

The Interface between

Intellectual Property Rights *and* Competition Policy

Edited by Steven D. Anderman

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THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY

Edited by
STEVEN D. ANDERMAN

IP academy
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THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY

The purpose of this book is to examine the experience of a number of countries in grappling with the problems of reconciling the two fields of competition policy and intellectual property rights. The first two parts of the book indicate the variation in legislative models as well as the wide variety of judicial and administrative doctrines that have been used. The jurisdictions selected for study are the three major trading blocks with the longest experience of case law, the EU, the USA and Japan, and three less populous countries with open economies, Australia, Ireland and Singapore. By setting out the legislative and judicial and administrative alternatives available in those constituencies with some experience of dealing with the interface, this research study provides a reference work which can be used as a resource to throw light on how the two fields of law can be adapted to create a coherent whole in the particular circumstances of any one legal system.

In the third part of the book a number of issues closely related to the interface between competition law and intellectual property rights are examined. Separate chapters analyse: (i) the issue of parallel trading and exhaustion of IPRs, a system of legal rules that creates its own interface with the exercise of IPRs alongside the competition rules, (ii) the issue of technology transfer showing the important differences between international IP licensing and foreign direct investment as well as highlighting how limits on technology spillover are set in bilateral investment treaties, and (iii) the economics of the interface between intellectual property and competition law to suggest how economic thinking may find a way of interacting with legal argument in this field.

NOTES ON CONTRIBUTORS

STEVEN D. ANDERMAN is Professor of Law at the University of Essex. He has been an expert on competition policy to the Economic and Social Committee of the European Union since 1984. He is currently advising the IP Academy and the Intellectual Property Office of Singapore on the interface of IP with the new Singapore competition law while also advising the Singapore Competition Commission on the implications of the new Competition Act and the preparation of Block Exemption Regulations and Guidelines.

MIRANDA FORSYTH is a Lecturer in Law at the University of the South Pacific where she teaches criminal law and is currently developing a course in intellectual property law in the South Pacific. She studied at the University of Melbourne, and as a postgraduate at the University of Connecticut. She is currently completing a PhD at the Australian National University on the relationship between the customary justice system and the state justice system in Vanuatu.

FRANCES HANKS is Senior Fellow in the Faculty of Law, University of Melbourne. She is an expert on competition law. She is a member of the trade practices committee of the Law Council of Australia, a body which advises the government on proposed changes to competition law. Recent publications include: 'The Benefits and Costs of Copyright: An Economic Perspective', 'The Treatment of Natural Monopoly under the Australian Trade Practices Act: Four Recent Decisions' and 'Intellectual Property and Price Discrimination: A Challenge for Australian Competition Law'.

CHRISTOPHER HEATH studied at the Universities of Konstanz, Edinburgh and the London School of Economics. He lived and worked in Japan for three years, and between 1992 and 2005 headed the Asian Department of the Max Planck Institute for Patent, Copyright and Competition Law in Munich. He is now a Member of the Boards of Appeal at the European Patent Office in Munich. He is the editor of the Max Planck Institute's

Asian Intellectual Property Series and the Asian editor of the Max Planck Institute's publication *IIC*.

ROHAN KARIYAWASAM is a Lecturer in Law, Director of the Program in Information Technology, Media and E-Commerce Law, and Member of the Human Rights Centre at the University of Essex. He qualified as a technology lawyer with Denton Hall (Denton Wilde Sapte) and has worked as a consultant with several global law firms, and as an external consultant to the United Kingdom's Department for International Development and Office of Telecommunications, and also Cable & Wireless.

IMELDA MAHER is Sutherland Professor of European Law, University College Dublin. She was Director of the Centre for Competition and Consumer Policy, Regulatory Institutions Network, at the Australian National University. She has published extensively on competition law and EU law and is author of *Competition Law: Alignment and Reform* (1999). Recent publications include 'Innovation, Competition, Standards and Intellectual Property' (co-edited with Peter Drahos, 2004) and 'The Interface of EC Competition Law and Intellectual Property Rights: The Essential and the Innovative' (2005).

BURTON ONG is a member of the Faculty of Law at the National University of Singapore. His current research interests include the anti-competitive consequences of expanding intellectual property protection to include industry standards and other new subject matter. He is a Fellow of the Singapore IP Academy where he teaches Patent Law and Antitrust Law in its Graduate Certificate in Intellectual Property Programme, and has given public seminars to civil servants, legal professionals and non-lawyers in and around Singapore.

RUDOLPH J. R. PERITZ is Professor of Law and Director of the IPProgress Project at New York Law School. Before entering the legal profession, he was a software engineer and programmer for mainframe computer systems. He has been Visiting Professor at LUISS, Rome, and at the University of Essex, and lectures regularly in Europe and the United States. He has written on competition law as well as intellectual property rights and cyberlaw. He is currently at work on an IP project entitled *The Political Economy of Progress*.

PIERRE RÉGIBEAU is a Reader in Economics at the University of Essex. He has been on the faculty of the Sloan School of Management (MIT), Kellogg School of Management and Institute for Economics (Barcelona). He is a fellow of the Centre for Economic Policy Research. His research interests include the economics of technology and intellectual property, the internal organisation of firms, competition policy and international trade policy. He is the Managing Editor of the *Journal of Industrial Economics*.

KATHARINE ROCKETT is a Senior Lecturer at the University of Essex. She has previously served as a visiting Assistant Professor at the Institut d'Analisi Econòmica, in Barcelona and an Assistant Professor at Northwestern University. Her interests are in the field of industrial organisation, particularly the economics of new technologies. More specifically, her work has been in the areas of licensing strategy, the economics of patents, the interface between intellectual property and competition policy, and organisational issues raised by new technologies.

WARWICK A. ROTHNIE practices intellectual property law, having spent ten years at Mallesons Stephen Jaques in Melbourne as a Senior Associate and Partner, and, since 2002, as a barrister. He teaches patents in the postgraduate program at the University of Melbourne, having previously taught copyright and designs. Publications include *Parallel Imports* (1993) and, with Valentine Korah, *Exclusive Distribution and the EEC Competition Rules* (2nd edn, 1992).

HEDVIG K. S. SCHMIDT is a Lecturer in Law at the University of Southampton where she teaches courses in EU law and European and international competition law. She has previously worked as a research fellow at BIICL, which included organising and teaching at a seminar for national judges in competition law sponsored by the European Commission. In 2005 she received an award to visit the Max Planck Institute for Intellectual Property, Competition and Tax Law in Munich and further her research into the interface issues of intellectual property and competition law.

PREFACE

This work owes its origin to the Singapore IP Academy, which was established in January 2003 as a result of a national initiative. Acknowledging the value and importance of intellectual assets and creativity as primary sources of wealth and competitive advantage, the broad objective of IP Academy is to contribute to the building of a thriving culture that encourages the management and harnessing of innovation, and the resultant IP rights for the achievement of success in this global, knowledge-driven economy. Although at present it is largely funded by the Singapore Government, it is an independent body.

Professor Gerald Dworkin and Associate Professor Loy Wee Loon were IP Academy's founding directors from January 2003 to December 2004. They have been succeeded by Professor David Llewelyn as director and Ms. Ng Lyn as deputy director.

One aspect of the IP Academy's work is training. A broad range of courses, of varying lengths, are being provided for all those who can benefit from an understanding of intellectual property. At one extreme are university-based courses. For example, the Graduate Certificate in Intellectual Property provides a foundation course suitable for those seeking to qualify as registered patent agents in Singapore, and the MSc in IP Management is targeted at mid to senior management, executives and professionals with a background in science, technology or engineering who wish to specialize in the management of IP in a technology-related business. At the other extreme are a stream of short courses, for example Negotiating Skills for IP-Related Technology Transactions and Performing Arts Management: Copyright and Performing Rights for Practitioners.

The other major aspect of IP Academy's work is 'Thought Leadership', namely the promotion of research. Its research projects take on a multi-disciplinary focus straddling management, social, economic and legal perspectives. The research faculty supports both local and regional development of best practices in IP policy and endeavours to improve the ability of businesses, professional research institutions and other creators of IP to exploit and commercialise their IP.

Shortly after the IP Academy began its work, the government announced that it was proposing to introduce a framework of competition law for

Singapore. Because of the close relationship between competition and intellectual property law, this development provided an excellent opportunity for the IP Academy to promote its research programme and to assist those responsible for determining the nature of such legislation.

The IP Academy was fortunate in enlisting Professor Steve Anderman to lead an internationally based team to provide an examination of this interface between competition and intellectual property rights in different legal systems. It was hoped that the outcome of the study would produce findings and set out policy options of relevance to those responsible for the drafting and implementation of competition legislation in Singapore; an opportunity to provide customised national legislation in its broader international context.

As the policy formulation and draft legislation proceeded, some of the research work and the experts involved fed in their own contributions, at the very least to better inform and assist the decision makers. Thus, in the early stages, there was an expert Roundtable meeting: 'Issues at the Interface between Intellectual Property and Competition Law: Dealing with the Residual Conflicts'. This was followed by a conference for the Singapore legal profession and others: 'The New Competition Bill and its Implications for Intellectual Property Rights'.

The Singapore Competition Act is now in place. It is hoped that the IP Academy played a useful role in assisting the way in which the legislation was framed. The IP Academy is most grateful to Steve Anderman and to all his colleagues who embarked upon the project with such enthusiasm. It is to be hoped that the work which they have done will be of interest and of value to a wider international audience.

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The competition law/IP ‘interface’: an introductory note

STEVEN D. ANDERMAN

I. Introduction

Competition policy and intellectual property rights (IPRs) have evolved historically as two separate systems of law. Each has its own legislative goals and each its own methods of achieving those goals. There is a considerable overlap in the goals of the two systems of law because both are aimed at promoting innovation and economic growth.¹ Yet there are also potential conflicts owing to the means used by each system to promote those goals. IP 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, 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 IP laws.

In recent decades, competition authorities and courts have prohibited conduct by intellectual property owners which was otherwise lawful under intellectual property rights legislation, because it contravened the rules of competition law. This has occurred in four main spheres of activity of IP owners. First, cases have been brought by the competition authorities in the USA, the EU and Japan to place limits on the anticompetitive commercial conduct of individual owners of IPRs where they protect a market standard or de facto monopoly.² The competition issue presented in these cases has generally been the IP owner's exclusionary conduct towards innovators and potential competitors on markets which are secondary to and dependent upon an IPR protected industrial standard or de facto monopoly. The anti-competitive conduct has tended to take the form of a ‘refusal to deal’, ‘refusal to license’, ‘refusal to provide proprietorial software interface codes’, or a ‘tie-in’ or illegal ‘bundling’, but the act is prohibited because it is viewed as an attempt to ‘lever’ the IP reinforced market power in the ‘primary’ market into exclusionary conduct in the secondary market.³ Secondly, the competition

authorities in the USA, the EU and Japan have created a detailed framework of regulation for certain terms of bilateral IPR licensing agreements, whether by means of official guidelines or legislation. Thirdly, the practices of collecting societies, R&D agreements and patent and technology pools have raised the issue of the appropriate treatment of cooperation between competitors in IP related fields under the competition rules. Finally, in the field of mergers and acquisitions, the owners of intellectual property rights have found that competition authorities have intervened on occasion to limit IPR owners from acquiring competing technologies⁴ as well as to require compulsory licences of IPRs to third parties as a condition of merger approval.

As modern commercial practices involving the use of intellectual property rights have encountered these forms of 'second tier' regulation by competition authorities, concerns have been raised about the nature of the accommodation between the two systems of law.⁵ First, to what extent and on what basis do the competition authorities and the courts have authority to limit the exercise of intellectual property rights in these ways? If IPRs are granted by laws which have their own elaborate system of checks and balances, why is it necessary for competition law to add a second layer of legal regulation to the exercise of IPRs? It appears as if the competition authorities in a number of jurisdictions take the view that their role is a form of public law regulation while the exercise of an IPR is essentially the exercise of a private property right. Certainly, in the USA and the EU, the competition authorities have at times described IPRs as 'essentially comparable' to any other form of private property for the purposes of the competition rules.⁶ To what extent do legislation and judicial decisions support the competition authorities in that view?

Secondly, despite the use of this description, when competition law is actually applied to the exercise of IPRs, in these same jurisdictions, concessions are often consciously made *within the competition rules* to the unique nature of intellectual property rights: to their legislative and, in the USA, their constitutional basis as well as to their contributory role in the process of innovation. Indeed, the compatibility between the aims of the two systems tends to ensure that the normal exercise of the prerogatives of intellectual property rights is consistent with the competition rules. The competition rules applied to IPRs, either explicitly or implicitly, almost inevitably acknowledge a form of 'comity' between the two systems of law. Yet, the forms of comity developed within the competition rules in different legal system have tended to differ from system to system.

A third issue raised by the emergence of an extra layer of regulation of IPRs by the competition authorities is to what extent could and should the various IPR laws themselves, the patent, copyright, and design rights laws be reformed in order to reduce the extent of the 'external' regulatory role now played by competition law. To what extent does the experience of interface

cases suggest that the IP laws can enhance the nature and degree of comity by embarking upon a process of 'internal' reform? Some issues of reform that have been considered are: (i) the optimum width and duration of patent and copyright protection; (ii) the issue whether industrial copyright laws should provide for compulsory licensing where innovation is improperly obstructed by IP owners along lines similar to patents; (iii) the extent to which industrial copyright such as software programs and databases should be subject to interoperability obligations under IP law; and (iv) the extent to which IP laws can and should acknowledge when the IPR itself creates a monopoly and place limits on the scope of the IP protection. Underlying these enquiries is perhaps the largest policy issue of all: what is the most appropriate relationship between competition policy and IPRs in a growing industrial economy?

If we look at the major legal systems with extensive experience of the coexistence of the two fields of law, the EU, the USA and Japan, we can see considerable variation in their chosen forms of accommodation. The major legal systems have generally accepted that there are cases where the market maintenance concerns of competition law can prevail over the exercise of IPRs associated with substantial market power. However, the nature of this accommodation varies considerably with each system; both in terms of method and where the line is drawn. Moreover, the experience of these countries makes it plain that the true extent of variation cannot be appreciated by a cursory examination. To see it clearly and accurately requires a look in some depth. For example, in Japan, at first sight its competition law gives an extensive legislative immunity to intellectual property rights; the Japanese Antimonopoly Act exempts intellectual property rights from the scope of its application. Yet, on closer examination, the provision has not been interpreted as an overall exemption to all exercises of intellectual property rights but can be limited in cases of private monopolisation or undue restraint of trade (See Chapter 4). In the EU and US, in contrast, there are no explicit legislative immunities in the competition rules of Articles 81 and 82 of the European Treaty or Sections 1 and 2 of the Sherman Act. Instead, the general competition rules in both legal systems have been given judicial and administrative interpretations that result in their application to the exercise of IPRs in extreme cases. Both systems have created wide general norms of competition law which if not modified can apply to limit the exercise of IPRs. Yet, on closer examination, the application of the general competition rules in the US and the EU has resulted in the evolution of judicial and administrative doctrines which apply special rules and even self-denying ordinances acknowledging to a considerable extent the *sui generis* nature of IPRs, their constitutional foundations in the USA and their legislative foundations in the EU. Sometimes these forms of comity are given expression in special rules explicitly designated for IPRs. One example is offered by the 'exceptional circumstances' test devised by the European Court of Justice when applying Article 82 to an issue of abusive refusal to licence by an IP

owner. More often, there are powerful partial immunities or safe havens built into the logic of the general competition rules when they are applied to the acts of the conduct of the IP owner. Often this is the logical outcome of the two systems of law pursuing similar aims. For example, both US and EU competition law make it clear that if a company grows by internal investment in R&D and IPRs to a position of significant market power that is perfectly lawful under the competition rules. Moreover, if the owners of IPRs wish to charge high prices for their successful products protected by IPRs, the risks of investment *ex ante* will be respected by the competition rules in each legal system albeit in different ways. The normal exercise of IPRs is by judicial doctrine viewed as lawful under the competition rules but each system has its own line where the exercise of an intellectual property right is not viewed as normal under the competition rules.

The purpose of this book is to examine the experience of a number of countries in grappling with the problems of reconciling the two systems and dealing with interface issues. The book is divided into three parts. The first two parts of the book indicate the variation in legislative models as well as the wide variety of judicial and administrative doctrines that have been used to attempt to deal with problems raised at the interface between intellectual property rights and competition law. The jurisdictions selected for study are the three major trading blocks with the longest experience of case law: the EU (Chapter 2), the USA (Chapter 3) and Japan (Chapter 4) and three less populous countries with open economies, Australia (Chapter 5), Ireland (Chapter 6) and Singapore (Chapter 7).

In these parts, the intent is not to attempt to arrive at a definitive model of reconciliation between the systems of legal regulation or even a recommended 'best practice'. The examination in depth of the different jurisdictions makes it plain that each system must determine its own appropriate accommodation. It is true that recently, efforts have intensified in different jurisdictions to find the most appropriate basis upon which to combine the two policies into a coherent whole for the purposes of innovation policy. In the USA the Antitrust Division of the Department of Justice and the Federal Trade Commission have held extensive hearings on the interface issue.⁷ In the EU the Technology Transfer Block Exemption Regulation has recently been significantly reshaped and a series of conferences have been held with the aim of obtaining a clearer idea of the best way to apply competition law to the commercial exercise of intellectual property rights.⁸ In Australia the Intellectual Property Review Committee was established both to review IP laws from the standpoint of competition and to recommend a reform of the width of the exemption the Trade Practices Act gave to the exercise of intellectual property rights. In many countries with new competition laws which have already enacted IP legislation, such as India, China, Singapore and Hong Kong, there is a need to shape the overall system to deal with the

inevitable conflicts that can arise when the exercise of IPRs runs into the buffers of the competition rules. Finally, in the USA, EU and Japan, the interest in the interface has been whetted by the growth of digital multi-media technology and the potential legal roadblocks in the new technological environment. Nevertheless, it seems almost inevitable that the optimum method of reconciliation will differ for each national system depending upon its legal culture and its state of economic development.

Hence the overall aim of this book is the more modest one of setting out the array of options on offer, the legislative and judicial and administrative alternatives available in those constituencies with some experience of dealing with the interface. The intention is to produce research findings in sufficient depth so that the experience of the selected legal systems can be understood and used as points of reference by competition authorities and the parties involved in interface disputes. This is a research study that should be viewed as a reference work and a resource to be adapted to the particular circumstances of any one legal system.

In the third part of the book we look at a number of issues closely related to the interface between competition law and intellectual property rights. Chapter 8 analyses the issue of parallel trading and exhaustion of IPRs, a system of legal rules that creates its own interface with the exercise of IPRs alongside the competition rules. Chapter 9 discusses the issue of technology transfer showing the important differences between international IP licensing and foreign direct investment as well as highlighting how limits on technology spillover are set in bilateral investment treaties. Finally, Chapter 10 examines the economics of the interface to suggest how economic thinking may find a way of interacting with legal argument in this field.

II. A note on the compatibilities between the two systems of legal regulation

Even without a legislative immunity for IPRs, the case law interpreting the competition legislation in the countries studied demonstrates that the competition rules create certain self-denying ordinances to ensure that there is an extensive reconciliation between the two systems of legal regulation. This is entirely to be expected since, within each legal system, the different means used by intellectual property rights legislation and competition law operate in many ways in conjunction rather than in conflict with each other. IP laws, such as patent and copyright laws, confer an exclusive right to exploit an invention or creation commercially for a limited period as an incentive to creation and innovation. These rights are essentially 'negative' rights; they prevent copying of the protected innovations. They do not ensure profitability but if the IPR is combined with a successful product, the legal exclusivity provides a stimulus to innovation by acting both as a reward to the

inventor/creator and as an incentive to innovation more generally. In the case of patents, without the protection of exclusivity, firms may choose to keep their innovative ideas secret as opposed to disclosing them in their patent claims. This stimulus to the spread of information is also a stimulus to innovation resulting in new products and processes entering existing markets and creating new markets. In these ways, intellectual property rights can actually enhance the forces of competition.

Moreover, each IP law, as well as competition policy, strikes its own balance between protecting early innovators and protecting the claims of 'follow on' innovators. IP laws, such as patent and copyright laws, strike an 'internal balance' between the rewards for 'the improvements on earlier invention by later innovators', and the rewards to 'early innovators . . . for the technological foundation they provide to later innovators'.⁹ As Merges and Nelson have pointed out: 'Ultimately it is important to bear in mind that every potential inventor is also a potential infringer. Thus a strengthening of property rights will not always increase incentives to invent; it may do so for some pioneers, but it will also greatly increase an improver's chances of becoming enmeshed in litigation.'¹⁰ In copyright, the idea/expression dichotomy operates to ensure that copyright contributes to common knowledge while protecting the originator or creator from copying the expression of his or her work. In other words, IP laws usually attempt to strike a balance between providing sufficient incentives to innovation by the creator/inventor and avoiding the protection of any single innovation operating as a disincentive to cumulative 'follow on' innovation.

At the same time, the basic doctrines of modern competition law work in conjunction with IP laws by acknowledging their positive role in the process of innovation in at least five major respects. First and foremost, both the US and the EU competition laws accept that the achievement of an economic monopoly by means of investment R&D and intellectual property rights is a legitimate course of conduct for a firm, a form of 'competition on the merits'. Secondly, and relatedly, both EU competition law and US antitrust law acknowledge that the pricing of IPRs, even by dominant firms, must include a return which *adequately* reflects the reward/incentive function of IPRs as well as the ex ante investment risks of their owners. Thirdly, the competition laws in both systems *in most cases* give recognition to the right of IPR owners to prevent copying even if the exercise of this right denies access to markets to competitors. Fourthly, the competition laws in both systems no longer automatically assume that the legal monopoly conferred by IP laws, such as patent and copyright legislation, automatically amounts to an economic monopoly or even confers market power. That issue is left to be established empirically. Finally, in their analysis of IP licensing agreements both systems of competition policy work with the presumption that the licensing of IPRs is in general pro-competitive in its effects.