

## **Report Q187**

in the name of the United Kingdom Group  
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### **Limitations on exclusive IP Rights by competition law**

#### **Questions**

##### **I) STATE OF THE SUBSTANTIVE LAW**

There are various common law and statutory provisions that limit the exercise of an intellectual property right. Further, there are statutory provisions that prohibit anti-competitive behavior in general, *i.e.* they are not limited to circumstances involving intellectual property rights. However, save for the limited exceptions mentioned below, there are no provisions that expressly limit the exercise of an intellectual property right for anti-competitive reasons.

The anti-competition provisions contained in Articles 81 and 82 of the Consolidated Treaty establishing the European Community (the "EC Treaty") apply directly in the United Kingdom. There are also equivalent provisions under domestic law that apply to matters that occur within the United Kingdom.

Moreover, Articles 28 and 30 of the EC Treaty also apply directly in the United Kingdom and prevent the use of intellectual property rights to prohibit the importation or sale of products put on the market anywhere in the European Economic Area by or with the consent of the rights holder, thereby extending the scope of the principle of exhaustion from a national to a regional basis. The principle of exhaustion has also been used by the courts as a tool to try to balance the rights of rights holders to secondary markets (such as spare parts or consumables). Finally, there are various other common law and statutory provisions that limit the exercise of an intellectual property right, such as Crown use. However, the policy basis for these other provisions is not specifically freedom of competition. Accordingly, they are not discussed further, nor is the principle of exhaustion as the guidelines to this question expressly exclude that latter topic from a detailed consideration.

The limited exceptions mentioned above relate to the grant of licences in patent, design and certain copyright matters.

The Patents Act 1977 section 48 is a specific provision providing for "compulsory licences" where the refusal to license is damaging the market in the United Kingdom. The requirements for a "compulsory licence" vary depending upon whether the patent proprietor is linked to a WTO member country (s 48A) or not (s 48B). The Patents Act 1977 also used to have a specific provision in relation to restrictive contractual terms in section 44, but this has been repealed in favour of the general competition provisions.

For design right (which corresponds to protection for unregistered designs), "licences of right" are available for the last five years for which the right subsists (Copyright, Designs and Patents Act 1988 (the "CDPA 1988") section 237). Such licences are available to anyone for any reason so long as the rights holder is fairly compensated, and so are not limited to promoting competition.

Works protected by copyright are not covered by one scheme. Rather, there are specific provisions for certain types of works. For example, there are "licences of right" to include sound recordings in certain broadcasts and cable programme services (CDPA 1988 ss 135A to 135H). Similarly, there is a mechanism to ensure that copyright works may be re-transmitted by cable after having been broadcast from another EEA member state (CDPA 1988 s 144A). Finally, the Secretary of State, the Office of Fair Trading and the Competition Commission have the power to grant licences in certain limited circumstances, for example when a restricted market has arisen because of a merger between two, previous, competitors (CDPA 1988 s 144).

There are no provisions for trade marks. Nor are there any provisions for "models", because they are not protected as such under UK national law. Prior to the 9<sup>th</sup> December 2001, compulsory licences were available for registered designs, which were available if the design has not been used in the United Kingdom. However, since that date, compulsory licences have not been available for registered designs for any reason.

- 1) *The Groups are requested to indicate if the law of their country knows rules governing in general the relationship between the rules of competition and the intellectual property rights.*

No. Each case is decided on a case-by-case basis.

Although the provisions in the EC Treaty technically only apply to the exercise of an intellectual property right, not its existence, in practice this means that the use of intellectual property rights is included within the competition law rules. Similarly, the exercise of intellectual property rights is subject to domestic competition law. However, each case is decided on a case-by-case basis, and the approach of the European Commission (by way of Block Exemptions and published guidance) and the UK's Office of Fair Trading (by way of draft guidance) clarify that the policy behind the granting of intellectual property rights will be taken into consideration when determining whether conduct is anti-competitive. The courts are inclined to dismiss a bare allegation that the exercise of an intellectual property right is anti-competitive. In order to be successful, the anti-competitive result must be clearly established.

- 2) *The Groups are invited to indicate if previous to the adoption of the TRIPS, the legislation of their country knew the exceptions in particular founded on article A.4 of the Paris Union Convention, to the exclusive rights of patents, designs and models or copyright.*

The Paris Union Convention was, and is, not directly applicable to the UK national law. However, before the adoption of TRIPS, section 48 of the Patents Act 1977 followed the provisions of Article 5A.4 of the Paris Union Convention.

*The Groups must also describe the conditions and the effects of these exceptions.*

See above.

*Finally, do the Groups have to indicate the justification of these exceptions and in particular if these exceptions were justified by requirements of the freedom of competition?*

The justification was not based upon the freedom of competition, but upon promoting industry within the jurisdiction. Therefore, a rights holder can avoid the imposition of a compulsory licence by meeting the relevant demands on the market itself.

- 3) *The Groups are invited to indicate if articles 13, 30 and 31 of the treaty TRIPS gave place to the establishment of legal rules defining the exceptions being able to be brought to exclusive rights of copyright, patent, designs.*

With respect to designs (either registered or unregistered) there is no impact. With respect to copyright, the TRIPS provisions were incorporated by way of statutory instrument (Copyright and Related Rights Regulation 2003 (SI 2003 No. 2498). With respect to patents, section 48A of the Patents Act 1977 incorporate the provisions. Section 48B of the Patents Act 1977 deals with compulsory licences when the proprietor is not a WTO proprietor.

*The Groups should in this case indicate the conditions for application of these exceptions and their consequences.*

The provisions follow the TRIPS articles.

*And the Groups should indicate the justification of these exceptions and in particular if these exceptions were justified by requirements of the freedom of competition.*

The requirements were not justified by the freedom of competition. Rather, the justification was based upon what was the appropriate scope of protection for the particular intellectual property right in question.

- 4) *The Groups are invited to indicate if such limitations apply as regards to trademarks and which are the conditions, the consequences and the possible justification.*

No such similar conditions apply to trade marks. There are some provisions to permit the continuance of "mere local use" if that use predates the registered rights (Trade Marks Act 1994 s 11(1), and CTMR. 40/94 Article 107), but these provisions are of very limited (and, at present, unclear) applicability. Their justification is to allow local, senior use to continue without being restricted by a junior registration. Thus, the provisions preserve prior rights, rather than allowing a new party to enter the market in order to promote competition.

- 5) *The Groups are invited to inform if the existence of intellectual property rights constitutes a justification to some practise regarded in general as anti-competing, such as the refusal to sell or others?*

The mere existence of intellectual property rights has not to date been treated as a justification for any anti-competitive practice. However, parties continue to argue the point (for example, Microsoft in its appeal against the Commission's recent decision involving Media Player and server protocols). Moreover, as described above, both competition authorities and courts attempt to analyse closely any allegations of anti-competitive conduct involving

intellectual property to ensure that competition is really being harmed beyond the restrictions that are inherent in any system that grants an exclusive right.

However, in a recent case Advocate General Jacobs has suggested that certain competition rules banning refusals to supply under Article 82 of the EC Treaty may be applied less strictly in the pharmaceutical sector. If this is accepted by the European Court of Justice, there are likely to be attempts to apply this reasoning to reliance upon intellectual property rights under Articles 28 and 30.

- 6) *The Groups are invited to indicate if some of the attributes of the intellectual property rights, such as the duration of these rights, are considered in their country as raising problems from the point of view of the exercise of the freedom of competition.*

Generally: no. However, some commentators consider that the duration of copyright is too long, and acts as a fetter to competition. However, the argument can be made both ways. Many commentators consider that the duration of patents can be too short in the

pharmaceutical sector, allowing free-riding by generic competitors before the rights holder can recoup the research and development costs and a sufficient profit. This is also regarded as a competition problem, and has been resolved in part by allowing Supplementary Protection Certificates and Data Exclusivity for regulatory data.

- 7) *The Groups are finally invited to formulate any other observation concerning the relationship which may exist in the substantive law of their country between the exclusive rights of the intellectual property and the rules relating to the respect of the freedom of competition.*

No other observations.

## **II) PROPOSALS FOR THE FUTURE**

- 1) *The Groups are invited to indicate if any modifications of the exclusive rights of patent rights are desirable in aim to reinforce the freedom of competition.*

Even though it is accepted that the current system in the United Kingdom might not be perfect, it is difficult to see how it could be sensibly improved. Moreover, the UK group is concerned that increasing the scope of say, compulsory licensing under the guise of increasing competition actually has a negative overall impact by fettering the exclusivity that a patent is supposed to provide. Although few compulsory licences have ever been granted, the framework means that these issues are typically ventilated during negotiations and so many problems are resolved without the need for regulation.

*On which attributes of the exclusive rights of intellectual property these modifications should carry (duration, exclusiveness, specific evidence etc...)?*

Not applicable for the reason stated above.

*How then it would be advisable to preserve the monopoly resulting from the exclusive rights of intellectual property?*

Not applicable for the reason stated above.

- 2) *The Groups are also invited to wonder about the possible application of the concept of compulsory licence, licence ex-officio or improvement licence as regards patents, copyright, designs and models or the trademarks.*

Historically, compulsory licences have caused much political debate; but in practice, very few applications are made for them. The UK group is of the opinion that this provides indirect evidence that in reality there have been very few situations in which a patent monopoly has been abused.

However, from May 2004, the situation has changed somewhat in the UK. Previously, complaints based upon an alleged infraction of Articles 81 and 82 of the Consolidated Treaty establishing the European Community (ex Articles 85 and 86 of the Treaty of Rome) were handled solely by the European Commission, and the outcome was somewhat unpredictable. (Prior to May 2004, the UK courts had limited jurisdiction to deal with Articles 81(1) and 82 issues, but they could not make a finding on whether a restrictive contract under Article 81(1) should be exempted under Article 81(3) on the basis that it had pro-competitive effects.) Since, May 2004, with the coming into force of the new Technology Transfer Block Exemption and the associated régime, the UK courts now have jurisdiction to deal with such matters. It is unclear how the judges will balance the conflict between patents rights and free competition. The current patent judges are broadly pro-competition, and have a reputation for revoking patents. As such, it is likely that more complaints based upon competition issues might arise in the expectation that the courts will take adopt a free-market approach to the matters. However, rather contradictorily, the UK courts have been traditionally very ready to dismiss summarily any defence to a patent action based upon Articles 81 and 82. More recently, this

summary dismissal of “euro-competition” defences in patent actions was disapproved by the Court of Appeal (*Intel Corporation v Via Technologies Inc.* [2002] EWCA Civ 1905, 20<sup>th</sup> December 2002).

3) *The Groups are requested to also formulate any other suggestion concerning the Question.*

The UK group is concerned that for political reasons, intellectual property in general, and in particular those rights that confer a monopoly right such as patents, are coming under attack. It considers that the negative impression can, and should, be remedied by educating and informing the legislators and politicians of the benefits of intellectual property rights.

A solution that has been suggested is to allow, for example, patents on computer software, but to incorporate a compulsory licensing scheme. Another possible example would be to provide a compulsory licensing scheme to cover those IPRs that subsist in those technologies that have become a *de facto* standard within their relevant industry.

Similarly, but more generally, monopolistic rights could be maintained, but there could be a general civil unfair competition régime that deals with such issues as spare parts, rather than prohibiting the subsistence of the right in the first place.

It does need to be borne in mind that in practical terms this will tend to restrict competition in such fields, as third parties may not wish to take the risk of challenging what appears on paper as a proprietary right. Given the known weaknesses of competition law, particularly as regards uncertainty and length of procedure, competition law should not be relied upon to curb excessive rights but only to deal with situations where, because of a market failure, particular intellectual property rights give market power which cannot be overcome by third party innovation.

### **Summary**

The general anti-competitive laws (both European and national) apply to the exercise, but not the existence, of intellectual property rights in the United Kingdom. However, there are no special provisions that govern the application of those anti-competitive laws to cases involving intellectual property rights. Each case is decided on a case-by-case basis. Broadly, the courts do not accept the mere allegation that the existence of an IPR is anti-competitive. Rather, they require clear proof that the exercise of an IPR in a particular case has resulted in anti-competitive behaviour.

There are some statutory provisions that provide for compulsory licences for patents (with different régimes for WTO proprietors and non-WTO proprietors). However, for (unregistered) designs and copyright works, there are only “licences of right” available, which have a more limited ambit. There are no compulsory licensing provisions for trade marks, registered designs or models (the latter, because they are not protected as such in the UK).

The balance to be struck between the grant of monopolistic rights and complete free market is difficult. However, the UK group feels that (mainly for political reasons), the benefits of IPRs are not appreciated generally. It is thought that this negative impression of the value of IPRs could be reserved by educating and informing the legislators and politicians of the advantages of IPRs.