Competition Law, Technology Transfer and the TRIPS Agreement

Implications for Developing Countries

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Abbreviations

AG	Advocate General
Antitrust–IP Guidelines	US Antitrust Guidelines for the Licensing of Intellectual Property of 1995, available at www.usdoj.gov/atr/public/guidelines/0558.pdf
Article 82 EC Guidance	European Commission Guidance on the Commission's enforcement priorities in applying Article 82 EC to abusive exclusionary conduct by dominant undertakings, OJ 2009 C 45/7
ARV	Anti-retroviral
BIT	Bilateral Investment Treaty (US)
CCHC	Competition Case Handling Council (Vietnam)
CCS	Competition Commission of Singapore
CDIP	Committee on Development and Intellectual Property (WIPO)
CD-R(s)	Recordable Compact Disc(s)
CFI	Court of First Instance (EU)
CUTS	Consumer Unity & Trust Society (India)
DC	District of Columbia
DOJ	Department of Justice (US)
DSB	Dispute Settlement Body (WTO)
DSU	Understanding on Rules and Procedures Governing the Settlement of Disputes (WTO)
EC	European Community (Communities)/Treaty Establishing the European Community
ECJ	European Court of Justice
EFV	Efavirenz (anti-AIDS medicine)
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
FTAIA	Foreign Trade and Antitrust Improvements Act (US)
FTC	Federal Trade Commission (US)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
ICN	International Competition Network

ICTSD	International Centre for Trade and Sustainable Development
IDRC	International Development Research Centre (Canada)
IP	Intellectual Property
IPR(s)	Intellectual Property Right(s)
ISO(s)	Independent Service Organization(s)
ITC	International Trade Commission (US)
ITO	International Trade Organization
KFTC	Republic of Korea's Fair Trade Commission
LDC(s)	Least Developed Country (Countries)
MFN	Most Favoured Nation (treatment)
MNC(s)	Multi-National Corporation(s)
MRFTA	South Korea's Monopoly Regulation and Fair Trade Act
NAFTA	North American Free Trade Agreement
NOIP	National Office of Intellectual Property of Vietnam
OECD	Organization for Economic Co-operation and Development
OUP	Oxford University Press
PC	Personal Computer
R&D	Research and Development
SACC	South Africa's Competition Commission
SSO(s)	Standard Setting Organization(s)
TAC	Treatment Action Campaign (South Africa)
TFTC	Taiwan's Fair Trade Commission
TIPO	Taiwan's Intellectual Property Office
ToT Code	UNCTAD International Code of Conduct on the Transfer of Technology
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TRIPS Council	Council for Trade-Related Aspects of Intellectual Property (WTO)
TT Guidelines	European Commission Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, OJ 2004 C 101/2
TTBER 2004	European Commission Regulation No. 772/2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ 2004 L 123/11
UN	United Nations

UNCTAD	United Nations Conference on Trade and Development
US	United States of America
VCAD	Vietnam's Competition Administration Department
VLC	Vietnam's Law on Competition of 2004
WB	World Bank
WGTCP	Working Group on the Interaction between Trade and Competition Policy (WTO)
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Preface

Competition law and IP law are 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. The negative effects of such exercise are not limited to the territory of one country. They expand to other countries, especially now IP protection is globalized while competition law is still a domestic issue. Applying competition law to control IPR abuses in general, and international technology transfer-related anti-competitive practices in particular, needs to be considered at both domestic and international levels.

Issues concerning IPR-related competition law in general, and competition rules regarding technology transfer under the TRIPS Agreement in particular, have been studied from a variety of perspectives for a long time. However, they have been, and will continue to be, controversial issues because of their complexity and the way the issues change over time. They are also one of the most difficult issues in legal studies.

Although the competition issue, one of the four so-called Singapore issues, was no longer on the negotiating agenda of the WTO in the Doha Round, it is still a timely and 'hot' issue at both domestic and international levels. As IPRs are protected globally by the minimum standards of the TRIPS Agreement, or even the higher standards of TRIPS-plus bilateral or regional agreements, competition law plays a very important role in addressing possible IPR abuses. It is commonly accepted that competition law should develop in tandem with the development of IP protection. Countries that do not have competition laws on their books and enforced deprive themselves of an important public interest safeguard. Appropriate competition law and policy towards technology transfer depend on, and should be compatible with, the level of development and the economic, political, and institutional environment of a country. There are many ways to adopt and apply domestic competition law to technology transfer so as to foster domestic economic growth and consumer welfare.

It seems that developed countries have tailored their competition law to cover IPRs in general, and technology transfer in particular, all in the light of their overall innovation objectives. Aiming at promoting innovation and

protecting IPR holders, the developed countries are trying to minimize the impact of competition law on technology transfer. However, intervention can be undertaken if it is proved, on a case-by-case basis, that IPR-based market power is unreasonably restraining competition in the relevant market. From the competition law perspective in developed countries, IPRs (and technology) are considered like other kinds of property. Any IPR-related anti-competitive practices, including both collusive and unilateral conduct, are scrutinized under competition law with due regard to the legal monopoly granted by IP law to right holders.

In contrast, competition law is quite new and not well developed in most developing countries. Further, even if certain IPR-related anti-competitive conduct may be addressed in their competition and/or IP legislation, developing countries rarely apply these laws. In practice, finding an optimal solution in a specific case for the application of competition law to technology transfer is not an easy task for competition authorities, even in developed countries. The competent authorities in developing countries are faced with greater and more serious problems. This is one of the reasons why developing countries rarely use competition flexibilities in the TRIPS Agreement to address international technology transfer-related anti-competitive conduct.

This book, which focuses on competition law and technology transfer in the context of the competition flexibilities of the TRIPS Agreement, has two purposes. The first is the investigation of competition law and international technology transfer under the TRIPS Agreement in the light of the experience of both developed and developing countries. The second is the drawing of relevant implications for developing countries. Chapter 1 of the book analyses technology transfer and competition rules under the TRIPS Agreement. Chapter 2 investigates the application of competition law to technology transfer in the US and the EU, two representatives of the developed world. A similar investigation in developing countries is made in Chapter 3, with the focus on a handful of specific cases, and Vietnam is selected as a case study. In Chapter 4, the global development of the relationship between competition law and technology transfer is reviewed with a focus on the perspective of the WTO. Possible implications for developing countries are discussed in Chapter 5. It is worth noting that the issues discussed in this book are limited to two categories of anti-competitive practices in the context of international technology transfer. They are: (i) anti-competitive contractual restraints in international technology transfer agreements, and (ii) unilateral abuses by IPR holders which relate to refusal to transfer and excessive pricing of technology-embodied products, where no technology transfer agreement is available, together with compulsory licensing as a remedy correcting those abuses.

In this book, the term 'technology' is confined to patents, know-how, soft-

ware copyright, or a combination of them.[1] The term 'technology transfer', unless otherwise stated, is understood as licensing between two unconnected firms, which is directly related to the production, or assignment of the technology. Therefore, issues relating to technology pools, standard setting, IPR settlement, technology transfer-related mergers and acquisitions are outside the scope of the book. As to the terms 'developed countries' and 'developing countries', there are no definitions of developed and developing countries in the WTO. According to a recent UNCTAD report, Japan and Israel in Asia, Canada and the US in America, Australia and New Zealand in Oceania, and the EU Member States, Iceland, Norway and Switzerland in Europe are considered as developed countries.[2] The other countries, including LDCs, are classified as developing countries for the purpose of this book, unless otherwise stated. Note also that the terms 'competition law' and 'antitrust law' are used equivalently. All of the websites indicated in this book were revisited and double-checked for the last time on 22 September 2009.

This book is an updated and revised version of my doctoral dissertation which I successfully defended on 10 June 2009 at the Faculty of Law, Lund University, Sweden. It would not have been accomplished without the advice, help, encouragement and inputs of several people. I would like to express my sincere gratitude to all of them, particularly: Hans Henrik Lidgard, Bengt Lundell, Christina Moëll, Jeffery Atik, Katarina Olsson, Lars Göran Malmberg, Xavier Groussot, Timo Minssen, Mats Tjernberg, Hans Liepack, Helena Josefsson, Marcus Glader, Jens Schovsbo, Elbert L. Robertson, Annette Kur, Marina Lao, Hannu Wager, Jayashree Watal, Thu-Lang Tran Wasescha, Nguyen Van Luyen, Phan Huy Hong, Le Thi Bich Tho, Mai Hong Quy, Nguyen Thai Phuc, and the editors of Edward Elgar Publishing. Furthermore, I thank my parents, my siblings and my sister's son for their unlimited, fullest and warmest support, care and love. Mother and father, Châu-Thành, this book is dedicated to you.

Last but not least, all constructive comments and criticism on this book are welcome. I can be reached at tu.nguyen@jur.lu.se or ttgntt@gmail.com.

Lund, September 2009
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[Nguyễn Thanh Tú]

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[1] It coincides with the definition in Article 1.1 of the TTBER 2004.

[2] UNCTAD (2009), 'Trade and Development Report 2009', UNCTAD/TDR/2009, p. xi. The list of developed countries used in this report (except Iceland and Israel) is similar to the list of countries having submitted reports to the TRIPS Council in pursuance of developed country Members' commitments under Article 66.2 of the TRIPS Agreement. See WTO (2008), 'Submissions under Article 66.2 of the TRIPS Agreement', IP/C/W/522.

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1. Technology transfer and competition rules under the TRIPS Agreement

1.1 INTRODUCTION

1.1.1 Overview

The TRIPS Agreement is one of the most important agreements of the WTO, which itself has its origin in the GATT 1947. The GATT 1947 provided the legal framework governing world trade in goods between the 'contracting parties' until the emergence of the WTO on 1 January 1995, the GATT 1947 being now incorporated into the GATT 1994. Although the GATT 1947 aims at trade in goods, it does contain some provisions on IPRs.[1] However, no special attention was paid to these IPR-related provisions until the end of the Tokyo Round (1973–1979), where the question of counterfeit goods was examined in 1978–1979. A draft of the Agreement on Measures to Discourage the Importation of Counterfeit Goods was then circulated in 1982.[2] This draft was discussed in the Uruguay Round (1986–1994) but in the broader context: trade-related aspects of IPRs, including trade in counterfeit goods.[3] Negotiations in the Uruguay Round were gradually focused on trade-related aspects of IPRs.[4] Finally, the TRIPS Agreement was concluded as part of a WTO package in 1994. As a result, IP protection has become an integral part of the WTO multilateral trading system.

The TRIPS Agreement establishes minimum standards of protection for a globalized IP regime instead of creating a uniform or deeply harmonized one.[5] It can be regarded as a multilateral rule of law to the extent to which WTO Members must now protect the IP of other Members' nationals. The conclusion

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1 See Articles XX(d), XII.3(iii), XVIII.10 and IX.6 of the GATT 1947.

2 GATT document L/5382, 18 Oct. 1982.

3 See the Punta del Este Declaration in 1986 launching the Uruguay Round, MIN.DEC, 20 Sept. 1986.

4 See the drafts of the TRIPS Agreement: Anell Draft (MTN.GNG/NG11/W/76, 23 July 1990), Brussels Draft (MTN.TNC/W/35/Rev.1, 3 Dec. 1990), and Dunkel Draft (MTN.TNC/W/FA, 20 Dec. 1991).

5 Article 1(1) of the TRIPS Agreement.

of the TRIPS Agreement brought four major changes to the development of global IP protection, in terms of both substantive and procedural law. First, unlike previous international agreements concerning IPRs, the TRIPS Agreement is part of a global rules-based multilateral trading system, the WTO. Consequently, disputes between WTO Members relating to IPRs may be settled under the DSU.[6] Second, the scope of the TRIPS Agreement is very broad, although the initial aim of the TRIPS Agreement negotiations was to develop a multilateral framework 'dealing with international trade in counterfeit goods'.[7] It encompasses almost all types of IPRs, ranging from copyright and related rights, trademarks, geographic indications, industrial designs, patents, layout designs (topographies) of integrated circuits, and protection of undisclosed information.[8] Furthermore, the TRIPS Agreement incorporates various WIPO conventions by reference.[9] Its scope may, therefore, be interpreted very broadly.[10] Third, the TRIPS Agreement enumerates detailed rules on enforcement, one of the most difficult aspects of an IP regime, which include civil and administrative procedures and remedies, provisional measures, border measures, and criminal procedures.[11] Fourth, the TRIPS Agreement clearly confirms the adverse effect of IPR abuses and IPR-related anti-competitive practices. It contains some provisions, albeit discretionary, to prevent and control such anti-competitive practices.[12]

The TRIPS Agreement is, to some extent, based on a balance between the interests of innovators (inventors/creators) and users. It also aims to create a proper balance between competition and appropriation.[13] It is consistent with a move towards more open and market-based economic policies. It contains flexibilities, which give leeway for WTO Members' variations and different approaches, because certain issues are not covered or defined under the TRIPS

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6 The TRIPS Agreement is one of the agreements covered by the DSU.

7 Punta del Este Declaration, *supra* note 3.

8 See Articles 9–39 of the TRIPS Agreement. However, authors' moral rights, utility model protection, and protection against unfair competition are excluded.

9 They are the Paris Convention (1967), the Berne Convention (1971), the Rome Convention (1961), and the Treaty on Intellectual Property in Respect of Integrated Circuits (1989).

10 Although trade names are not explicitly mentioned in the TRIPS Agreement, the WTO Appellate Body stated that 'Members do have an obligation under the TRIPS Agreement to provide protection to trade names'. *United States – Section 211 Omnibus Appropriation Acts of 1998*, WT/DS176/AB/R, circulated on 2 Jan. 2002 (*US – Havana Club*), para. 341.

11 Articles 41–61 of the TRIPS Agreement.

12 See *infra* Section 1.3.3.

13 Cottier, Thomas and P. Véron (eds) (2008), *Concise International and European IP Law: TRIPS, Paris Convention, European Enforcement and Transfer of Technology*, Alphen aan den Rijn: Kluwer Law International, p. 2.

Agreement, and some are prescribed by providing alternative choices for the Members. Four types of flexibilities may be identified. They are flexibilities concerning: (i) methods of implementing TRIPS Agreement obligations; (ii) substantive standards of protection; (iii) mechanisms of enforcement; and (iv) areas not addressed by the TRIPS Agreement. [14]

There are divergent narratives on how the TRIPS Agreement was created.[15] The most acceptable one is that the TRIPS Agreement was part of a package deal linked to significant divergences on types, scope, and length of IP protection between developed and developing countries. From the perspective of developed countries, strengthening of IPRs as part of the process of trade liberalization, as well as the emergence of the TRIPS Agreement during the Uruguay Round, derived from three fundamental considerations. They are: (i) the increasing economic importance of, and the need for, IP protection, (ii) the deficits in, and weaknesses of, traditional international IP protection, and (iii) the deficits in both unilateral measures and bilateral agreements concerning IPRs.[16] In this view, a uniform set of high standard IP protection promotes innovation and creativity, attracts trade and investment, and encourages technology transfer; strong domestic IP rules are indeed considered to be essential to economic growth and development. The TRIPS Agreement, therefore, has been, and continues to be, defended by its strongest proponents: the US, the EU, Japan, and their respective high-tech industries.[17] However, developing countries, as late-comers in technological fields, often have limited types, scope, and length of IP protection as part of their catching-up strategies. This was also the case in the history of IP protection in the US, Japan, and newly

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[14] WIPO (2008), 'Report on the International Patent System', Standing Committee on the Law of Patents, SCP/12/3, para. 146.

[15] There are four narratives of the TRIPS Agreement, namely the bargain narrative, the coercion narrative, the ignorance narrative, and the self-interest narrative. Yu, Peter K. (2006), 'TRIPS and its Discontents', *Marquette IP L. Rev.*, **10**, 371–379; Gervais, Daniel J. (2008), 'Trade and Development', in Daniel J. Gervais (ed.), *Intellectual Property, Trade and Development: Strategies to Optimize Economic Development in a TRIPS-plus Era*, Oxford: OUP, pp. 5–12.

[16] Katzenberger, Paul and A. Kur (1996), 'TRIPS and Intellectual Property', in Fried-Karl Beier and G. Schricker (eds), *From GATT to TRIPS: The Agreement on Trade Related Aspects of Intellectual Property Rights*, Weinheim: VCH, pp. 7–17. According to Sell, the TRIPS Agreement is a 'can do' story about twelve men, who were CEOs representing pharmaceutical, entertainment and software industries. Sell, Susan K. (2003), *Private Power, Public Law: The Globalization of Intellectual Property Rights*, Cambridge: Cambridge University Press, p. 2.

[17] Helfer, Laurence R. (2004), 'Regime Shifting: The TRIPS Agreement and New Dynamics of International Intellectual Property Law Making', *Yale J. Int'l L.*, **29**, 2.