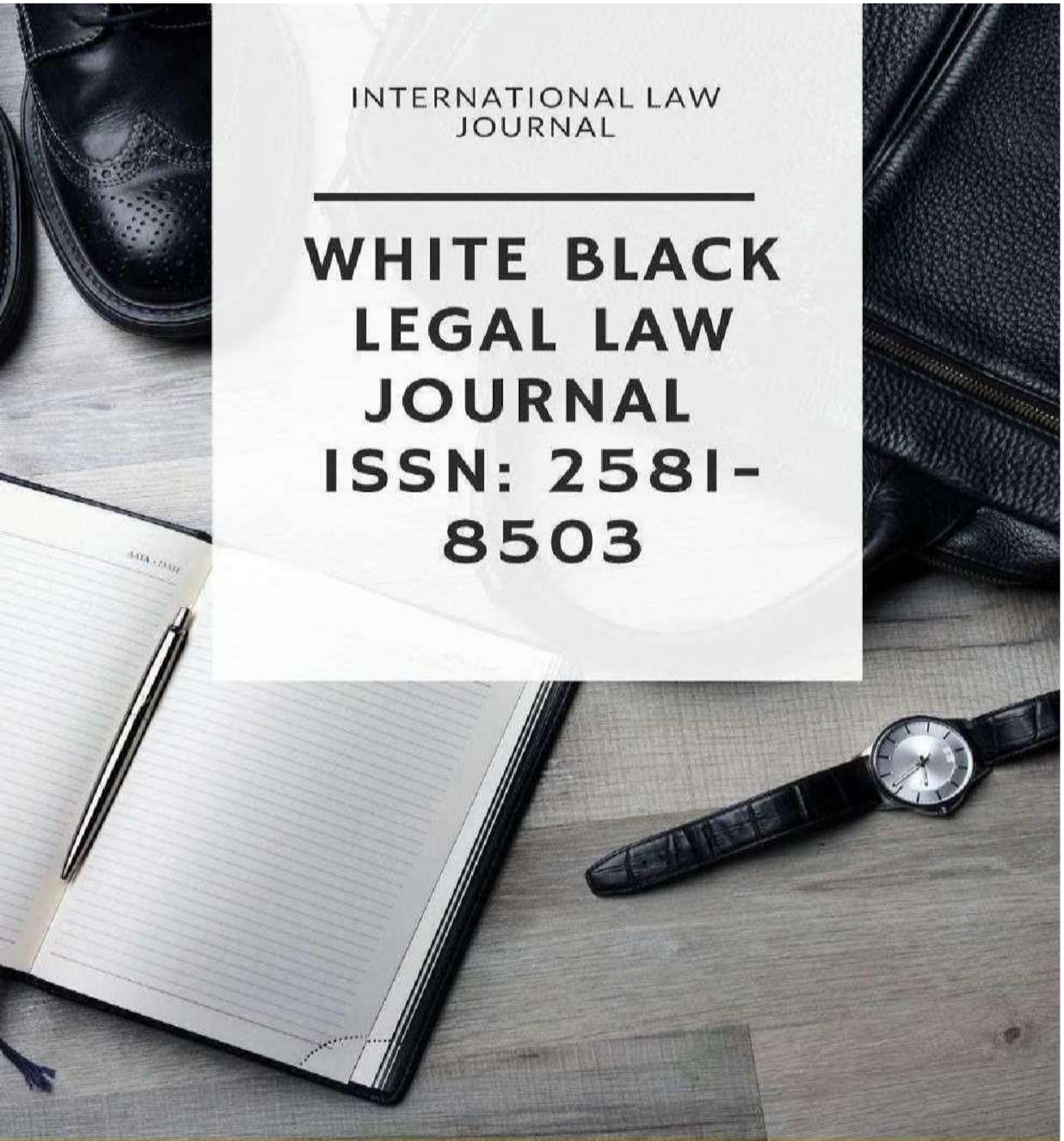

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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

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INTERPLAY BETWEEN COMPETITION LAW AND IPR: THE JUDGMENT OF THE DELHI HIGH COURT IN THE ERICSSON CASE AND ITS AFTERMATH.

AUTHORED BY - DR.RAJU NARAYANA SWAMY IAS

Introduction

IP and competition laws share the same economic rationale. Both are founded with the purpose of promoting innovation and achieving economic development, technological advancement and consumer welfare. IPR is an intangible right protecting commercially valuable products of the human intellect. It gives its owner the right to exclude others from access to or the use of protected subject matter for a limited period of time. This includes copyrights, patents, trademarks, industrial designs and trade secrets. Competition law on the other hand involves formulating a set of policies which promote competition in the market. These are aimed at preventing unfair trade practices. Well designed and effective competition laws promote the creation of an enabling business environment which improves static and dynamic efficiencies and leads to efficient resource allocation.

The relation between IPR and competition law has been described as an unhappy marriage. The former may be seen to promote monopolies while the latter is designed to oppose them. To put it more succinctly, IPRs by designating boundaries within which competitors may exercise legal exclusivity over their innovation appear to be against the principles of static market access and level playing fields sought by competition rules. In fact, the tension between competition policy and IPR dates back to the days when the statute of Monopolies 1624 was enacted in England. It prohibited monopolies, but permitted 'patent monopolies'[i]. But as Martin Khor puts it, a trade off may exist between achieving static efficiency through competition and long term efficacy through growth and innovation.[ii]

Broadly their interface can be seen from two main perspectives:

i. the impact of IPRs in shaping the discipline of competition law.
ii. the application of competition law on the post-grant use of IPRs.

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In fact IPR- related competition issues include

(a) Exclusionary terms in the licensing of IPRs- specifically the inclusion in licensing contracts of restrictive clauses such as territorial restraints, exclusive dealing arrangements, tying or grant back requirements.
(b) Use of IPRs to reinforce or extend the abuse of dominant position in the market unlawfully.
(c) IPRs as an element of mergers.
(d) Refusal to deal.

There are generally two approaches that have been adopted to prevent IPR abuse: compulsory licensing and parallel imports. The former is an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state. The latter refers to goods brought into a country without the authorization of the patent, trademark or copyright holders after those goods were placed legitimately into the market elsewhere.

The International Scenario

Internationally the interface between IPR and competition law is governed by the TRIPS Agreement. Members are allowed to take appropriate measures consistent with the TRIPS to prevent abuse of IPRs by right holders [iii]. Article 31 of TRIPS provides for the grant of compulsory licenses under a variety of situations which include:-

a) Anticompetitive practices by the patentees or their assignees.
b) National emergencies
c) The interest of public health
d) Nil or inadequate exploitation of the patent in another country
e) Overall national interest.

Article 40 of TRIPS deals with anticompetitive practices in contractual licenses. In addition Article 30 permits Members to create limited exceptions to patent rights. In fact, critics consider Article 30 to be the relevant provision enabling Members to address abusive practices in acquiring and exploiting IPRs.

The Indian Position

The Indian Competition Act incorporates an exception for IPRs under Section 3(5) based on the rationale that IPRs deserve to be cocooned since a failure to do so would disturb the all – important incentive for innovation. The said provision reads as follows:-

"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."

Thus under Section 3 (anti-competitive agreements), IPRs have been protected to the extent that they are reasonable. Unreasonable conditions contained in an agreement will not be protected. On the other hand when an enterprise enjoys a dominant position and is thus covered by Section 4 (abuse of dominant position), it enjoys no immunity for its IPRs. This has been confirmed by the CCI in the Automobiles decision rendered on 25 August 2014. However, experts feel that the language used by the CCI in the said decision - which suggests that the existence of IPR is completely irrelevant to the analysis under Section 4 - is questionable.

It is worth mentioning here that under Section 27 of the Competition Act, the CCI has the authority to penalize IPR holders who abuse their dominant position. A fact to be noted is that there is no clause in Section 4 on the ground of public interest or IPR abuse as a reason for interference. Action can taken only when there is 'appreciable adverse effect on competition'.

A critique of IPR exemption under Section 3 (5)

Pharma industry experts often lament that "owing to the blanket exemption under Section 3 (5), the square peg of any anti-competitive practice tethered to the use of IPRs must now be brought through the round hole of "abuse of dominant position" under Section 4". While one can sympathize with the emotion, this is perhaps a very narrow and cynical view. True, Section 3 remains puzzling in as much as it goes against the MRTP commission precedent under the old Act which held that the Commission (and by extension the Competition Commission of today) had complete and unfettered jurisdiction to entertain a complaint regarding IPRs. However it needs to be mentioned that Section 3 (5) does not give protection to unregistered IPRs such as unregistered trademarks. Even with respect to registered IPRs, the language of Section 3 (5) suggests that it contains an exception (viz) the right to impose reasonable conditions. The expression "reasonable conditions" has not been defined or explained in the Act and has to be decided by the CCI on a case to case basis. For instance in the Multiplex Association case [iv] the movie producers argued that the decision to not release any movies was reasonable to protect their copyright in the movies and thus valid under Section 3 (5). The CCI held that IP laws do not have any absolute overriding effect on competition law and found cartel – like activity in the Indian film industry. The rights guarantees under Section 14 of the Copyright Act do not allow IP holders to act arbitrary and inconsistent with the provisions of competition law. It was held that the Act exempts the provision with respect to anti – competitive agreement in only limited circumstances (ie.) to protect the rights conferred by the relevant IP statutes.

In Shamsher Kataria vs Honda / Volkswagen / Fiat India and others [v] for instance the CCI decided on whether the OEM's (Original Equipment Manufacturer) claim over IPR exemption passes the reasonability test engrained in Section 3 (5) (i) of the Act. It was observed that the concept of protection of an IPR under Section 3 (5)(i) is qualified by the word 'necessary'. So the question that one should ask is: Can the IPR holder protect his IPR even if such restriction was not present? Applying that test, CCI did not find merit in the OEM's contention. It was noted that what the OESs (Original Equipment Suppliers), sell to the open market are spare parts which are finished products (bumpers, bonnet / hoods, car gears, fog lights etc). The IP required by the OESs to manufacture a spare part will be protected contractually pursuant to the agreement between the OEM and the OES and allowing OESs to sell the finished products in the open market may not affect that agreement as such.

It needs to be mentioned here that the CCI in their advocacy measures has provided an illustrative / indicative list of practices that may be unreasonable under Section 3(5).These include:-

(a) Patent pooling
(b) Forcing licensees to acquire particular goods (unpatented materials) solely from the patentee.
(c) Payment of royalty beyond patent expiry
(d) Subjecting a license to the condition that the validity of IPR in question cannot be challenged.
(e) Limiting the maximum amount of use the licensee may make of the patented invention.

The CCI has also clarified that the IPR must have been conferred on the holder prior to the exception being availed. Interestingly the Patents Act, 1970 explicitly prohibits certain licensing arrangements under Section 140. These include (among others) coercive package licensing and mandating exclusive grant back. It needs to be mentioned here that the Patents Act declares these conditions void and in principle not within the scope of patent rights. In such cases, the exemption under Section 3(5) of the Competition Act will not come to the rescue of the licensing parties.

Worth mentioning here is the issues of 'trade secret'. The Director General's Report points out that since 'trade secret' does not find a mention in Section 3(5), it ought not be protected. Notably the aforesaid section protects rights conferred by specific statutes and trade secret protection in India is not governed by any specific statute. Thus prima facie it appears to be excluded from protection. Nonetheless an argument can be made that even outside the scope of the said section the existence of trade secrets could be a relevant factor in assessing appreciable adverse effect on competition especially since the Apex Court has recognised reasonable protection against exploitation of trade secret. [vi]

India's IPR related competition litigation

It was the Aamir Khan Production Vs The Director General [vii] that opened a plethora of cases dealing with IP and competition issues in India. In the said case the Bombay High Court held that the CCI has the jurisdiction to deal with competition cases involving IPR. In Kingfisher Vs Competition Commission of India [viii] also it was held that all the issues that rose before the Copyright Board could also be considered before the CCI.

In yet another case, the CCI took a diminutive stand on DTH (Direct To Home) operators in India. The said operators were exonerated based on the argument that there is no such concept as 'collective dominance' in the Competition Act of India. It is very much doubtful whether the CCI decision is at par with similar in comparable jurisdictions. To be true to facts, the Indian jurisprudence on the subject can be classified under the following major heads:-

a) Abuse of dominant position

The law firm Singhania & Partners LLP filed a complaint with the CCI against Microsoft India, alleging anti-competitive practices and abuse of dominance in the Indian market with regard to their software - Windows Operating System and Windows Office. The COMPAT (Competition Appellate Tribunal) upheld the CCI ruling that Microsoft did not abuse its dominant position regarding its software license in an order dated 9th October 2012. In fact the said case was decided in favour of Microsoft despite the fact that Microsoft was facing adverse rulings in other jurisdiction like US and EU. The Delhi High Court in the Hawkins case [ix] dealt with an allegation by the plaintiff that the defendant company was using the plaintiff's trade mark "Hawkins" on their products which were pressure cooker gaskets. The Court held that a well-known mark cannot create a market monopoly due to its reputation. If it does create a monopoly it cannot use this economic strength to control the ancillary markets, then it would be considered as an abuse of dominant position.

b) Refusal to grant IP license

Refusals when limited to decisions of a single entity would have to be examined under Section 4. But where the refusals involve multiple entities (ie) group boycott the examination may proceed under both Sections 3& 4 of the Act. The IMS Health Case

[x] however put three conditions to be satisfied for declaring 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.

Complications abound in this area because of lack of guidelines from CCI and due to the fact that this subject matter is addressed in some IP legislations. To quote an example, under Section 84 of the Indian Patents Act 1970, the Controller of Patents has the power to grant compulsory license after expiry of 3 years from grant of patent in case the patented invention does not meet the 'reasonable requirements of the public ' or 'is not available to the public at a reasonably affordable price' or 'is not worked in the territory of India'. It is worth mentioning in this context that in 2012, the Controller of Patents granted a compulsory license to Bayer's patent covering a cancer drug to a generic Indian drug manufacturer on all three grounds.

The Copyright Act, 1957 contains similar provisions through of a narrower scope. Compulsory license may be issued pursuant to Section 31 (1)(b) of the said Act. It is worth mentioning here that this provision extends only to certain types of a copyrighted works and not all. In Music Broadcast Pvt. Ltd Vs Phonographic Performance Ltd (a 2010 decision), the Copyright Board issued compulsory license to musical works in favour of the FM radio industry on a revenue sharing model (ie) 2% of the net advertisement earnings of each FM radio station would be set aside to pay the music providers.

Other IP legislations however do not carry such explicit provisions.

c) <u>Excessive pricing and predatory pricing</u>

Predatory pricing is a strategy – that entails a temporary price below the cost of production in order to injure competition and thereby reap higher profits in the long run. It was considered by the MRTP Act as a restrictive trade practice. However, overpricing of any patented product per se is not violative of any competition provisions. But keeping the pricing of patented and branded generics outside the scope of price control is a major concern particularly in developing countries in the area of life saving drugs.

d) Implications of merger control

Technology transfer agreements and other acquisition of IPRs may require the approval of CCI. Such transactions must be reviewed to check whether sanction is needed from a merger control perspective under Sections 5 and 6 of the Act.

e) The Novartis Case and evergreening

The Novartis case raised the issue of extended patent application with the evergreening effects and excessive pricing of proprietary medicine. It was an eye-opener for developing countries like India.

Mention also needs to be made here of trade dress as a barrier to competition. In a country like India, colour plays a significant role in patient retention and consumer loyalty. For example, the use of a purple coloured inhaler is a sure way of keeping an asthmatic patient handcuffed to a brand for life if the colour of the inhaler is protected as a trademark even after the patent on the drug empires and other cheaper and perhaps even more effective alternatives are available albeit in different coloured inhalers. [xi]To put it a bit differently, the use of a colour, shape or trademark extends a patent monopoly for every patient who either has no choice once the doctor prescribes a drug or device or suffers from such a medical condition that a change would be extremely disruptive of his treatment regimen, causing him to reject the choice of cheaper alternatives.

The judgment of the Division Bench of the Delhi High Court

It is worth mentioning in this context that a Division Bench of the Delhi High Court vide its judgment dated 13th July 2023 in Telefonaktiebolaget LM Ericsson (PUBL) Vs Competition Commission of India [xii] over turned an earlier decision (delivered on 30 March 2016) by a single judge bench [xiii] who had maintained the CCI's jurisdiction in patent-related disputes. Ericsson which was being investigated by the CCI for possible abuses of dominance in patent licensing had challenged the Commission's jurisdiction through a Letters Patent Appeal (LPA) from the order of the single bench. They contended that patent matters are exclusively the responsibility of the Controller of Patents. The single judge, it needs to be mentioned here, was emphatic in culling out that there were differences between the remedies available under Section 84 of the Patents Act 1970 (provisions pertaining to compulsory licensing) and those described in Section 27 of the Competition Act. The remedies are not mutually exclusive, individuals have the option to seek redress under both if desired.

In its judgment dated 13th July 2023, the High Court observed that the Competition Act and Patents Act are specialized statutes in competition and patents. A special reference was made to an amendment carried out in 2003 to the Patents Act. The High Court found that when the legislature introduced Chapter XVI of the Patents Act in 2003 - a year after the Competition Act was passed – it was evident what the legislature intended. The goal was to turn the Patents Act into a unique piece of law. The Court concluded that the Patents Act supersedes the Competition Act with respect to the exercise of patentee rights as it viewed the Patents Act as a special legislation and applied the legal precept lex posterior derogate priori. By accepting Ericsson's appeals, the Court invalidated the CCI's jurisdiction over such matters.

Legal experts however are of the view that the logic that the Patents Act came later is flawed. To be true to facts, the Gazette of India notification for inclusion of Chapter XVI of the Patents Act was made through the publishing of the Patents (Amendment) Act, 2002. It received the assent of the President on 25 June 2002 and was published in the Gazette on the same day. On the other hand the Competition Act received the assent of the President on 13 January 2003 and was published in the Gazette of India the next day. Thus it is crystal clear that the Competition Act was the later statute. Moreover, according to Section 60 of the Competition Act, its provisions supersede and have the upper hand over any conflicting provisions found in other laws that were in existence. This Section was brought into effect after Chapter XVI of the Patents Act was. Thus a plain reading of the head note of Section 60 tells us that the competition law will have an overriding effect on Chapter XVI of the Patents Act.

In fact, the powers of the Controller are personal in nature as opposed to being in rem like those of CCI. Thus CCI may have superior capabilities in monitoring patent cartels compared to the Controller. The Competition Act does not contradict the broader objective of the Patents Act. If a hierarchy is established among the legislations, the significant differences in the content of their substantive provisions may be disregarded and collaborative anti -competitive agreements involving patents may go unregulated.

Conclusion

Competition law can play a proactive role in arresting the abuse of monopoly rights granted by IPR. Through IP rights are necessary for furthering efficiency and development in a market, their potential to lead to anti-competitive outcomes cannot be ruled out. This is all the more relevant now that Courts have settled the principle that the interest of the consumer and competition in the market are of supreme importance and cannot be sacrificed. Needless to say, one cannot operate like a cartel in the name of 'collective bargaining' which is what happened in the FICCI Multiplex case. India can use compulsory licensing provisions in case of excessive pricing of any products including copyrighted and patented software. Tying arrangements should be dealt with using competition provisions. Specific guidelines need to be promulgated by the CCI in cases involving both IP and Competition. Only then can the conflicts in the overlapping zones of competition law and IPR be resolved and their interaction be brought to a level that is neither conflicting nor aimed at one replacing the other. This confluence can draw attention to the intricate connection between fostering market competition and safeguarding IPR. For this Utopia to come true what is needed is deeds not words and the political will accompanied by the administrative acumen to execute.

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