to the possibility to restrict the licensee to a wholesale function as provided for in Article 4(2)(b)(iv) (see point (124)). Within the territory where the licensor operates a selective distribution system, this system may not be combined with exclusive territories or exclusive customer groups where this would lead to a restriction of active or passive sales to end-users as that would lead to a hardcore restriction under Article 4(2)(c), without prejudice to the possibility of prohibiting a licensee from operating out of an unauthorised place of establishment.

([63]) See in this respect Case 26/76, *Metro (I)*, [1977] ECR 1875.

126. Restrictions on passive sales by licensees into an exclusive territory or customer group allocated to another licensee, while normally a hardcore restriction, may fall outside Article 101(1) of the Treaty for a certain duration if the restraints are objectively necessary for the protected licensee to penetrate a new market. This may be the case where licensees have to commit substantial investments in production assets and promotional activities in order to start up and develop a new market. The risks facing a new licensee may therefore be substantial, in particular since promotional expenses and investment in assets required to produce on the basis of a particular technology are often sunk, that is to say, that upon leaving that particular field of activity the investment cannot be used by the licensee for other activities or sold other than at a significant loss. For instance, the licensee may be the first to produce and sell a new type of product or the first to apply a new technology. In such circumstances, it is often the case that licensees would not enter into the licence agreement without protection for a certain period of time against (active and) passive sales into their territory or to their customer groups by other licensees. Where substantial investments by the licensee are necessary to start up and develop a new market, restrictions of passive sales by other licensees into such a territory or to such a customer group fall outside Article 101(1) for the period necessary for the licensee to recoup those investments. In most cases a period of up to two years from the date on which the contract product was first put on the market in the exclusive territory by the licensee in question or sold to its exclusive customer group would be considered sufficient for the licensee to recoup the investments made. However, in an individual case a longer period of protection for the licensee might be necessary in order for the licensee to recoup the costs incurred.

127. Similarly, a prohibition imposed on all licensees not to sell to certain categories of end users may not be restrictive of competition if such a restraint is objectively necessary for reasons of safety or health related to the dangerous nature of the product in question.

3.5. **Excluded restrictions**

128. Article 5 of the TTBER lists three types of restrictions that are not block exempted and which thus require individual assessment of their anti-competitive and pro-competitive effects. The purpose of Article 5 is to avoid block exemption of agreements that may reduce the incentive to innovate. It follows from Article 5 that the inclusion in a licence agreement of any of the restrictions contained in that Article does not prevent the application of the block exemption to the rest of the agreement, if the remainder is severable from the excluded restriction(s). It is only the individual restriction in question that is not covered by the block exemption, implying that individual assessment is required.

Exclusive grant backs

129. Article 5(1)(a) TTBER concerns exclusive grant backs (that is to say an exclusive licence back to the licensor of the licensee's improvement) or assignments to the licensor of improvements of the licensed technology. An obligation to grant the licensor an exclusive licence to improvements of the licensed technology or to assign such improvements to the licensor is likely to reduce the licensee's incentive to innovate since it hinders the licensee in exploiting the improvements, including by way of licensing to third parties. An exclusive grant back is defined as a grant back which prevents the licensee (which is the innovator and licensor of the improvement in this case) from exploiting the improvement (either for its own production or for licensing out to third parties). This is the case both where the improvement concerns the same application as the licensed technology and where the licensee develops new applications of the licensed technology. According to Article 5(1)(a) such obligations are not covered by the block exemption.

130. The application of Article 5(1)(a) does not depend on whether or not the licensor pays consideration in return for acquiring the improvement or for obtaining an exclusive licence. However, the existence and level of such consideration may be a relevant factor in the context of an individual assessment under Article 101. When grant backs are made against consideration it is less likely that the obligation creates a disincentive for the licensee to innovate. In the assessment of exclusive grant backs outside the scope of the block exemption the market position of the licensor on the technology market is also a relevant factor. The stronger the position of the licensor, the more likely it is that exclusive grant back obligations will have restrictive effects on competition in innovation. The stronger the position of the licensor's technology the more important it is that the licensee can become an important source of innovation and future competition. The negative impact of grant back obligations can also be increased in case of parallel networks of licence agreements containing such obligations. When available technologies are controlled by a limited number of licensors that impose exclusive grant back obligations on licensees, the risk of anti-competitive effects is greater than where there are a number of technologies only some of which are licensed on exclusive grant back terms.

131. Non-exclusive grant back obligations are covered by the safe harbour of the TTBER. This is the case even where they are non-reciprocal, that is to say, only imposed on the licensee, and where under the agreement the licensor is entitled to feed-on the improvements to other licensees. A non-reciprocal grant back obligation may promote the dissemination of new technology by permitting the licensor to freely determine whether and to what extent to pass on its own improvements to its licensees. A feed-on clause may also promote the dissemination of technology, in particular when each licensee knows at the time of contracting that it will be on an equal footing with other licensees in terms of the technology on the basis of which it is producing.

132. Non-exclusive grant back obligations may in particular have negative effects on innovation in the case of cross licensing between competitors where a grant back obligation on both parties is combined with an obligation on both parties to share improvements of its own technology with the other party. The sharing of all improvements between competitors may prevent each competitor from gaining a competitive lead over the other (see also point (241) below). However, the parties are unlikely to be prevented from gaining a competitive lead over each other where the purpose of the licence is to permit them to develop their respective technologies and where the licence does not lead them to use the same technological base in the design of their products. This is the case where the purpose of the licence is to create design freedom rather than to improve the technological base of the licensee.

Non-challenge and termination clauses

133. The excluded restriction set out in Article 5(1)(b) TTBER concerns non-challenge clauses, that is to say, direct or indirect obligations not to challenge the validity of the licensor's intellectual property, without prejudice to the possibility, in the case of an exclusive licence, for the licensor to terminate the technology transfer agreement in the event that the licensee challenges the validity of any of the licensed technology rights.

134. The reason for excluding non-challenge clauses from the scope of the block exemption is the fact that licensees are normally in the best position to determine whether or not an intellectual property right is invalid. In the interest of undistorted competition and in accordance with the principles underlying the protection of intellectual property, invalid intellectual property rights should be eliminated. Invalid intellectual property stifles innovation rather than promoting it. Article 101(1) of the Treaty is likely to apply to non-challenge clauses where the licensed technology is valuable and therefore creates a competitive disadvantage for undertakings that are prevented from using it or are only able to use it against payment of royalties. In such cases the conditions of Article 101(3) are unlikely to be fulfilled. However, if the licensed technology is related to a technically outdated process which the licensee does not use, or if the licence is granted for free, no restriction of competition arises [64]. As to non-challenge clauses in the context of settlement agreements see points (242) and (243).

135. Generally a clause obliging the licensee not to challenge the ownership of the technology rights does not constitute a restriction of competition within the meaning of Article 101(1). Whether or not the licensor has the ownership of the technology rights, the use of the technology by the licensee and any other party is dependent on obtaining a licence in any event, and competition would thus generally not be affected [65].

136. Article 5(1)(b) TTBER also excludes from the safe harbour of the block exemption the right, in the context of non-exclusive licences, for the licensor to terminate the agreement in the event that the licensee challenges the validity of any of the intellectual property rights that the licensor holds in the Union. Such a termination right can have the same effect as a non-challenge clause, in particular where switching away from the licensor's technology would result in a significant loss to the licensee (for example where the licensee has already invested in specific machines or tools which cannot be used for producing with another technology) or where the licensor's technology is a necessary input for the licensee's production. For example, in the context of standard essential patents the licensee producing a standard compliant product will necessarily have to use all patents reading on the standard. In such a case, challenging the validity of the relevant patents may result in a significant loss if the technology transfer agreement is terminated. Where the licensor's technology is not standard essential, but has a very significant market position, the disincentive to challenge may also be high considering the difficulty for the licensee in finding a viable alternative technology to license-in. The question whether the licensee's loss of profit would be significant, and therefore act as a strong disincentive to challenge, would need to be assessed on a case by case basis.

137. In the scenarios described in point (136), the licensee may be deterred from challenging the validity of the intellectual property right if it would risk the termination of the licensing agreement and thus face significant risks which go far beyond its royalty obligations. However, it should also be noted that, outside the context of these scenarios a termination clause will often not provide a significant disincentive to challenge and therefore not produce the same effect as a non-challenge clause.

(64) See in this respect Case 65/86, *Bayer* v *Süllhofer*, [1988] ECR 5249.

(65) Cf. in respect of challenging the ownership of a trademark Commission Decision in *Moosehead/Whitbread* (OJ L 100, 20.4.1990, p. 32).

138. The public interest of strengthening the incentive of the licensor to license out by not being forced to continue dealing with a licensee that challenges the very subject matter of the licence agreement has to be balanced against the public interest to eliminate any obstacle to economic activity which may arise where an intellectual property right was granted in error [66]. In balancing those interests it should be taken into account whether the licensee fulfils all the obligations under the agreement at the time of the challenge, in particular the obligation to pay the agreed royalties.

139. In the case of exclusive licensing, termination clauses are usually less likely on balance to have anti-competitive effects. Once the licence is granted, the licensor may find itself in a particular situation of dependency, as the licensee will be its only source of income as regards the licensed technology rights if royalties are dependent on production with the licensed technology rights, as may often be an efficient way to structure royalty payments. In this scenario, the incentives for innovation and for licensing out could be undermined if, for example, the licensor were to be locked into an agreement with an exclusive licensee which no longer makes significant efforts to develop, produce and market the product (to be) produced with the licensed technology rights [67]. This is why the TTBER block exempts termination clauses for exclusive licensing agreements as long as also the other conditions of the safe harbour, such as respecting the market share threshold, are fulfilled. Outside the safe harbour, a case by case assessment has to be carried out taking into account the different interests as described in point (138).

140. Moreover, the Commission takes a more favourable view of non-challenge and termination clauses relating to know-how where the recovery of the licensed know-how is likely to be impossible or very difficult once it is disclosed. In such cases, an obligation on the licensee not to challenge the licensed know-how promotes dissemination of new technology, in particular by allowing weaker licensors to license stronger licensees without fear of a challenge once the know-how has been absorbed by the licensee. Therefore, non-challenge and termination clauses solely concerning know-how are not excluded from the scope of the TTBER.

Limiting the licensee's use or development of its own technology (between non-competitors)

141. In the case of agreements between non-competitors, Article 5(2) excludes from the scope of the block exemption any direct or indirect obligation limiting the licensee's ability to exploit its own technology rights or limiting the ability of the parties to the agreement to carry out research and development, unless that restriction is indispensable to prevent the disclosure of licensed know-how to third parties. The content of this condition is the same as that of Article 4(1)(d) of the hardcore list concerning agreements between competitors, which is dealt with in points (115) and (116) of these guidelines. However, in the case of agreements between non-competitors it cannot be considered that such restrictions generally have negative effects on competition, or that the conditions of Article 101(3) of the Treaty are generally not satisfied [68]. Individual assessment is therefore required.

142. In the case of agreements between non-competitors, the licensee normally does not own a competing technology. However, there may be cases where for the purposes of the block exemption the parties are considered non-competitors despite the fact that the licensee does own a competing technology. This is the case where the licensee owns a technology but does not license it and the licensor is not an actual or potential supplier on the product market. For the purposes of the block exemption, in such circumstances, the parties are neither competitors on the technology market nor competitors on the downstream product market [69]. In such cases it is important to ensure that the licensee is not restricted in its ability to exploit its own technology and further develop it. This technology constitutes a competitive constraint in the market, which should be preserved. In such a situation restrictions on the licensee's use of its own technology rights or on research and development are normally considered to be restrictive of competition and not to satisfy the conditions of Article 101(3) of the Treaty. For instance, an obligation on the licensee to pay royalties not only on the basis of products it produces with the licensed technology but also on the basis of products it produces only with its own technology will generally limit the ability of the licensee to exploit its own technology and thus be excluded from the scope of the block exemption.

143. In cases where the licensee does not own a competing technology or is not already developing such a technology, a restriction on the ability of the parties to carry out independent research and development may be restrictive of competition where only a few technologies are available. In that case the parties may be an important (potential) source of innovation in the market. This is particularly so where the parties possess the necessary assets and skills to carry out further research and development. In that case the conditions of Article 101(3) of the Treaty are unlikely to be fulfilled. In other cases where a number of technologies are available and where the parties do not possess special assets or skills, the restriction on research and development is likely either to fall outside Article 101(1) for lack of an appreciable restrictive effect or to satisfy the conditions of Article 101(3). The restraint may promote the dissemination of new technology by assuring the licensor that the licence does not create a new competitor and by inducing the licensee to focus on the exploitation and development of the licensed technology. Moreover, Article 101(1) only applies where the agreement reduces

(66) Case 193/83 *Windsurfing International* [1986] ECR 611, paragraph 92.

(67) In the context of an agreement which is technically not an exclusive agreement, and where a termination clause is thus not covered by the safe harbour of the TTBER, the licensor may, in a specific case, be in a similar situation of dependency in relation to a licensee with considerable buyer power. Such dependency will be taken into account in the individual assessment.

(68) See point (14) above.

(69) See point (36) above.

the licensee's incentive to improve and exploit its own technology. This is, for instance, not likely to be the case where the licensor is entitled to terminate the licence agreement once the licensee commences to produce on the basis of its own competing technology. Such a right does not reduce the licensee's incentive to innovate, since the agreement can only be terminated when a commercially viable technology has been developed and products produced on the basis thereof are ready to be put on the market.

3.6. **Withdrawal and non-application of the Block Exemption Regulation**

3.6.1. *Withdrawal procedure*

144. According to Article 6 of the TTBER, the Commission and the competition authorities of the Member States may withdraw the benefit of the block exemption in respect of individual agreements that are likely to have anticompetitive effects (account must be taken of both actual and potential effects) and do not fulfil the conditions of Article 101(3) of the Treaty. The power of the competition authorities of the Member States to withdraw the benefit of the block exemption is limited to cases where the relevant geographic market is no wider than the territory of the Member State in question.

145. The four conditions of Article 101(3) are cumulative and must all be fulfilled for the exception rule to be applicable [70]. The block exemption can therefore be withdrawn where a particular agreement fails to fulfil one or more of the four conditions.

146. Where the withdrawal procedure is applied, the withdrawing authority bears the burden of proving that the agreement falls within the scope of Article 101(1) and that the agreement does not satisfy all four conditions of Article 101(3). Given that withdrawal implies that the agreement in question restricts competition within the meaning of Article 101(1) and does not fulfil the conditions of Article 101(3), withdrawal is necessarily accompanied by a negative decision based on Articles 5, 7 or 9 of Regulation (EC) No 1/2003.

147. According to Article 6 of the TTBER, withdrawal may in particular be warranted in the following circumstances:

(a) access of third parties' technologies to the market is restricted, for instance by the cumulative effect of parallel networks of similar restrictive agreements prohibiting licensees from using third parties' technologies;

(b) access of potential licensees to the market is restricted, for instance by the cumulative effect of parallel networks of similar restrictive agreements preventing licensors from licensing to other licensees or because the only technology owner licensing out relevant technology rights concludes an exclusive license with a licensee who is already active on the product market on the basis of substitutable technology rights. In order to qualify as relevant, the technology rights need to be both technically and commercially substitutable in order for the licensee to be active on the relevant product market.

148. Articles 4 and 5 of the TTBER, containing the list of hardcore restrictions of competition and excluded restrictions, aim at ensuring that block exempted agreements do not reduce the incentive to innovate, do not delay the dissemination of technology, and do not unduly restrict competition between the licensor and licensee or between licensees. However, the list of hardcore restrictions and the list of excluded restrictions do not take into account all the possible impacts of licence agreements. In particular, the block exemption does not take account of any cumulative effect of similar restrictions contained in networks of licence agreements. Licence agreements may lead to foreclosure of third parties both at the level of the licensor and at the level of the licensee. Foreclosure of other licensors may stem from the cumulative effect of networks of licence agreements prohibiting the licensees from exploiting competing technologies, leading to the exclusion of other (potential) licensors. Foreclosure of licensors is likely to arise in cases where most of the undertakings on the market that could (efficiently) take a competing licence are prevented from doing so as a consequence of restrictive agreements and where potential licensees face relatively high barriers to entry. Foreclosure of other licensees may stem from the cumulative effect of licence agreements prohibiting licensors from licensing other licensees and thereby preventing potential licensees from gaining access to the necessary technology. The issue of foreclosure is examined in more detail in sections 4.2.2 and 4.2.7. In addition, the Commission is likely to withdraw the benefit of the block exemption where, in individual agreements,

[70] See in this respect point 42 of the Guidelines on the application of Article 81(3) of the Treaty, cited in footnote 3.

a significant number of licensors of competing technologies impose on their licensees to extend to them more favourable conditions agreed with other licensors.

3.6.2. *Non-application of the Block Exemption Regulation*

149. Article 7 of the TTBER enables the Commission to exclude from the scope of the TTBER, by means of regulation, parallel networks of similar agreements where these cover more than 50 % of a relevant market. Such a measure is not addressed to individual undertakings but concerns all undertakings whose agreements are defined in the regulation declaring that the TTBER is not to apply.

150. Whereas withdrawal of the benefit of the TTBER by the Commission under Article 6 implies the adoption of a decision pursuant to Articles 7 or 9 of Regulation (EC) No 1/2003, the effect of a Commission regulation pursuant to Article 7 of the TTBER declaring that the TTBER is not to apply, is merely to remove the benefit of the TTBER and to restore the full application of Article 101(1) and (3) of the Treaty in respect of the restraints and the markets concerned. Following the adoption of a regulation declaring the TTBER not applicable for a particular market in respect of agreements containing certain restraints, the criteria developed by the relevant case law of the Union Courts and by notices and previous decisions adopted by the Commission will give guidance on the application of Article 101 to individual agreements. Where appropriate, the Commission will take a decision in an individual case, which can provide guidance to all the undertakings operating on the market concerned.

151. For the purpose of calculating the 50 % market coverage ratio, account must be taken of each individual network of licence agreements containing restraints, or combinations of restraints, producing similar effects on the market.

152. Article 7 TTBER does not entail an obligation on the part of the Commission to act where the 50 % market-coverage ratio is exceeded. In general, the adoption of a regulation pursuant to Article 7 is appropriate when it is likely that access to the relevant market or competition in that market is appreciably restricted. In assessing the need to apply Article 7, the Commission will consider whether individual withdrawal would be a more appropriate remedy. This may depend, in particular, on the number of competing undertakings contributing to a cumulative effect on a market or the number of affected geographic markets within the Union.

153. Any regulation adopted under Article 7 must clearly set out its scope. Therefore the Commission must first define the relevant product and geographic market(s) and, secondly, identify the type of licensing restraint in respect of which the TTBER will no longer apply. As regards the latter aspect, the Commission may modulate the scope of the regulation according to the competition concern which it intends to address. For instance, while all parallel networks of non-compete arrangements will be taken into account for the purpose of establishing the 50 % market coverage ratio, the Commission may nevertheless restrict the scope of the regulation only to non-compete obligations exceeding a certain duration. Thus, agreements of a shorter duration or of a less restrictive nature might be left unaffected, due to the lesser degree of foreclosure attributable to such restraints. Where appropriate, the Commission may also provide guidance by specifying the market share level which, in the specific market context, may be regarded as insufficient to bring about a significant contribution by an individual undertaking to the cumulative effect. In general, when the market share of the products incorporating a technology licensed by an individual licensor does not exceed 5 %, the agreement or network of agreements covering that technology is not considered to contribute significantly to a cumulative foreclosure effect ([71]).

154. The transitional period of not less than six months that the Commission will have to set under Article 7(2) should allow the undertakings concerned to adapt their agreements to take account of the regulation declaring that the TTBER is not to apply.

155. A regulation declaring that the TTBER is not to apply will not affect the block exempted status of the agreements concerned for the period preceding its entry into force.

4. APPLICATION OF ARTICLE 101(1) AND 101(3) OF THE TREATY OUTSIDE THE SCOPE OF THE TTBER

4.1. **The general framework for analysis**

156. Agreements that fall outside the block exemption, for example because the market share thresholds are exceeded or the agreement involves more than two parties, are subject to individual assessment. Agreements that either do not restrict competition within the meaning of Article 101(1) of the Treaty or which fulfil the conditions of Article 101(3) are valid and enforceable. It is recalled that there is no presumption of illegality of agreements that fall outside the scope of the block exemption provided that they do not contain hardcore restrictions of competition. In particular, there is no presumption that Article 101(1) applies merely because the market share thresholds are exceeded. Individual assessment based on the principles described in these guidelines is always required.

Safe harbour if there are sufficient independently controlled technologies

157. In order to promote predictability beyond the application of the TTBER and to confine detailed analysis to cases that are likely to present real competition concerns, the Commission takes the view that outside the area

([71]) See in this respect point 8 of the Commission Notice on agreements of minor importance, cited in footnote 20.

of hardcore restrictions Article 101 of the Treaty is unlikely to be infringed where there are four or more independently controlled technologies in addition to the technologies controlled by the parties to the agreement that may be substitutable for the licensed technology at a comparable cost to the user. In assessing whether the technologies are sufficiently substitutable the relative commercial strength of the technologies in question must be taken into account. The competitive constraint imposed by a technology is limited if it does not constitute a commercially viable alternative to the licensed technology. For instance, if due to network effects in the market consumers have a strong preference for products incorporating the licensed technology, other technologies already on the market or likely to come to the market within a reasonable period of time may not constitute a real alternative and may therefore impose only a limited competitive constraint.

158. The fact that an agreement falls outside the safe harbour described in point (157) does not imply that the agreement is caught by Article 101(1) of the Treaty and, if so, that the conditions of Article 101(3) are not satisfied. As for the market share safe harbour of the TTBER, this additional safe harbour merely creates a presumption that the agreement is not prohibited by Article 101. Outside the safe harbour individual assessment of the agreement based on the principles developed in these guidelines is required.

4.1.1. *The relevant factors*

159. In the application of Article 101 of the Treaty to individual cases it is necessary to take due account of the way in which competition operates on the market in question. The following factors are particularly relevant in this respect:

(a) the nature of the agreement;

(b) the market position of the parties;

(c) the market position of competitors;

(d) the market position of buyers on the relevant markets;

(e) entry barriers and

(f) maturity of the market.

160. The importance of individual factors may vary from case to case and depends on all other factors. For instance, a high market share of the parties is usually a good indicator of market power, but in the case of low entry barriers it may not be indicative of market power. It is therefore not possible to provide firm rules on the importance of the individual factors.

161. Technology transfer agreements can take many shapes and forms. It is therefore important to analyse the nature of the agreement in terms of the competitive relationship between the parties and the restraints that it contains. In the latter regard it is necessary to go beyond the express terms of the agreement. The existence of implicit restraints may be derived from the way in which the agreement has been implemented by the parties and from the incentives that they face.

162. The market position of the parties, including any undertakings *de facto* or *de jure* controlled by the parties, provides an indication of the degree of market power, if any, possessed by the licensor, the licensee or both. The higher their market share the greater their market power is likely to be. This is particularly so where the market share reflects cost advantages or other competitive advantages vis-à-vis competitors. These competitive advantages may for instance result from being a first mover in the market, from holding essential patents or from having superior technology. However, market shares are always only one factor in assessing market positions. For instance, in particular in the case of technology markets, market shares may not always be a good indicator of the relative strength of the technology in question and the market share figures may differ considerably depending on the different calculation methods.

163. Market shares and possible competitive advantages and disadvantages are also used to assess the market position of competitors. The stronger the actual competitors and the greater their number the less risk there is that the parties will be able to exercise market power individually. However, if the number of competitors is rather small and their market position (size, costs, R&D potential, etc.) is rather similar, this market structure may increase the risk of collusion.

164. The market position of buyers provides an indication of whether or not one or more buyers possess buyer power. The first indicator of buyer power is the market share of the buyer on the purchase market. This share reflects the importance of its demand for possible suppliers. Other indicators focus on the position of the buyer on its resale market, including characteristics such as a wide geographic spread of its outlets, and its brand image amongst final consumers. In some circumstances buyer power may prevent the licensor and/or the licensee from exercising market power on the market and thereby solve a competition problem that would otherwise have existed. This is particularly so when strong buyers have the capacity and the incentive to bring new sources of supply on to the market in the case of a small but permanent increase in relative prices. Where the strong buyers merely extract favourable terms from the supplier or simply pass on any price increase to their customers, the position of the buyers is not such as to prevent the exercise of market power by the licensee on the product market and therefore not such as to solve the competition problem on that market ([72]).

165. Entry barriers are measured by the extent to which incumbent companies can increase their price above the competitive level without attracting new entry. In the absence of entry barriers, easy and quick entry would

([72]) See in this respect Case T-228/97, *Irish Sugar*, [1999] ECR II-2969, paragraph 101.

render price increases unprofitable. When effective entry, preventing or eroding the exercise of market power, is likely to occur within one or two years, entry barriers can, as a general rule, be said to be low.

166. Entry barriers may result from a wide variety of factors such as economies of scale and scope, government regulations, especially where they establish exclusive rights, state aid, import tariffs, intellectual property rights, ownership of resources where the supply is limited due to for instance natural limitations, essential facilities, a first mover advantage or brand loyalty of consumers created by strong advertising over a period of time. Restrictive agreements entered into by undertakings may also work as an entry barrier by making access more difficult and foreclosing (potential) competitors. Entry barriers may be present at all stages of the research and development, production and distribution process. The question whether certain of these factors should be described as entry barriers depends particularly on whether they entail sunk costs. Sunk costs are those costs which have to be incurred to enter or be active on a market but which are lost when the market is exited. The more costs are sunk, the more potential entrants have to weigh the risks of entering the market and the more credibly incumbents can threaten that they will match new competition, as sunk costs make it costly for incumbents to leave the market. In general, entry requires sunk costs, sometimes minor and sometimes major. Therefore, actual competition is in general more effective and will weigh more heavily in the assessment of a case than potential competition.

167. In a mature market, that is to say a market that has existed for some time, where the technology used is well known and widespread and not changing very much and in which demand is relatively stable or declining, restrictions of competition are more likely to have negative effects than in more dynamic markets.

168. In the assessment of particular restraints other factors may have to be taken into account. Such factors include cumulative effects, that is to say, the coverage of the market by similar agreements, the duration of the agreements, the regulatory environment and behaviour that may indicate or facilitate collusion such as price leadership, pre-announced price changes and discussions on the 'right' price, price rigidity in response to excess capacity, price discrimination and past collusive behaviour.

4.1.2. *Negative effects of restrictive licence agreements*

169. The negative effects on competition on the market that may result from restrictive technology transfer agreements include the following:

(a) reduction of inter-technology competition between the companies operating on a technology market or on a market for products incorporating the technologies in question, including facilitation of collusion, both explicit and tacit;

(b) foreclosure of competitors by raising their costs, restricting their access to essential inputs or otherwise raising barriers to entry; and

(c) reduction of intra-technology competition between undertakings that produce products on the basis of the same technology.

170. Technology transfer agreements may reduce inter-technology competition, that is to say, competition between undertakings that license or produce on the basis of substitutable technologies. This is particularly the case where reciprocal obligations are imposed. For instance, where competitors transfer competing technologies to each other and impose a reciprocal obligation to provide each other with future improvements of their respective technologies and where this agreement prevents either competitor from gaining a technological lead over the other, competition in innovation between the parties is restricted (see also point (241)).

171. Licensing between competitors may also facilitate collusion. The risk of collusion is particularly high in concentrated markets. Collusion requires that the undertakings concerned have similar views on what is in their common interest and on how the co-ordination mechanisms function. For collusion to work the undertakings must also be able to monitor each other's market behaviour and there must be adequate deterrents to ensure that there is an incentive not to depart from the common policy on the market, while entry barriers must be high enough to limit entry or expansion by outsiders. Agreements can facilitate collusion by increasing transparency in the market, by controlling certain behaviour and by raising barriers to entry. Collusion can also exceptionally be facilitated by licensing agreements that lead to a high degree of commonality of costs, because undertakings that have similar costs are more likely to have similar views on the terms of coordination [73].

172. Licence agreements may also affect inter-technology competition by creating barriers to entry for and expansion by competitors. Such foreclosure effects may stem from restraints that prevent licensees from licensing from third parties or create disincentives for them to do so. For instance, third parties may be

[73] See in this respect point 36 of the Guidelines on horizontal cooperation agreements, cited in footnote 27.

foreclosed where incumbent licensors impose non-compete obligations on licensees to such an extent that an insufficient number of licensees are available to third parties and where entry at the level of licensees is difficult. Suppliers of substitutable technologies may also be foreclosed where a licensor with a sufficient degree of market power ties together various parts of a technology and licenses them together as a package while only part of the package is essential to produce a certain product.

173. Licence agreements may also reduce intra-technology competition, that is to say, competition between undertakings that produce on the basis of the same technology. An agreement imposing territorial restraints on licensees, preventing them from selling into each other's territory reduces competition between them. Licence agreements may also reduce intra-technology competition by facilitating collusion between licensees. Moreover, licence agreements that reduce intra-technology competition may facilitate collusion between owners of competing technologies or reduce inter-technology competition by raising barriers to entry.

4.1.3. *Positive effects of restrictive licence agreements and the framework for analysing such effects*

174. Even restrictive licence agreements often also produce pro-competitive effects in the form of efficiencies, which may outweigh their anti-competitive effects. The assessment of the possible pro-competitive effects takes place within the framework of Article 101(3), which contains an exception from the prohibition rule of Article 101(1) of the Treaty. For that exception to be applicable the licence agreement must produce objective economic benefits, the restrictions on competition must be indispensable to attain the efficiencies, consumers must receive a fair share of the efficiency gains, and the agreement must not afford the parties the possibility of eliminating competition in respect of a substantial part of the products concerned. An undertaking that relies on Article 101(3) must demonstrate, by means of convincing arguments and evidence, that the conditions for obtaining an exemption are satisfied ([74]).

175. The assessment of restrictive agreements under Article 101(3) of the Treaty is made within the actual context in which they occur ([75]) and on the basis of the facts existing at any given point in time. The assessment is therefore sensitive to material changes in the facts. The exception rule of Article 101(3) applies as long as the four conditions are fulfilled and ceases to apply when that is no longer the case ([76]). However, when applying Article 101(3) it is necessary to take into account the initial sunk investments made by any of the parties and the time needed and the restraints required to commit and recoup an efficiency enhancing investment. Article 101 cannot be applied without considering the *ex ante* investment and the risks relating thereto. The risk facing the parties and the sunk investment that must be committed to implement the agreement can thus lead to the agreement falling outside Article 101(1) or fulfilling the conditions of Article 101(3), as the case may be, for the period of time required to recoup the investment.

176. The first condition of Article 101(3) of the Treaty requires an assessment of the objective benefits in terms of efficiencies produced by the agreement. In this respect, licence agreements have the potential of bringing together complementary technologies and other assets allowing new or improved products to be put on the market or existing products to be produced at lower cost. Outside the context of hardcore cartels, licensing often occurs because it is more efficient for the licensor to licence the technology than to exploit it itself. This may particularly be the case where the licensee already has access to the necessary production assets. The agreement then allows the licensee to gain access to a technology that can be combined with those assets, allowing it to exploit new or improved technologies. Another example of potentially efficiency enhancing licensing is where the licensee already has a technology and the combination of this technology and the licensor's technology gives rise to synergies. When the two technologies are combined the licensee may be able to attain a cost/output configuration that would not otherwise be possible. Licence agreements may also give rise to efficiencies at the distribution stage in the same way as vertical distribution agreements. Such efficiencies can take the form of cost savings or the provision of valuable services to consumers. The positive effects of vertical agreements are described in the Guidelines on Vertical Restraints ([77]). A further example of possible efficiency gains is to be found in agreements whereby technology owners assemble a technology package for licensing to third parties. Such pooling arrangements may in particular reduce transaction costs, as licensees do not have to conclude separate licence agreements with each licensor. Pro-competitive licensing

([74]) Joined Cases C-501/06 P, C-513/06 P, C-515/06 P and C-519/06 P *GlaxoSmithKline Services and Others* v *Commission and Others* [2009] ECR I-9291, paragraph 82.

([75]) See Joined Cases 25/84 and 26/84, *Ford*, [1985] ECR 2725; Joined Cases C-501/06 P, C-513/06 P, C-515/06 P and C-519/06 P *GlaxoSmithKline Services and Others* v *Commission and Others* [2009] ECR I-9291, paragraph 103.

([76]) See in this respect for example Commission Decision of 3 March 1999, *TPS* (OJ L 90, 2.4.1999, p. 6). Similarly, the prohibition of Article 101(1) also only applies as long as the agreement has a restrictive object or restrictive effects.

([77]) Cited in footnote 52. See in particular paragraphs 106 *et seq*.

may also occur to ensure design freedom. In sectors where large numbers of intellectual property rights exist and where individual products may infringe upon a number of existing and future property rights, licence agreements whereby the parties agree not to assert their property rights against each other are often pro-competitive because they allow the parties to develop their respective technologies without the risk of subsequent infringement claims.

177. In the application of the indispensability test contained in Article 101(3) of the Treaty the Commission will in particular examine whether individual restrictions make it possible to perform the activity in question more efficiently than would have been the case in the absence of the restriction concerned. In making this assessment the market conditions and the realities facing the parties must be taken into account. Undertakings invoking the benefit of Article 101(3) are not required to consider hypothetical and theoretical alternatives. They must, however, explain and demonstrate why seemingly realistic and significantly less restrictive alternatives would be significantly less efficient. If the application of what appears to be a commercially realistic and less restrictive alternative would lead to a significant loss of efficiencies, the restriction in question is treated as indispensable. In some cases, it may also be necessary to examine whether the agreement as such is indispensable to achieve the efficiencies. This may for example be so in the case of technology pools that include complementary but non-essential technologies ([78]), in which case it must be examined to what extent the inclusion of those technologies gives rise to particular efficiencies or whether, without a significant loss of efficiencies, the pool could be limited to technologies for which there are no substitutes. In the case of simple licensing between two parties it is generally not necessary to go beyond an examination of whether individual restraints are indispensable. Normally there is no less restrictive alternative to the licence agreement as such.

178. The condition that consumers must receive a fair share of the benefits implies that consumers of the products produced under the licence must at least be compensated for the negative effects of the agreement ([79]). This means that the efficiency gains must fully off-set the likely negative impact on prices, output and other relevant factors caused by the agreement. They may do so by changing the cost structure of the undertakings concerned, giving them an incentive to reduce price, or by allowing consumers to gain access to new or improved products, compensating for any likely price increase ([80]).

179. The last condition of Article 101(3) of the Treaty, according to which the agreement must not afford the parties the possibility of eliminating competition in respect of a substantial part of the products concerned, presupposes an analysis of remaining competitive pressures on the market and the impact of the agreement on such sources of competition. In the application of the last condition of Article 101(3) the relationship between Article 101(3) and Article 102 must be taken into account. According to settled case law, the application of Article 101(3) cannot prevent the application of Article 102 of the Treaty ([81]). Moreover, since Articles 101 and 102 both pursue the aim of maintaining effective competition on the market, consistency requires that Article 101(3) be interpreted as precluding any application of the exception rule to restrictive agreements that constitute an abuse of a dominant position ([82]).

180. The fact that the agreement substantially reduces one dimension of competition does not necessarily mean that competition is eliminated within the meaning of Article 101(3). A technology pool, for instance, can result in an industry standard, leading to a situation in which there is little competition in terms of the technological format. Once the main players in the market adopt a certain format, network effects may make it very difficult for alternative formats to survive. This does not imply, however, that the creation of a de facto industry standard always eliminates competition within the meaning of the last condition of Article 101(3). Within the standard, suppliers may compete on price, quality and product features. However, in order for the agreement to comply with Article 101(3), it must be ensured that the agreement does not unduly restrict competition and does not unduly restrict future innovation.

([78]) As to these concepts see section 4.4.1.

([79]) See point 85 of the Guidelines on the application of Article 81(3) of the Treaty, cited in footnote 3.

([80]) Idem, paragraphs 98 and 102.

([81]) See by analogy paragraph 130 of Joined Cases C-395/96 P and C-396/96 P, *Compagnie Maritime Belge*, cited in footnote 3. Similarly, the application of Article 101(3) does not prevent the application of the Treaty rules on the free movement of goods, services, persons and capital. These provisions are in certain circumstances applicable to agreements, decisions and concerted practices within the meaning of Article 101, see to that effect Case C-309/99, *Wouters*, [2002] ECR I-1577, paragraph 120.

([82]) See in this respect Case T-51/89, *Tetra Pak* (I), [1990] ECR II-309. See also point 106 of the Guidelines on the application of Article 81(3) of the Treaty cited in footnote 3 above.

4.2. **Application of Article 101 to various types of licensing restraints**

181. This section deals with various types of restraints that are commonly included in licence agreements. Given their prevalence it is useful to provide guidance as to how they are assessed outside the safe harbour of the TTBER. Restraints that have already been dealt with in the other sections of these guidelines, in particular sections 3.4 and 3.5, are only dealt with briefly in this section.

182. This section covers both agreements between non-competitors and agreements between competitors. In respect of the latter a distinction is made — where appropriate — between reciprocal and non-reciprocal agreements. No such distinction is required in the case of agreements between non-competitors. Indeed, when undertakings are neither actual nor potential competitors on a relevant technology market or on a market for products incorporating the licensed technology, a reciprocal licence is for all practical purposes no different from two separate licences. The situation is different for arrangements whereby the parties assemble a technology package, which is then licensed to third parties. Such arrangements are technology pools, which are dealt with in section 4.

183. This section does not deal with obligations in licence agreements that are generally not restrictive of competition within the meaning of Article 101(1) of the Treaty. These obligations include but are not limited to:

(a) confidentiality obligations;

(b) obligations on licensees not to sub-license;

(c) obligations not to use the licensed technology rights after the expiry of the agreement, provided that the licensed technology rights remain valid and in force;

(d) obligations to assist the licensor in enforcing the licensed intellectual property rights;

(e) obligations to pay minimum royalties or to produce a minimum quantity of products incorporating the licensed technology; and

(f) obligations to use the licensor's trade mark or indicate the name of the licensor on the product.

4.2.1. *Royalty obligations*

184. The parties to a licence agreement are normally free to determine the royalty payable by the licensee and its mode of payment without being caught by Article 101(1) of the Treaty. This principle applies both to agreements between competitors and agreements between non-competitors. Royalty obligations may for instance take the form of lump sum payments, a percentage of the selling price or a fixed amount for each product incorporating the licensed technology. In cases where the licensed technology relates to an input which is incorporated into a final product it is as a general rule not restrictive of competition that royalties are calculated on the basis of the price of the final product, provided that it incorporates the licensed technology [83]. In the case of software licensing royalties based on the number of users and royalties calculated on a per machine basis are generally compatible with Article 101(1).

185. In the case of licence agreements between competitors it should be borne in mind (see points (100) to (101) and (116) above) that in a limited number of circumstances royalty obligations may amount to price fixing, which is considered a hardcore restriction (see Article 4(1)(a)). It is a hardcore restriction under Article 4(1)(a) if competitors provide for reciprocal running royalties in circumstances where the licence is a sham, in that its purpose is not to allow an integration of complementary technologies or to achieve another pro-competitive aim. It is also a hardcore restriction under Article 4(1)(a) and 4(1)(d) if royalties extend to products produced solely with the licensee's own technology rights.

186. Other types of royalty arrangements between competitors are block exempted up to the market share threshold of 20 % even if they restrict competition. Outside the safe harbour of the block exemption Article 101(1) of the Treaty may be applicable where competitors cross license and impose running royalties that are clearly disproportionate compared to the market value of the licence and where such royalties have a significant impact on market prices. In assessing whether the royalties are disproportionate it is necessary to examine the royalties paid by other licensees on the product market for the same or substitute technologies. In such cases it is unlikely that the conditions of Article 101(3) are satisfied.

187. Notwithstanding the fact that the block exemption only applies as long as the technology rights are valid and in force, the parties can normally agree to extend royalty obligations beyond the period of validity of the licensed intellectual property rights without falling foul of Article 101(1) of the Treaty. Once these rights expire, third parties can legally exploit the technology in question and compete with the parties to the agreement. Such actual and potential competition will normally be sufficient to ensure that the obligation in question does not have appreciable anti-competitive effects.

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[83] This is without prejudice to the possible application of Article 102 TFEU to the setting of royalties (see Case 27/76, United Brands, paragraph 250, see also Case C-385/07 P, Der Grüne Punkt — Duales System Deutschland GmbH [2009] ECR I-6155, paragraph 142).

188. In the case of agreements between non-competitors the block exemption covers agreements whereby royalties are calculated on the basis of both products produced with the licensed technology and products produced with technologies licensed from third parties. Such arrangements may facilitate the metering of royalties. However, they may also lead to foreclosure by increasing the cost of using third party inputs and may thus have effects similar to those of a non-compete obligation. If royalties are paid not just on products produced with the licensed technology but also on products produced with third party technology, then the royalties will increase the cost of the latter products and reduce demand for third party technology. Outside the scope of the block exemption the question whether the restriction has foreclosure effects must therefore be considered. For that purpose it is appropriate to use the analytical framework set out in section 4.2.7 below. In the case of appreciable foreclosure effects such agreements are caught by Article 101(1) of the Treaty and unlikely to fulfil the conditions of Article 101(3), unless there is no other practical way of calculating and monitoring royalty payments.

4.2.2. *Exclusive licensing and sales restrictions*

189. For the purpose of these guidelines, it is useful to distinguish between restrictions as to production within a given territory (exclusive or sole licences) and restrictions on the sale of products incorporating the licensed technology into a given territory and to a given customer group (sales restrictions).

4.2.2.1. Exclusive and sole licences

190. An 'exclusive licence' means that the licensor itself is not permitted to produce on the basis of the licensed technology rights, nor is it permitted to license the licensed technology rights to third parties, in general or for a particular use or in a particular territory. This means that, in general or for that particular use or in that particular territory, the licensee is the only one allowed to produce on the basis of the licensed technology rights.

191. Where the licensor undertakes not to produce itself or license others to produce within a given territory, this territory may cover the whole world or any part of it. Where the licensor undertakes only not to licence third parties to produce within a given territory, the licence is a sole licence. Exclusive or sole licensing is often accompanied by sales restrictions that limit the parties as to where they may sell products incorporating the licensed technology.

192. Reciprocal exclusive licensing between competitors falls under Article 4(1)(c) TTBER, which identifies market and customer sharing between competitors as a hardcore restriction. Reciprocal sole licensing between competitors is, however, block exempted up to the market share threshold of 20 %. Under such an agreement the parties mutually commit not to license their competing technologies to third parties. In cases where the parties have a significant degree of market power such agreements may facilitate collusion by ensuring that the parties are the only sources of output in the market based on the licensed technologies.

193. Non-reciprocal exclusive licensing between competitors is block exempted up to the market share threshold of 20 %. Above the market share threshold it is necessary to analyse the likely anti-competitive effects of such exclusive licensing. Where the exclusive licence is worldwide it implies that the licensor leaves the market. In cases where exclusivity is limited to a particular territory such as a Member State the agreement implies that the licensor abstains from producing goods and services inside the territory in question. In the context of Article 101(1) of the Treaty, the competitive significance of the licensor must, in particular, be assessed. If the licensor has a limited market position on the product market or lacks the capacity to effectively exploit the technology in the licensee's territory, the agreement is unlikely to be caught by Article 101(1). A special case exists where the licensor and the licensee only compete on the technology market and the licensor, for instance being a research institute or a small research based undertaking, lacks the production and distribution assets to effectively bring to market products incorporating the licensed technology. In such cases Article 101(1) is unlikely to be infringed.

194. Exclusive licensing between non-competitors — to the extent that it is caught by Article 101(1) of the Treaty [84] — is likely to fulfil the conditions of Article 101(3). The right to grant an exclusive licence is generally necessary in order to induce the licensee to invest in the licensed technology and to bring the products to market in a timely manner. This is in particular the case where the licensee must make large investments in further developing the licensed technology. To intervene against the exclusivity once the licensee has made a commercial success of the licensed technology would deprive the licensee of the fruits of its success and would be detrimental to competition, the dissemination of technology and innovation. The Commission will therefore only exceptionally intervene against exclusive licensing in agreements between non-competitors, irrespective of the territorial scope of the licence.

(84) See the judgment in *Nungesser* cited in footnote 13.

195. However, if the licensee already owns a substitutable technology used for in-house production, the exclusive license might not be necessary in order to give incentives to the licensee to bring a product to the market. In such a scenario, the exclusive licensing may instead be caught by Article 101(1) of the Treaty, in particular where the licensee has market power on the product market. The main situation in which intervention may be warranted is where a dominant licensee obtains an exclusive licence to one or more competing technologies. Such agreements are likely to be caught by Article 101(1) and unlikely to fulfil the conditions of Article 101(3). However, for Article 101(1) to apply entry into the technology market must be difficult and the licensed technology must constitute a real source of competition on the market. In such circumstances an exclusive licence may foreclose third party licensees, raise the barriers to entry and allow the licensee to preserve its market power.

196. Arrangements whereby two or more parties cross licence each other and undertake not to licence third parties give rise to particular concerns when the package of technologies resulting from the cross licences creates a de facto industry standard to which third parties must have access in order to compete effectively on the market. In such cases the agreement creates a closed standard reserved for the parties. The Commission will assess such arrangements according to the same principles as those applied to technology pools (see section 4.4). There will normally be a requirement that the technologies which support such a standard be licensed to third parties on fair, reasonable and non-discriminatory terms [85]. Where the parties to the arrangement compete with third parties on an existing product market and the arrangement relates to that product market, a closed standard is likely to have substantial exclusionary effects. This negative impact on competition can only be avoided by licensing also to third parties.

4.2.2.2. Sales restrictions

197. Also as regards sales restrictions there is an important distinction to be made between licensing between competitors and between non-competitors.

198. Restrictions on active and passive sales by one or both parties in a reciprocal agreement between competitors are hardcore restrictions of competition under Article 4(1)(c) TTBER. Such sales restrictions are caught by Article 101(1) and are unlikely to fulfil the conditions of Article 101(3). Such restrictions are generally considered market sharing, since they prevent the affected party from selling actively and passively into territories and to customer groups which it actually served or could realistically have served in the absence of the agreement.

199. In the case of non-reciprocal agreements between competitors the block exemption applies to restrictions on active and/or passive sales by the licensee or the licensor into the exclusive territory or to the exclusive customer group reserved for the other party (see Article 4(1)(c)(i) TTBER). Above the market share threshold of 20 % sales restrictions between licensor and licensee are caught by Article 101(1) of the Treaty when one or both of the parties have a significant degree of market power. Such restrictions may, however, be indispensable for the dissemination of valuable technologies and may therefore fulfil the conditions of Article 101(3). This may be the case where the licensor has a relatively weak market position in the territory where it exploits the technology itself. In such circumstances restrictions on active sales in particular may be indispensable to induce the licensor to grant the licence. In the absence of such restrictions the licensor would risk facing active competition in its main area of activity. Similarly, restrictions on active sales by the licensor may be indispensable, in particular, where the licensee has a relatively weak market position in the territory allocated to it and has to make significant investments in order to efficiently exploit the licensed technology.

200. The block exemption also covers restrictions on active sales into the territory or to the customer group allocated to another licensee, which was not a competitor of the licensor at the time when it concluded the licence agreement with the licensor. This is, however, only the case when the agreement between the parties in question is non-reciprocal (see Article 4(1)(c)(ii) TTBER). Above the market share threshold such active sales restrictions are likely to be caught by Article 101(1) of the Treaty when the parties have a significant degree of market power. The restraint is nevertheless likely to be indispensable within the meaning of Article 101(3) for the period of time required for the protected licensee to penetrate a new market and establish a market presence in the allocated territory or vis-à-vis the allocated customer group. This protection against active sales allows the licensee to overcome the asymmetry, which it faces due to the fact that some of the licensees are competing undertakings of the licensor and thus already established on the market. Restrictions on passive sales by licensees into a territory or to a customer group allocated to another licensee are hardcore restrictions under Article 4(1)(c) of the TTBER.

[85] See in this respect the Commission's Notice in the Canon/Kodak Case (OJ C 330, 1.11.1997, p. 10) and the IGR Stereo Television Case mentioned in the XI Report on Competition Policy, paragraph 94.

201. In the case of agreements between non-competitors sales restrictions between the licensor and a licensee are block exempted up to the market share threshold of 30 %. Above the market share threshold restrictions on active and passive sales by licensees to territories or customer groups reserved exclusively for the licensor may be indispensable for the dissemination of valuable technologies and therefore fall outside Article 101(1) or fulfil the conditions of Article 101(3) of the Treaty. This may be the case where the licensor has a relatively weak market position in the territory where it exploits itself the technology. In such circumstances restrictions on active sales in particular may be indispensable to induce the licensor to grant the licence. In the absence of such restrictions the licensor would risk facing active competition in its main area of activity. In other cases sales restrictions on the licensee may be caught by Article 101(1) and may not fulfil the conditions of Article 101(3). This is likely to be the case where the licensor individually has a significant degree of market power and also where a series of similar agreements concluded by licensors which together hold a strong position on the market have a cumulative effect.

202. Sales restrictions on the licensor, when caught by Article 101(1) of the Treaty, are likely to fulfil the conditions of Article 101(3) unless there are no real alternatives to the licensor's technology on the market or such alternatives are licensed by the licensee from third parties. Such restrictions and in particular restrictions on active sales are likely to be indispensable within the meaning of Article 101(3) in order to induce the licensee to invest in the production, marketing and sale of the products incorporating the licensed technology. It is likely that the licensee's incentive to invest would be significantly reduced if it faced direct competition from the licensor whose production costs are not burdened by royalty payments, possibly leading to sub-optimal levels of investment.

203. As regards sales restrictions between licensees in agreements between non-competitors, the TTBER block exempts restrictions on active selling between territories or customer groups. Above the market share threshold of 30% restrictions on active sales between licensees' territories and customer groups limit intra-technology competition and are likely to be caught by Article 101(1) of the Treaty when the individual licensee has a significant degree of market power. However, such restrictions may fulfil the conditions of Article 101(3) where they are necessary to prevent free riding and to induce the licensee to make the investment necessary for efficient exploitation of the licensed technology inside its territory and to promote sales of the licensed product. Restrictions on passive sales are covered by the hardcore list of Article 4(2)(b) of the TTBER (see points (119) to (127) above).

4.2.3. *Output restrictions*

204. Reciprocal output restrictions in licence agreements between competitors constitute a hardcore restriction as set out in Article 4(1)(b) of the TTBER (see point (103) above). Article 4(1)(b) does not cover output restrictions on the licensor's technology imposed on the licensee in a non-reciprocal agreement or on one of the licensees in an reciprocal agreement. Such restrictions are block exempted up to the market share threshold of 20 %. Above the market share threshold, output restrictions on the licensee may restrict competition where the parties have a significant degree of market power. However, Article 101(3) is likely to apply in cases where the licensor's technology is substantially better than the licensee's technology and the output limitation substantially exceeds the output of the licensee prior to the conclusion of the agreement. In that case the effect of the output limitation is limited even in markets where demand is growing. In the application of Article 101(3) of the Treaty it must also be taken into account that such restrictions may be necessary in order to induce the licensor to disseminate its technology as widely as possible. For instance, a licensor may be reluctant to license its competitors if it cannot limit the licence to a particular production site with a specific capacity (a site licence). Where the licence agreement leads to a real integration of complementary assets, output restrictions on the licensee may therefore fulfil the conditions of Article 101(3). However, this is unlikely to be the case where the parties have substantial market power.

205. Output restrictions in licence agreements between non-competitors are block exempted up to the market share threshold of 30 %. The main anti-competitive risk flowing from output restrictions on licensees in agreements between non-competitors is reduced intra-technology competition between licensees. The significance of such anti-competitive effects depends on the market position of the licensor and the licensees and the extent to which the output limitation prevents the licensee from satisfying demand for the products incorporating the licensed technology.

206. When output restrictions are combined with exclusive territories or exclusive customer groups, the restrictive effects are increased. The combination of the two types of restraints makes it more likely that the agreement serves to partition markets.

207. Output limitations imposed on the licensee in agreements between non-competitors may also have pro-competitive effects by promoting the dissemination of technology. As a supplier of technology, the licensor should normally be free to determine the output produced with the licensed technology by the licensee. If the licensor were not free to determine the output of the licensee, a number of licence agreements might not come into existence in the first place, which would have a negative impact on the dissemination of new technology. This is particularly likely to be the case where the licensor is also a producer, since the licensee's output may find its way back into the licensor's main area of operation and thus have a direct impact on those activities. On the other hand, it is less likely that output restrictions are necessary in order to ensure dissemination of the licensor's technology when they are combined with sales restrictions on the licensee prohibiting it from selling into a territory or customer group reserved for the licensor.

4.2.4. *Field of use restrictions*

208. Under a field of use restriction the licence is either limited to one or more technical fields of application or one or more product markets or industrial sectors. An industrial sector may encompass several product markets but not part of a product market. There are many cases in which the same technology can be used to make different products or can be incorporated into products belonging to different product markets. A new moulding technology may for instance be used to make plastic bottles and plastic glasses, each product belonging to a separate product market. However, a single product market may encompass several technical fields of use. For instance a new engine technology may be employed in four cylinder engines and six cylinder engines. Similarly, a technology to make chipsets may be used to produce chipsets with up to four CPUs and more than four CPUs. A licence limiting the use of the licensed technology to produce say four cylinder engines and chipsets with up to four CPUs constitutes a technical field of use restriction.

209. Given that field of use restrictions are covered by the block exemption and that certain customer restrictions are hardcore restrictions under Articles 4(1)(c) and 4(2)(b) of the TTBER, it is important to distinguish the two categories of restrictions. A customer restriction presupposes that specific customer groups are identified and that the parties are restricted in selling to such identified groups. The fact that a technical field of use restriction may correspond to certain groups of customers within a product market does not imply that the restraint is to be classified as a customer restriction. For instance, the fact that certain customers buy predominantly or exclusively chipsets with more than four CPUs does not imply that a licence which is limited to chipsets with up to four CPUs constitutes a customer restriction. However, the field of use must be defined objectively by reference to identified and meaningful technical characteristics of the contract product.

210. Because certain output restrictions are hardcore restrictions under Article 4(1)(b) of the TTBER, it is important to note that field of use restrictions are not considered to be output restrictions because a field of use restriction does not limit the output the licensee may produce within the licensed field of use.

211. A field of use restriction limits the exploitation of the licensed technology by the licensee to one or more particular fields of use without limiting the licensor's ability to exploit the licensed technology. In addition, as with territories, these fields of use can be allocated to the licensee under an exclusive or sole licence. Field of use restrictions combined with an exclusive or sole licence also restrict the licensor's ability to exploit its own technology, by preventing it from exploiting it itself, including by way of licensing to others. In the case of a sole license only licensing to third parties is restricted. Field of use restrictions combined with exclusive and sole licences are treated in the same way as the exclusive and sole licenses dealt with in section 4.2.2 above. In particular, for licensing between competitors, this means that reciprocal exclusive licensing is hardcore under Article 4(1)(c).

212. Field of use restrictions may have pro-competitive effects by encouraging the licensor to license its technology for applications that fall outside its main area of focus. If the licensor could not prevent licensees from operating in fields where it exploits the technology itself or in fields where the value of the technology is not yet well established, it would be likely to create a disincentive for the licensor to license or would lead it to charge a higher royalty. The fact that in certain sectors licensing often occurs to ensure design freedom by preventing infringement claims must also be taken into account. Within the scope of the licence the licensee is able to develop its own technology without fearing infringement claims by the licensor.

213. Field of use restrictions on licensees in agreements between actual or potential competitors are block exempted up to the market share threshold of 20 %. The main competitive concern in the case of such restrictions is the risk that the licensee ceases to be a competitive force outside the licensed field of use. This risk is greater in the case of cross licensing between competitors where the agreement provides for asymmetrical field of use restrictions. A field of use restriction is asymmetrical where one party is permitted to use the licensed technology within one industrial sector, product market or technical field of use and the other party is permitted to use the other licensed technology within another industrial sector, product market or technical field of use. Competition concerns may in particular arise where the licensee's production facility, which is tooled up to use the licensed technology, is also used to produce products outside the licensed field of use with its own technology. If the agreement is likely to lead the licensee to reduce output outside the licensed field of use, the agreement is likely to be caught by Article 101(1). Symmetrical field of use restrictions, that is to say, agreements whereby the parties are licensed to use each other's technologies within the same field(s) of use, are unlikely to be caught by Article 101(1) of the Treaty. Such agreements are unlikely to restrict competition that existed in the absence of the agreement. Article 101(1) is also unlikely to apply in the case of agreements that merely enable the licensee to develop and exploit its own technology within the scope of the licence without fearing infringement claims by the licensor. In such circumstances field of use restrictions do not in themselves restrict competition that existed in the absence of the agreement. In the absence of the agreement the licensee also risked infringement claims outside the scope of the licensed field of use. However, if the licensee terminates or scales back its activities in the area outside the licensed field of use without business justification, this may be an indication of an underlying market sharing arrangement amounting to a hardcore restriction under Article 4(1)(c) of the TTBER.

214. Field of use restrictions on licensee and licensor in agreements between non-competitors are block exempted up to the market share threshold of 30 %. Field of use restrictions in agreements between non-competitors whereby the licensor reserves one or more product markets or technical fields of use for itself are generally either non-restrictive of competition or efficiency enhancing. They promote dissemination of new technology by giving the licensor an incentive to license for exploitation in fields in which it does not want to exploit the technology itself. If the licensor could not prevent licensees from operating in fields where the licensor exploits the technology itself, it would be likely to create a disincentive for the licensor to licence.

215. In agreements between non-competitors the licensor is normally also entitled to grant sole or exclusive licences to different licensees limited to one or more fields of use. Such restrictions limit intra-technology competition between licensees in the same way as exclusive licensing and are analysed in the same way (see section 4.2.2.1 above).

4.2.5. *Captive use restrictions*

216. A captive use restriction can be defined as an obligation on the licensee to limit its production of the licensed product to the quantities required for the production of its own products and for the maintenance and repair of its own products. In other words, this type of use restriction takes the form of an obligation on the licensee to use the products incorporating the licensed technology only as an input for incorporation into its own production; it does not cover the sale of the licensed product for incorporation into the products of other producers. Captive use restrictions are block exempted up to the respective market share thresholds of 20 % and 30 %. Outside the scope of the block exemption it is necessary to examine the pro-competitive and anti-competitive effects of the restraint. In this respect it is necessary to distinguish agreements between competitors from agreements between non-competitors.

217. In the case of licence agreements between competitors a restriction that imposes on the licensee to produce under the licence only for incorporation into its own products prevents it from supplying components to third party producers. If prior to the conclusion of the agreement, the licensee was not an actual or likely potential supplier of components to other producers, the captive use restriction does not change anything compared to the pre-existing situation. In those circumstances the restriction is assessed in the same way as in the case of agreements between non-competitors. If, on the other hand, the licensee is an actual or likely supplier of components, it is necessary to examine what is the impact of the agreement on that activity. If by tooling up to use the licensor's technology the licensee ceases to use its own technology on a stand alone basis and thus to be a component supplier, the agreement restricts competition that existed prior to the agreement. It may result in serious negative market effects when the licensor has a significant degree of market power on the component market.

218. In the case of licence agreements between non-competitors there are two main competitive risks stemming from captive use restrictions: a restriction of intra-technology competition on the market for the supply of inputs and an exclusion of arbitrage between licensees enhancing the possibility for the licensor to impose discriminatory royalties on licensees.

219. Captive use restrictions, however, may also promote pro-competitive licensing. If the licensor is a supplier of components, the restraint may be necessary in order for the dissemination of technology between non-competitors to occur. In the absence of the restraint the licensor may not grant the licence or may do so only against higher royalties, because otherwise it would create direct competition with itself on the component market. In such cases a captive use restriction is normally either not restrictive of competition or covered by Article 101(3) of the Treaty. However, the licensee must not be restricted in selling the licensed product as replacement parts for its own products. The licensee must be able to serve the after-market for its own products, including independent service organisations that service and repair the products produced by him.

220. Where the licensor is not a component supplier on the relevant product market, the above reason for imposing captive use restrictions does not apply. In such cases a captive use restriction may in principle promote the dissemination of technology by ensuring that licensees do not sell to producers that compete with the licensor on other product markets. However, a restriction on the licensee not to sell into certain customer groups reserved for the licensor normally constitutes a less restrictive alternative. Consequently, in such cases a captive use restriction is normally not necessary for the dissemination of technology to take place.

4.2.6. *Tying and bundling*

221. In the context of technology licensing tying occurs when the licensor makes the licensing of one technology (the tying product) conditional upon the licensee taking a licence for another technology or purchasing a product from the licensor or someone designated by it (the tied product). Bundling occurs where two technologies or a technology and a product are only sold together as a bundle. In both cases, however, it is a condition that the products and technologies involved are distinct in the sense that there is distinct demand for each of the products and technologies forming part of the tie or the bundle. This is normally not the case where the technologies or products are by necessity linked in such a way that the licensed technology cannot be exploited without the tied product or both parts of the bundle cannot be exploited without the other. In the following the term 'tying' refers to both tying and bundling.

222. Article 3 of the TTBER, which limits the application of the block exemption by market share thresholds, ensures that tying and bundling are not block exempted above the market share thresholds of 20 % in the case of agreements between competitors and 30 % in the case of agreements between non-competitors. The market share thresholds apply to any relevant technology or product market affected by the licence agreement, including the market for the tied product. Above the market share thresholds it is necessary to balance the anti-competitive and pro-competitive effects of tying.

223. The main restrictive effect of tying is foreclosure of competing suppliers of the tied product. Tying may also allow the licensor to maintain market power in the market for the tying product by raising barriers to entry since it may force new entrants to enter several markets at the same time. Moreover, tying may allow the licensor to increase royalties, in particular when the tying product and the tied product are partly substitutable and the two products are not used in fixed proportion. Tying prevents the licensee from switching to substitute inputs in the face of increased royalties for the tying product. These competition concerns are independent of whether the parties to the agreement are competitors or not. For tying to produce likely anti-competitive effects the licensor must have a significant degree of market power in the tying product so as to restrict competition in the tied product. In the absence of market power in the tying product the licensor cannot use its technology for the anti-competitive purpose of foreclosing suppliers of the tied product. Furthermore, as in the case of non-compete obligations, the tie must cover a certain proportion of the market for the tied product for appreciable foreclosure effects to occur. In cases where the licensor has market power on the market for the tied product rather than on the market for the tying product, the restraint is analysed as a non-compete clause or quantity forcing, reflecting the fact that any competition problem has its origin on the market for the 'tied' product and not on the market for the 'tying' product ([86]).

224. Tying can also give rise to efficiency gains. This is for instance the case where the tied product is necessary for a technically satisfactory exploitation of the licensed technology or for ensuring that production under the licence conforms to quality standards respected by the licensor and other licensees. In such cases tying is normally either not restrictive of competition or covered by Article 101(3) of the Treaty. Where the licensees use the licensor's trademark or brand name or where it is otherwise obvious to consumers that there is a link between the product incorporating the licensed technology and the licensor, the licensor has a legitimate interest in ensuring that the quality of the products is such that it does not undermine the value of its technology or its reputation as an economic operator. Moreover, where

([86]) For the applicable analytical framework see section 4.2.7 and points 129 *et seq.* of the Guidelines on Vertical Restraints cited in footnote 52.

it is known to consumers that the licensees (and the licensor) produce on the basis of the same technology it is unlikely that licensees would be willing to take a licence unless the technology is exploited by all in a technically satisfactory way.

225. Tying is also likely to be pro-competitive where the tied product allows the licensee to exploit the licensed technology significantly more efficiently. For instance, where the licensor licenses a particular process technology the parties can also agree that the licensee buys a catalyst from the licensor which is developed for use with the licensed technology and which allows the technology to be exploited more efficiently than in the case of other catalysts. Where in such cases the restriction is caught by Article 101(1), the conditions of Article 101(3) are likely to be fulfilled even above the market share thresholds.

4.2.7. *Non-compete obligations*

226. Non-compete obligations in the context of technology licensing take the form of an obligation on the licensee not to use third party technologies which compete with the licensed technology. To the extent that a non-compete obligation covers a product or an additional technology supplied by the licensor the obligation is dealt with in section 4.2.6 on tying.

227. The TTBER exempts non-compete obligations both in the case of agreements between competitors and in the case of agreements between non-competitors up to the market share thresholds of 20 % and 30 % respectively.

228. The main competitive risk presented by non-compete obligations is foreclosure of third party technologies. Non-compete obligations may also facilitate collusion between licensors when several licensors use it in separate agreements (that is in the case of cumulative use). Foreclosure of competing technologies reduces competitive pressure on royalties charged by the licensor and reduces competition between the incumbent technologies by limiting the possibilities for licensees to substitute between competing technologies. As in both cases the main problem is foreclosure, the analysis can in general be the same in the case of agreements between competitors and agreements between non-competitors. However, in the case of cross licensing between competitors where both agree not to use third party technologies the agreement may facilitate collusion between them on the product market, thereby justifying the lower market share threshold of 20 %.

229. Foreclosure may arise where a substantial proportion of potential licensees are already tied to one or, in the case of cumulative effects, more sources of technology and are prevented from exploiting competing technologies. Foreclosure effects may result from agreements concluded by a single licensor with a significant degree of market power or from the cumulative effect of agreements concluded by several licensors, even where each individual agreement or network of agreements is covered by the TTBER. In the latter case, however, a serious cumulative effect is unlikely to arise as long as less than 50 % of the market is tied. Above that threshold significant foreclosure is likely to occur when there are relatively high barriers to entry for new licensees. If barriers to entry are low, new licensees are able to enter the market and exploit commercially attractive technologies held by third parties and thus represent a real alternative to incumbent licensees. In order to determine the real possibility for entry and expansion by third parties it is also necessary to take account of the extent to which distributors are tied to licensees by non-compete obligations. Third party technologies only have a real possibility of entry if they have access to the necessary production and distribution assets. In other words, the ease of entry depends not only on the availability of licensees but also the extent to which they have access to distribution. In assessing foreclosure effects at the distribution level the Commission will apply the analytical framework set out in section VI.2.1 of the Guidelines on Vertical Restraints ([87]).

230. When the licensor has a significant degree of market power, obligations on licensees to obtain the technology only from the licensor can lead to significant foreclosure effects. The stronger the market position of the licensor the higher the risk of foreclosing competing technologies. For appreciable foreclosure effects to occur the non-compete obligations do not necessarily have to cover a substantial part of the market. Even in the absence thereof, appreciable foreclosure effects may occur where non-compete obligations are targeted at undertakings that are the most likely to license competing technologies. The risk of foreclosure is particularly high where there is only a limited number of potential licensees and the licence agreement concerns a technology which is used by the licensees to make an input for their own use. In such cases the entry barriers for a new licensor are likely to be high. Foreclosure may be less likely in cases where the technology is used to make a product that is sold to third parties. Although in this case the restriction also ties production capacity for the input in question, it does not tie demand downstream of the licensees. To enter the market in the latter case licensors only need access

([87]) See footnote 52.

to one or more licensee(s) that have suitable production capacity. Unless only few undertakings possess or are able to obtain the assets required to take a licence, it is unlikely that by imposing non-compete obligations on its licensees the licensor is able to deny competitors access to efficient licensees.

231. Non-compete obligations may also produce pro-competitive effects. First, such obligations may promote dissemination of technology by reducing the risk of misappropriation of the licensed technology, in particular know-how. If a licensee is entitled to license competing technologies from third parties, there is a risk that particularly licensed know-how would be used in the exploitation of competing technologies and thus benefit competitors. When a licensee also exploits competing technologies, it normally also makes monitoring of royalty payments more difficult, which may act as a disincentive to licensing.

232. Second, non-compete obligations possibly in combination with an exclusive territory may be necessary to ensure that the licensee has an incentive to invest in and exploit the licensed technology effectively. In cases where the agreement is caught by Article 101(1) of the Treaty because of an appreciable foreclosure effect, it may be necessary in order to benefit from Article 101(3) to choose a less restrictive alternative, for instance to impose minimum output or royalty obligations, which normally have less potential to foreclose competing technologies.

233. Third, in cases where the licensor undertakes to make significant client specific investments for instance in training and tailoring of the licensed technology to the licensee's needs, non-compete obligations or alternatively minimum output or minimum royalty obligations may be necessary to induce the licensor to make the investment and to avoid hold-up problems. However, normally the licensor will be able to charge directly for such investments by way of a lump sum payment, implying that less restrictive alternatives are available.

4.3. **Settlement agreements**

234. Licensing of technology rights in settlement agreements may serve as a means of settling disputes or avoiding that one party exercises its intellectual property rights to prevent the other party from exploiting its own technology rights ([88]).

235. Settlement agreements in the context of technology disputes are, as in many other areas of commercial disputes, in principle a legitimate way to find a mutually acceptable compromise to a bona fide legal disagreement. The parties may prefer to discontinue the dispute or litigation because it proves to be too costly, time-consuming and/or uncertain as regards its outcome. Settlements can also save courts and/or competent administrative bodies effort in deciding on the matter and can therefore give rise to welfare enhancing benefits. On the other hand, it is in the general public interest to remove invalid intellectual property rights as an unmerited barrier to innovation and economic activity ([89]).

236. Licensing, including cross licensing, in the context of settlement agreements is generally not as such restrictive of competition since it allows the parties to exploit their technologies after the agreement is concluded. In cases where, in the absence of the licence, it is possible that the licensee could be excluded from the market, access to the technology at issue for the licensee by means of a settlement agreement is generally not caught by Article 101(1).

237. However, the individual terms and conditions of settlement agreements may be caught by Article 101(1). Licensing in the context of settlement agreements is treated in the same way as other licence agreements ([90]). In these cases, it is particularly necessary to assess whether the parties are potential or actual competitors.

Pay-for-restriction in settlement agreements

238. 'Pay-for-restriction' or 'pay-for-delay' type settlement agreements often do not involve the transfer of technology rights, but are based on a value transfer from one party in return for a limitation on the entry and/or expansion on the market of the other party and may be caught by Article 101(1) ([91]).

239. If, however, such a settlement agreement also includes a licensing of the technology rights concerned by the underlying dispute, and that agreement leads to a delayed or otherwise limited ability for the licensee to launch the product on any of the markets concerned, the agreement may be caught by Article 101(1) and would then need to be assessed in particular in the light of Articles 4(1)(c) and 4(1)(d) of the TTBER (see section 3.4.2 above). If the parties to such a settlement agreement

([88]) The TTBER and its Guidelines are without prejudice to the application of Article 101 to settlement agreements which do not contain a licensing agreement.

([89]) Case 193/83 Windsurfing v Commission [1986] ECR 611, paragraph 92.

([90]) Cf. Case 65/86 Bayer v. Sulhofer [1988], ECR 5259, paragraph 15.

([91]) See, for instance, the Commission Decision in Lundbeck, not yet published.

are actual or potential competitors and there was a significant value transfer from the licensor to the licensee, the Commission will be particularly attentive to the risk of market allocation/market sharing.

Cross licensing in settlement agreements

240. Settlement agreements whereby the parties cross license each other and impose restrictions on the use of their technologies, including restrictions on the licensing to third parties, may be caught by Article 101(1) of the Treaty. Where the parties have a significant degree of market power and the agreement imposes restrictions that clearly go beyond what is required in order to unblock, the agreement is likely to be caught by Article 101(1) even if it is likely that a mutual blocking position exists. Article 101(1) is particularly likely to apply where the parties share markets or fix reciprocal running royalties that have a significant impact on market prices.

241. Where under the settlement agreement the parties are entitled to use each other's technology and the agreement extends to future developments, it is necessary to assess what is the impact of the agreement on the parties' incentive to innovate. In cases where the parties have a significant degree of market power the agreement is likely to be caught by Article 101(1) of the Treaty where the agreement prevents the parties from gaining a competitive lead over each other. Agreements that eliminate or substantially reduce the possibilities of one party to gain a competitive lead over the other reduce the incentive to innovate and thus adversely affect an essential part of the competitive process. Such agreements are also unlikely to satisfy the conditions of Article 101(3). It is particularly unlikely that the restriction can be considered indispensable within the meaning of the third condition of Article 101(3). The achievement of the objective of the agreement, namely to ensure that the parties can continue to exploit their own technology without being blocked by the other party, does not require that the parties agree to share future innovations. However, the parties are unlikely to be prevented from gaining a competitive lead over each other where the purpose of the licence is to allow the parties to develop their respective technologies and where the licence does not lead them to use the same technological solutions. Such agreements merely create design freedom by preventing future infringement claims by the other party.

Non-challenge clauses in settlement agreements

242. In the context of a settlement agreement, non-challenge clauses are generally considered to fall outside Article 101(1) of the Treaty. It is inherent in such agreements that the parties agree not to challenge *ex post* the intellectual property rights which were the centre of the dispute. Indeed, the very purpose of the agreement is to settle existing disputes and/or to avoid future disputes.

243. However, non-challenge clauses in settlement agreements can under specific circumstances be anti-competitive and may be caught by Article 101(1) of the Treaty. The restriction of the freedom to challenge an intellectual property right is not part of the specific subject-matter of an intellectual property right and may restrict competition. For instance, a non-challenge clause may infringe Article 101(1) where an intellectual property right was granted following the provision of incorrect or misleading information [92]. Scrutiny of such clauses may also be necessary if the licensor, besides licensing the technology rights, induces, financially or otherwise, the licensee to agree not to challenge the validity of the technology rights or if the technology rights are a necessary input for the licensee's production (see also point (136)).

4.4. **Technology pools**

244. Technology pools are defined as arrangements whereby two or more parties assemble a package of technology which is licensed not only to contributors to the pool but also to third parties. In terms of their structure technology pools can take the form of simple arrangements between a limited number of parties or of elaborate organisational arrangements whereby the organisation of the licensing of the pooled technologies is entrusted to a separate entity. In both cases the pool may allow licensees to operate on the market on the basis of a single licence.

245. There is no inherent link between technology pools and standards, but the technologies in the pool often support, in whole or in part, a *de facto* or *de jure* industry standard [93]. Different technology pools may support competing standards [94]. Technology pools can produce pro-competitive effects, in particular by reducing transaction costs and by setting a limit on cumulative royalties to avoid double marginalisation. The creation of a pool allows for one-stop licensing of the technologies covered by the pool. This is particularly important in sectors where intellectual property rights are prevalent and licences need to be obtained from a significant number of licensors in order to operate on the market. In cases where licensees receive on-going services

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(92) Cf. Case C-457/10 P, AstraZeneca v. Commission, [2012] ECR not yet published.

(93) See concerning the treatment of standards and the treatment of standardisation agreements the Horizontal Guidelines, point 257 ff., cited in footnote 27.

(94) See in this respect the Commission's press release IP/02/1651 concerning the licensing of patents for third generation (3G) mobile services. This case involved five technology pools creating five different technologies, each of which could be used to produce 3G equipment.

concerning the application of the licensed technology, joint licensing and servicing can lead to further cost reductions. Patent pools can also play a beneficial role in the implementation of pro-competitive standards.

246. Technology pools may also be restrictive of competition. The creation of a technology pool necessarily implies joint selling of the pooled technologies, which in the case of pools composed solely or predominantly of substitute technologies amounts to a price fixing cartel. Moreover, in addition to reducing competition between the parties, technology pools may also, in particular when they support an industry standard or establish a *de facto* industry standard, result in a reduction of innovation by foreclosing alternative technologies. The existence of the standard and a related technology pool may make it more difficult for new and improved technologies to enter the market.

247. Agreements establishing technology pools and setting out the terms and conditions for their operation are not — irrespective of the number of parties — covered by the block exemption, as the agreement to establish the pool does not permit a particular licensee to produce contract products (see section 3.2.4). Such agreements are addressed only by these guidelines. Pooling arrangements give rise to a number of particular issues regarding the selection of the included technologies and the operation of the pool, which do not arise in the context of other types of licensing. Licensing out from the pool is generally a multiparty agreement, taking into account that the contributors commonly determine the conditions for such licensing out, and is therefore also not covered by the block exemption. Licensing out from the pool is dealt with in point (261) and in section 4.4.2.

4.4.1. *The assessment of the formation and operation of technology pools*

248. The way in which a technology pool is formed, organised and operated can reduce the risk of it having the object or effect of restricting competition and provide assurances to the effect that the arrangement is pro-competitive. In assessing the possible competitive risks and efficiencies, the Commission will, inter alia, take account of the transparency of the pool creation process; the selection and nature of the pooled technologies, including the extent to which independent experts are involved in the creation and operation of the pool and whether safeguards against exchange of sensitive information and independent dispute resolution mechanisms have been put in place.

Open participation

249. When participation in a standard and pool creation process is open to all interested parties it is more likely that technologies for inclusion into the pool are selected on the basis of price/quality considerations than when the pool is set up by a limited group of technology owners.

Selection and nature of the pooled technologies

250. The competitive risks and the efficiency enhancing potential of technology pools depend to a large extent on the relationship between the pooled technologies and their relationship with technologies outside the pool. Two basic distinctions must be made, namely (a) between technological complements and technological substitutes and (b) between essential and non-essential technologies.

251. Two technologies are complements as opposed to substitutes when they are both required to produce the product or carry out the process to which the technologies relate. Conversely, two technologies are substitutes when either technology allows the holder to produce the product or carry out the process to which the technologies relate.

252. A technology can be essential either (a) to produce a particular product or carry out a particular process to which the pooled technologies relate or (b) to produce such product or carry out such a process in accordance with a standard which includes the pooled technologies. In the first case, a technology is essential (as opposed to non-essential) if there are no viable substitutes (both from a commercial and technical point of view) for that technology inside or outside the pool and the technology in question constitutes a necessary part of the package of technologies for the purposes of producing the product(s) or carrying out the process(-es) to which the pool relates. In the second case, a technology is essential if it constitutes a necessary part (that is to say, there are no viable substitutes) of the pooled technologies needed to comply with the standard supported by the pool (standard essential technologies). Technologies that are essential are by necessity also complements. The fact that a technology holder merely declares that a technology is essential does not imply that such a technology is essential according to the criteria described in this point.

253. When technologies in a pool are substitutes, royalties are likely to be higher than they would otherwise be, because licensees do not benefit from rivalry between the technologies in question. When the technologies in the pool are complements the technology pool reduces transaction costs and may lead to lower overall royalties because the parties are in a position to fix a common royalty for the package as opposed to each party fixing a royalty for

its own technology while not taking into account that a higher royalty for one technology will usually decrease the demand for complementary technologies. If royalties for complementary technologies are set individually, the total of these royalties may often exceed what would be collectively set by a pool for the package of the same complementary technologies. The assessment of the role of substitutes outside the pool is set out in point (262).

254. The distinction between complementary and substitute technologies is not clear-cut in all cases, since technologies may be substitutes in part and complements in part. When due to efficiencies stemming from the integration of two technologies licensees are likely to demand both technologies, the technologies are treated as complements, even if they are partly substitutable. In such cases it is likely that in the absence of the pool licensees would want to licence both technologies due to the additional economic benefit of using both technologies as opposed to using only one of them. Absent such demand based evidence on the complementarity of the pooled technologies, it is an indication that these technologies are complements if (i) the parties contributing technology to a pool remain free to license their technology individually and (ii) the pool is willing, besides licensing the package of technologies of all parties, to license the technology of each party also separately and (iii) the total royalties charged when taking separate licences to all pooled technologies do not exceed the royalties charged by the pool for the whole package of technologies.

255. The inclusion of substitute technologies in the pool generally restricts inter-technology competition since it can amount to collective bundling and lead to price fixing between competitors. As a general rule the Commission considers that the inclusion of significant substitute technologies in the pool constitutes a violation of Article 101(1) of the Treaty. The Commission also considers that it is unlikely that the conditions of Article 101(3) will be fulfilled in the case of pools comprising to a significant extent substitute technologies. Given that the technologies in question are alternatives, no transaction cost savings accrue from including both technologies in the pool. In the absence of the pool licensees would not have demanded both technologies. To alleviate the competition concerns it is not sufficient that the parties remain free to license independently. This is because the parties are likely to have little incentive to license independently in order not to undermine the pool's licensing activity, which allows them to jointly exercise market power.

Selection and function of independent experts

256. Another relevant factor in assessing the competitive risks and the efficiencies of technology pools is the extent to which independent experts are involved in the creation and operation of the pool. For instance, the assessment of whether or not a technology is essential to a standard supported by a pool is often a complex matter that requires special expertise. The involvement in the selection process of independent experts can go a long way in ensuring that a commitment to include only essential technologies is implemented in practice. Where the selection of technologies to be included in the pool is carried out by an independent expert this may also further competition between available technological solutions.

257. The Commission will take into account how experts are selected and the functions that they are to perform. Experts should be independent from the undertakings that have formed the pool. If experts are connected to the licensors (or the licensing activity of the pool) or otherwise depend on them, the involvement of the expert will be given less weight. Experts must also have the necessary technical expertise to perform the various functions with which they have been entrusted. The functions of independent experts may include, in particular, an assessment of whether or not technologies put forward for inclusion into the pool are valid and whether or not they are essential.

258. Finally, any dispute resolution mechanisms foreseen in the instruments setting up the pool are relevant and should be taken into account. The more dispute resolution is entrusted to bodies or persons that are independent of the pool and its members, the more likely it is that the dispute resolution will operate in a neutral way.

Safeguards against exchange of sensitive information

259. It is also relevant to consider the arrangements for exchanging sensitive information between the parties [95]. In oligopolistic markets exchanges of sensitive information such as pricing and output data may facilitate collusion [96]. In such cases the Commission will take into account to what extent safeguards have been put in place, which ensure that sensitive information is not exchanged. An independent expert or licensing body may play an important role in this respect by ensuring that output and sales data, which may be necessary for the purposes of calculating and verifying royalties is not disclosed to undertakings that compete on affected markets.

(95) For details on information sharing, see Horizontal Guidelines, point 55 pp., cited in footnote 27.

(96) See in this respect the judgment in *John Deere* cited in footnote 11.

260. Special care should be taken to put in place such safeguards when interested parties participate simultaneously in efforts to form pools of competing standards where this may lead to exchange of sensitive information between competing pools.

Safe harbour

261. The creation and operation of the pool, including the licensing out, generally falls outside Article 101(1) of the Treaty, irrespective of the market position of the parties, if all the following conditions are fulfilled:

(a) participation in the pool creation process is open to all interested technology rights owners;

(b) sufficient safeguards are adopted to ensure that only essential technologies (which therefore necessarily are also complements) are pooled;

(c) sufficient safeguards are adopted to ensure that exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool;

(d) the pooled technologies are licensed into the pool on a non-exclusive basis;

(e) the pooled technologies are licensed out to all potential licensees on FRAND ([97]) terms;

(f) the parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies, and;

(g) the parties contributing technology to the pool and the licensee remain free to develop competing products and technology.

Outside the safe harbour

262. Where significant complementary but non-essential patents are included in the pool there is a risk of foreclosure of third party technologies. Once a technology is included in the pool and is licensed as part of the package, licensees are likely to have little incentive to license a competing technology when the royalty paid for the package already covers a substitute technology. Moreover, the inclusion of technologies which are not necessary for the purposes of producing the product(s) or carrying out the process(-es) to which the technology pool relates or to comply with the standard which includes the pooled technology also forces licensees to pay for technology that they may not need. The inclusion of such complementary technology thus amounts to collective bundling. Where a pool encompasses non-essential technologies, the agreement is likely to be caught by Article 101(1) where the pool has a significant position on any relevant market.

263. Given that substitute and complementary technologies may be developed after the creation of the pool, the need to assess essentiality does not necessarily end with the creation of the pool. A technology may become non-essential after the creation of the pool due to the emergence of new third party technologies. Where it is brought to the attention of the pool that such a new third party technology is offered to and demanded by licensees, foreclosure concerns may be avoided by offering to new and existing licensees a licence without the no-longer essential technology at a correspondingly reduced royalty rate. However, there may be other ways to ensure that third party technologies are not foreclosed.

264. In the assessment of technology pools comprising non-essential but complementary technologies, the Commission will in its overall assessment, *inter alia*, take account of the following factors:

(a) whether there are any pro-competitive reasons for including the non-essential technologies in the pool, for example due to the costs of assessing whether all the technologies are essential in view of the high number of technologies;

(b) whether the licensors remain free to license their respective technologies independently: where the pool is composed of a limited number of technologies and there are substitute technologies outside the pool, licensees may want to put together their own technological package composed partly of technology forming part of the pool and partly of technology owned by third parties;

(c) whether, in cases where the pooled technologies have different applications some of which do not require use of all of the pooled technologies, the pool offers the technologies only as a single package or whether it offers separate packages for distinct applications, each comprising only those technologies relevant to the application in question: in the latter case technologies which are not essential to a particular product or process are not tied to essential technologies;

(d) whether the pooled technologies are available only as a single package or whether licensees have the possibility of obtaining a licence for only part of the package with a corresponding reduction of royalties. The possibility to obtain a licence for only part of the package may reduce the risk of foreclosure of third party technologies outside the pool, in particular where the licensee obtains a corresponding reduction in royalties. This requires that a share of the overall royalty has been assigned to each technology in the pool. Where the licence agreements concluded between the pool and individual licensees are of relatively long duration and the pooled technology

([97]) For details on FRAND see Horizontal Guidelines, point 287 pp., cited in footnote 27.

supports a de facto industry standard, the fact that the pool may foreclose access to the market of new substitute technologies must also be taken into account. In assessing the risk of foreclosure in such cases it is relevant to take into account whether or not licensees can terminate at reasonable notice part of the licence and obtain a corresponding reduction of royalties.

265. Even technology pool arrangements that restrict competition may give rise to pro-competitive efficiencies (see point (245)) which must be considered under Article 101(3) and balanced against the negative effects on competition. For example, if the technology pool includes non-essential patents but fulfils all the other criteria of the safe harbour listed in point (261), where there are pro-competitive reasons for including non-essential patents in the pool (see point (264)) and where licensees have the possibility of obtaining a licence for only part of the package with a corresponding reduction of royalties (see point (264)), the conditions of Article 101(3) are likely to be fulfilled.

4.4.2. *Assessment of individual restraints in agreements between the pool and its licensees*

266. Where the agreement to set up a technology pool does not infringe Article 101 of the Treaty, the next step is to assess the competitive impact of the licences agreed by the pool with its licensees. The conditions under which these licences are granted may be caught by Article 101(1). The purpose of this section is to address a certain number of restraints that in one form or another are commonly found in licensing agreements from technology pools and which need to be assessed in the overall context of the pool. Generally the TTBER does not apply to licence agreements concluded between the pool and third party licensees (see point (247)). This section therefore deals with the individual assessment of licensing issues that are particular to licensing in the context of technology pools.

267. In making its assessment of technology transfer agreements between the pool and its licensees the Commission will be guided by the following main principles:

(a) the stronger the market position of the pool the greater the risk of anti-competitive effects;

(b) the stronger the market position of the pool, the more likely that agreeing not to license to all potential licensees or to license on discriminatory terms will infringe Article 101;

(c) pools should not unduly foreclose third party technologies or limit the creation of alternative pools;

(d) the technology transfer agreements should not contain any of the hardcore restrictions listed in Article 4 of the TTBER (see section 3.4).

268. Undertakings setting up a technology pool that is compatible with Article 101 of the Treaty, are normally free to negotiate and fix royalties for the technology package (subject to any commitment given to license on fair, reasonable and non-discriminatory terms, FRAND) and each technology's share of the royalties either before or after the standard is set. Such agreement is inherent in the establishment of the pool and cannot in itself be considered restrictive of competition. In certain circumstances it may be more efficient if the royalties of the pool are agreed before the standard is chosen, to avoid that the choice of the standard increases the royalty rate by conferring a significant degree of market power on one or more essential technologies. However, licensees must remain free to determine the price of products produced under the licence.

269. Where the pool has a dominant position on the market, royalties and other licensing terms should be non-excessive and non-discriminatory and licences should be non-exclusive [98]. These requirements are necessary to ensure that the pool is open and does not lead to foreclosure and other anti-competitive effects on down-stream markets. These requirements, however, do not preclude different royalty rates for different uses. It is in general not considered restrictive of competition to apply different royalty rates to different product markets, whereas there should be no discrimination within product markets. In particular, the treatment of licensees of the pool should not depend on whether or not they are also licensors. The Commission will therefore take into account whether licensors and licensees are subject to the same royalty obligations.

[98] However, if a technology pool has no market power, licensing out from the pool will normally not infringe Article 101(1) even if those conditions are not fulfilled.

270. Licensors and licensees should be free to develop competing products and standards. They should also be free to grant and obtain licences outside the pool. These requirements are necessary in order to limit the risk of foreclosure of third party technologies and ensure that the pool does not limit innovation and does not preclude the creation of competing technological solutions. Where pooled technology is included in a *(de facto)* industry standard and where the parties are subject to non-compete obligations, the pool creates a particular risk of preventing the development of new and improved technologies and standards.

271. Grant back obligations should be non-exclusive and limited to developments that are essential or important to the use of the pooled technology. This allows the pool to feed on and benefit from improvements to the pooled technology. It is legitimate for the parties to ensure by grant back obligations that the exploitation of the pooled technology cannot be held up by licensees, including subcontractors working under the licence of the licensee, that hold or obtain essential patents.

272. One of the problems identified with regard to technology pools is the risk that they may shield invalid patents. Pooling may raise the costs/risks for a successful challenge, because the challenge might fail if only one patent in the pool is valid. The shielding of invalid patents in the pool may oblige licensees to pay higher royalties and may also prevent innovation in the field covered by an invalid patent. In this context, non-challenge clauses, including termination clauses ([99]), in a technology transfer agreement between the pool and third parties are likely to fall within Article 101(1) of the Treaty.

273. Pools often include both patents and patent applications. If patent applicants who submit their patent applications to pools, where available, use the patent application procedures that allow for a faster granting, this will achieve faster certainty on the validity and scope of these patents.

([99]) See section 3.5.