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IP Strategies for International Businesses – Intellectual Property and Competition Law

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IP Strategies for International Businesses – Intellectual Property and Competition Law

- 1) The exclusive rights of IP owners
- 2) What is competition law?
- 3) Any conflicts between intellectual property law and competition law?
- 4) How competition law may impact on the business activities of IP owners?
- 5) Current developments in Hong Kong.



1. The exclusive rights of IP owners



- >> a legal right conferring exclusionary and sometimes exclusive rights on the owner of the IP
- >> enable the owner to gain the advantages from exploitation of the IP



1. The exclusive rights of IP owners

Types of IPRs

Patents

>> (a) Standard patent and (b) Short-term patent.

>> Applied technology // max 20 years (standard) // 8 years (short term) // Monopoly // New and Inventive product/process:



On expiry:



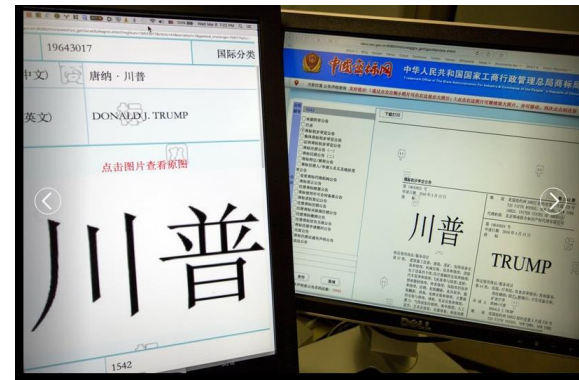


1. The exclusive rights of IP owners

Types of IPRs

Trade Marks

>> Exclusive right of use // no similar or identical mark in terms of similar or identical goods or services





1. The exclusive rights of IP owners

Types of IPRs

Copyright

- >> exclusive right for its use and distribution
- >> prevents third parties from exploiting

>> Duration:

- the life of the author + 50 years after his/her death
- 50 years after their first release, for photographs, sound recording, cinematograph film and broadcast

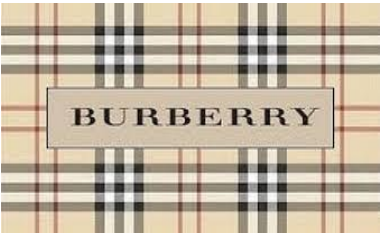
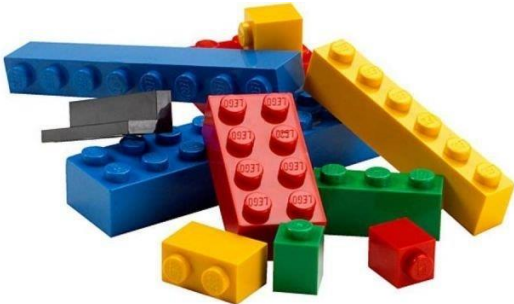




1. The exclusive rights of IP owners

Types of IPRs

Designs





2. What is Competition Law?

Hong Kong anti-trust regulator takes first legal action since competition law came into... Page 1 of 2

South China Morning Post 南華早報

Hong Kong anti-trust regulator takes first legal action since competition law came into effect in late 2015

PUBLISHED : Thursday, 23 March, 2017, 7:46pm
UPDATED : Thursday, 23 March, 2017, 10:58pm
News › Hong Kong › Law & Crime
Harminder Singh harminder.singh@scmp.com

Competition Commission takes five IT companies, including Hong Kong office of British telecoms giant, to tribunal over alleged bid rigging

Hong Kong's anti-trust regulator has taken five information technology companies to tribunal for alleged bid rigging, the first legal action since the city's competition law came into effect [1] in December 2015.

The case involves a tender issued by Young Women's Christian Association for a new server system.

552017 Hong Kong's anti-trust regulator blames 'unusual' practices for city's high petrol prices

South China Morning Post 南華早報

Hong Kong's anti-trust regulator blames 'unusual' practices for city's high petrol prices

PUBLISHED : Thursday, 04 May, 2017, 11:14pm
UPDATED : Friday, 05 May, 2017, 1:49am
News › Hong Kong › Economy
Connix Yau and Ng Kang-chung

Competition Commission urges government to intervene after its study finds consumers lack petrol options, and industry needs more players

Hong Kong's anti-trust regulator has called on the government to intervene in the petrol market after it discovered "highly unusual" practices which hindered market competition and contribute the notoriously high fuel prices in the city.



2. What is Competition Law?



- >> Hong Kong Competition Ordinance (Cap. 619) came into force in December 2015
- >> Across different sectors and industries
- >> Prohibit anti-competitive practices in the markets and promote competition
- >> Competition Ordinance targets on Cartel **to prohibit** conduct that prevent, restrict or distort competition in Hong Kong; **to prohibit** mergers that substantially lessen competition in Hong Kong.

2. What is Competition Law?

Section 6(1) of the Competition Ordinance:

An undertaking must not—

- (a) make or give effect to an agreement;
 - (b) engage in a concerted practice; or
 - (c) as a member of an association of undertakings, make or give effect to a decision of the association,
- if the **object** or **effect** of the agreement, concerted practice or decision is to **prevent, restrict or distort competition** in Hong Kong.

“**Undertaking**” (業務實體) includes “*individual companies, groups of companies, partnerships, individuals operating as sole traders or subcontractors, co-operatives, societies, business chambers, trade associations and non-profit organization*”.





2. What is Competition Law?

Section 6(1) of the Competition Ordinance:

Points to note:

- a. What's meant by "**Undertaking**"?
- b. Anti-competitive object or effect: as long as the said agreement, concerted practice or decision has either anti-competitive **object** or **effect**:
 - (i) not necessary to have both;
 - (ii) actual effect and likely effect to flow from the agreement
- c. Either object or effect would impact on one or more key parameters of competition.
- d. The **First Conduct Rule** in the Competition Ordinance.



2. What is Competition Law?

Section 2(1) of the Competition Ordinance:

S. 2(1) : Serious Anti-Competitive Conduct (嚴重反競爭行為) means any conduct that consists of any of the following or any combination of the following—

- (a) *fixing, maintaining, increasing or controlling the price for the supply of goods or services;*
- (b) *allocating sales, territories, customers or markets for the production or supply of goods or services;*
- (c) *fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services;*
- (d) *bid-rigging*



2. What is Competition Law?

The Competition Ordinance prohibits restrictions on competition in Hong Kong through 3 competition rules:-

- The First Conduct Rule (S. 6(1))
 - prohibits anti-competitive agreements, even if they are:-
 - (a) horizontal : between competitors; and
 - (b) vertical : between non-competitors, e.g., licensor and licensee; principal and agent etc.
- The Second Conduct Rule (S. 21)
- The Merger Rule (S. 3 of Schedule 7)



2. What is Competition Law?

Exclusion/ Exemption?

Exclusion/Exemption		FCR	SCR
General Exclusions (S. 1 of Schedule 1)	Agreements enhancing overall economic efficiency (S. 1 of Schedule 1)	✓	N/A
	Compliance with legal requirements (S. 2 of Schedule 1)	✓	✓
	Services of general economic interest (S. 3 of Schedule 1)	✓	✓
	Mergers (S. 4 of Schedule 1)	✓	✓
	Agreements of lesser significance (S. 5 of Schedule 1)	✓	N/A
	Conduct of lesser significance (S. 6 of Schedule 1)	N/A	✓



2. What is Competition Law?

Exclusion/ Exemption? Cont')

Exclusion/Exemption		FCR	SCR
Block Exemption Orders	N/A	√	N/A
Public Policy Exemption	N/A	√	√
International Obligations Exemption	N/A	√	√
Statutory Body and Specified Person or Activities Exclusions	N/A	√	√

2. What is Competition Law?

Enforcement

Commission: DUAL function: Promotor and Investigator

Tribunal: to hear and adjudicate related cases and to impose sanctions

“Warning Notice”

“Infringement Notice”

Tribunal

- Fines of up to 10% of the total turnover;
- Directors’ disqualification;
- Award of damages
- Disgorgement of illegal profits;
- Others



3. Any Conflicts between IPRs and Competition Laws

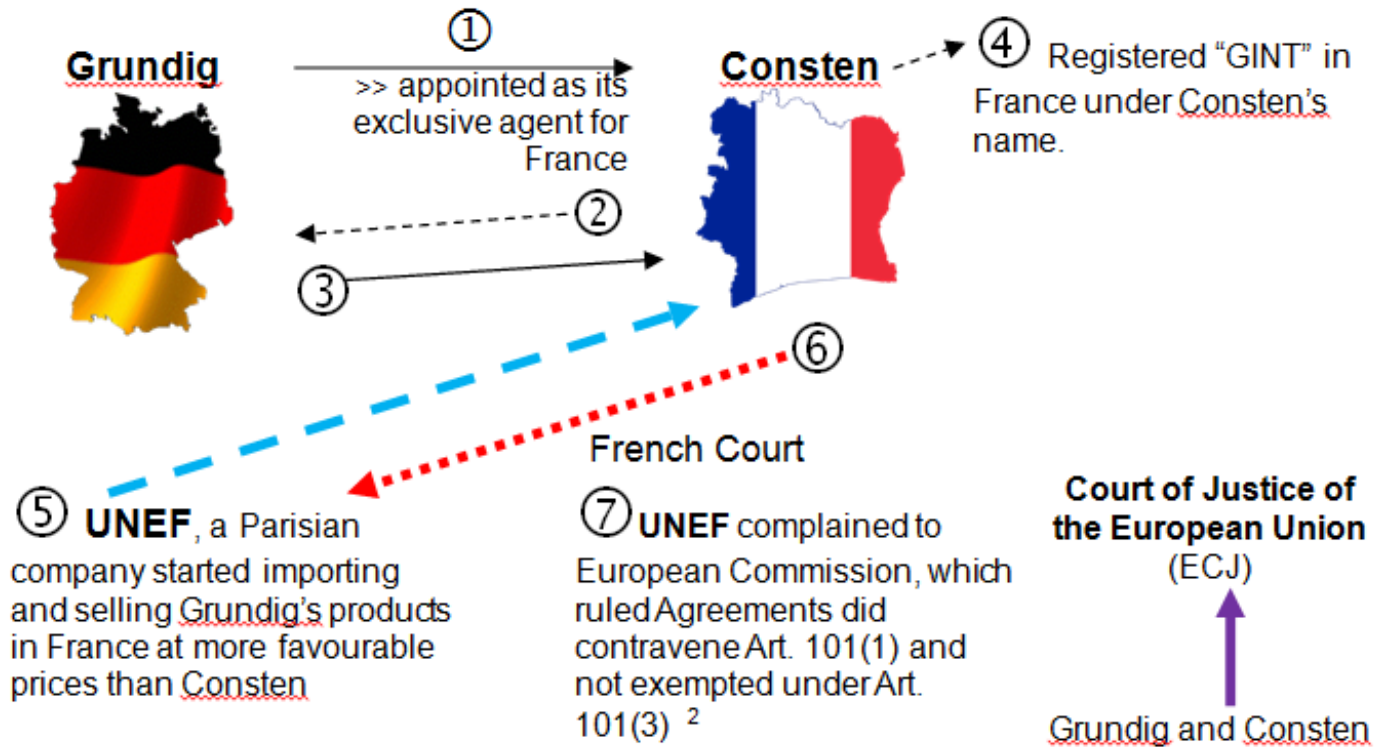
S. 6(1), the First Conduct Rule, Hong Kong Competition Ordinance:
>> **Similar** in contents to **Article 101(1)** of the *Treaty on the Functioning of the European Union (TFEU)*

S. 1 of Schedule 1, one of the General Exclusions, namely, “*Agreements enhancing overall economic efficiency*”, Hong Kong Competition Ordinance:

>> **Similar** in contents to **Article 101(3)** of the *Treaty on the Functioning of the European Union (TFEU)*

3. Any Conflicts between IPRs and Competition Laws

Consten & Grundig v Commission (1966)



3. Any Conflicts between IPRs and Competition Laws

>> **European Commission ruled:**

- >> the agreements did contravene Article 101(1) and could not be individually exempted under Article 101(3)
- >> **Consten and Grundig** appealed to the Court of Justice of the European Union (ECJ) and argued that Article 101(1) only applies to 'horizontal' agreements



3. Any Conflicts between IPRs and Competition Laws

The ECJ disagreed:



- >> Article is intended to refer to all agreements;
- >> irrelevant to consider whether the parties are on a footing of equality;
- >> The agreement granted to Consten isolated the French market and distorted competition.

3. Any Conflicts between IPRs and Competition Laws

>> **The ECJ also held** the GINT trademark contravened Article 101(1):

*“The registration in France by [Consten] of the GINT trade mark... is intended to increase the protection inherent in the disputed agreement, against the risk of parallel imports into France of [Grundig] products... the fact nevertheless remains that it was **by virtue of an agreement with [Grundig]** that [Consten] was able to effect the registration.... the prohibition [in Article 101] would be ineffective if [Consten] could continue to use the trade mark to achieve the **same object as that pursued by the agreement which has been held to be unlawful.**”*

>> **The European Commission’s position:** Exclusive licenses were restrictive of competition under Article 101(1) and would be exempted under Article 101(3) if the parties modify the restrictive Clauses.

3. Any Conflicts between IPRs and Competition Laws

Guidelines for the Assessment of Technology Transfer

Paragraph 7 of the **Technology Transfer Guidelines**:

- *“The fact that intellectual property laws grant exclusive rights of exploitation does not imply that intellectual property rights are immune from competition law intervention... 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...”*

3. Any Conflicts between IPRs and Competition Laws

Objective of IP laws:

The objective of IP laws is to promote technical progress to the ultimate benefit of consumers \neq To promote the individual innovator's welfare. The property right provided by IP laws is awarded to try to ensure a sufficient reward for the innovator to elicit its creative or inventive effort while not delaying follow-on innovation or leading to unnecessary long periods of high prices for consumers.

Competition law

Aims at promoting consumer welfare by protecting competition as the driving force of efficient markets, providing best quality products at the lowest prices.

4. How competition law may impact on the business activities of IP owners?

>> IPR is not solely for the benefits of individual innovators but also need to balance the ultimate benefits of consumers

>> competition law intervenes to deter the impacts of excessive IPR protection

- a) Royalty obligations
- b) Territorial restrictions on production
- c) Sales restrictions
- d) Field of use restrictions
- e) Tying and bundling
- f) Non-compete obligations

4. How competition law may impact on the business activities of IP owners?

a). Royalty Obligations

- (a) A lump sum; or
- (b) a percentage of the selling price; or
- (c) a fixed amount for each product incorporating the licensed technology, for instance, running royalties, which may raise Competition Law's concern:-



For Example: A licenses his patented “micro camera 3.5” to B whilst B also licenses his patented product “Bluetooth 2.0” to A, both at a lower price compared to their offer to other parties in the market.

4. How competition law may impact on the business activities of IP owners?

Guidelines on the application of Article 101 of the TFEU:

- >> Free to determine the royalty payable and its mode of payment (Para. 104)
- >> However, Committee will take a stringent approach in assessing parties which practice reciprocal running royalties (Paras. 100 & 185 - 186) as a means of co-ordinating prices on downstream markets.
- >> Article 101(1) may also be applicable where competitors cross license and impose running royalties that are clearly disproportionate compared to the market value of the licences

4. How competition law may impact on the business activities of IP owners?

b). Territorial Restrictions on Production

Three different forms of license that restricts production:-

- Exclusive license in a particular territory:
- Sole license:
- Non-exclusive license:

4. How competition law may impact on the business activities of IP owners?

c). Territorial Sales Restrictions

The sales can either take the form of:

- i. Active sales bans, which prohibit others from soliciting sales,
- ii. Passive sales bans, which forbids others from responding to unsolicited sales; and
- iii. Indirect sale bans, similarly, place restrictions on quantity of output.



4. How competition law may impact on the business activities of IP owners?

Sales Restrictions

>> Sales Restrictions can take form of Customer Allocation.

>> The competitors may agree on provisions that limit the customers or customer groups to which the parties can sell.

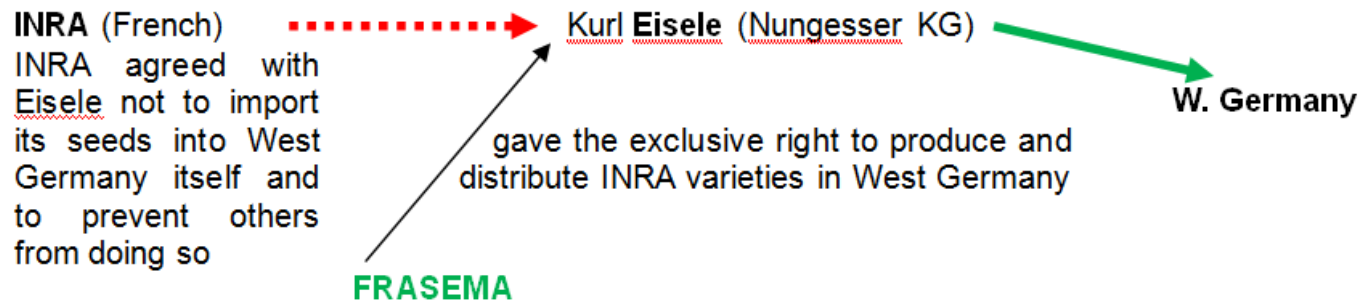
>> Position of European Commission

- Unless *de minimis* (法律對屑事不以為意), exclusive licenses always caught by Article 101
- Exclusive licensing agreements for isolating markets (*Consten & Grundig v Commission*)

4. How competition law may impact on the business activities of IP owners?

Sales Restrictions

Nungesser v Commission (1982)



4. How competition law may impact on the business activities of IP owners?

Sales Restrictions

Nungesser v Commission (1982)

>> The then West German Government's submission:

- a) the protection provides a further incentive to innovative efforts;
- b) total prohibition of every exclusive licence would cause the interest of undertakings in licences to fall away, and prejudicial to the dissemination of knowledge and techniques

>> Decision of the ECJ

The ECJ held that the agreement between **INRA** and **Eisele** involved an exclusive licence of two natures:

- I. Open Exclusive Licence:** relates solely to the contractual relationship between the owner of the right and the licensee
- II. Exclusive Licence with absolute territorial protection:** the parties propose to eliminate all competition

4. How competition law may impact on the business activities of IP owners?

Sales Restrictions

Nungesser v Commission (1982)

>> The ECJ agreed that:

- a) W Germany's concerns were justified.
- b) barring the exclusive agreement might deter acceptance of the risk of cultivating and marketing the product.
- c) damaging to the dissemination of a new technology and prejudice competition. The nature of the licence as being openly exclusive is not incompatible with Article 101(1).

4. How competition law may impact on the business activities of IP owners?

d). Field of Use Restrictions



- >> Similar to customer allocation as different customers may require the technology for different purposes
- >> the Commission objected to provisions that divide the exploitation of engine technology for use in military equipment and use in civilian equipment respectively (***French State/Suralmo***)

4. How competition law may impact on the business activities of IP owners?

e). Tying and Bundling

Tying: When the licensor makes the licensing of one technology (the tying product/service) conditional upon the licensee taking a licence for another technology or purchasing a product from the licensor or someone designated by him (the tied product/service)

For example: Tying of a service.

Medical devices supplier + requires customers + the supplier/ (or an affiliate) for maintenance/repair services for the devices.

4. How competition law may impact on the business activities of IP owners?

e). Tying and Bundling

Bundling: Where 2 technologies or a technology and a product are only sold together as a bundle. Bundling refers to situations where a package of two or more products is offered at a discount.

For example:



Justification:

- >> exercise quality control
- >> proper exploitation of the IPRs

4. How competition law may impact on the business activities of IP owners?

f). Non-Compete Obligations



- >> Licensor to ensure that the licensee does not use his own (or a third party's) technology to produce goods that are in competition with those produced under the license.
- >> anti-competitive effect on third parties who may not be able to find outlets for similar technologies.



5. Current Development in Hong Kong

Any hints from European IP Cases?

- Consten & Grundig v Commission
- Nungesser v Commission

The Second Conduct Rule Guideline, Hong Kong, on IP related:

Para. 3.21

“Intellectual property rights (“IPRs”) may also amount to legal barriers when they prevent or make more difficult entry or expansion by (potential) competitors. In principle, IPRs are indicative of a substantial degree of market power only when the product or technology protected by the IPR corresponds to a relevant product or technology market. IPRs do not automatically give rise to barriers and do not necessarily imply substantial market power as firms might well be able to invent around the relevant IPR.”

5. Current Development in Hong Kong

Para. 5.21

*“[T]he Commission will consider an undertaking’s **refusal to license an IPR as a contravention of the Second Conduct Rule only in exceptional circumstances**... the Commission may also assess, for example, whether a refusal to license prevents the development of a secondary market or new product or otherwise limits technical development resulting in consumer harm.”*

Para. 5.22

*“Where an undertaking with a substantial degree of market power holds an IPR which is essential to an industry standard, and the undertaking gave a commitment at the time when the standard was adopted by the industry that it would license the IPR on **fair, reasonable and non-discriminatory** (“FRAND”) terms, **a subsequent refusal to honour** the FRAND commitment may be an abuse. Equally, it may also be an abuse for the holder of a standard essential patent with a FRAND commitment to seek injunctive relief against a willing licensee in certain circumstances”*

5. Current Development in Hong Kong

Submissions of the Law Society of Hong Kong to the Competition Commission on Draft Guidelines under the Competition Ordinance dated 9 December 2014

- *“Bearing in mind the wealth of experience available to the Commission on competition regimes internationally, it is disappointing to note that the Commission is not taking the opportunity to consider issuing... Block Exemptions of its own volition (for example in relation to vertical restraints or **technology transfer agreements**)...”*
- *...Placing the onus on businesses to make the very heavy investment (and risk of enforcement) in applying for Block Exemptions is not likely to be well received by those wishing to comply with conduct rules, but lacking sufficient information or knowhow to do so.”*
- *It is yet to be seen whether, when and how the Competition Commission may act in addressing the potential competition law challenges faced by undertakings in IP right transactions*

5. Current Development in Hong Kong

What this means to you?

Don'ts – IP related

- (a) Don't restrict output
- (b) Don't share markets
- (c) Don't fix prices, particularly restricts a business' ability to compete

Three Points to note:

1. Identify possible risks
2. Mitigate such risk
3. Regular review





Thank you!

Important:

The law and procedure on this subject are very specialised and complicated. This presentation is just a very general outline for reference and cannot be relied upon as legal advice in any individual case

solutions • not complications