

**The relation between intellectual property law and  
competition law using the example of standard  
essential patents**

**by**

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*“O, it is excellent to have a giant’s strength: but it is tyrannous to use it as a giant.”*

*(William Shakespeare in Measure for Measure)*

## **CHAPTER 1: INTRODUCTION**

Patents have long since become one of the most important assets of a company. Such intangible, intellectual assets are often worth more than traditional physical property.<sup>1</sup> One need only to think of large pharmaceutical companies that invest immense amounts of time and money into research and development of new drugs, and then can protect their research achievements and their position at the knowledge front with patents guaranteeing them years of exclusive use of their new pharmaceuticals.

Other companies as well, such as Apple, for instance, live off their intellectual property rights, be it patents that guarantee them economic exploitation of technological progress or trademark rights that protect their hard-won reputation and image of Apple from imitation and exploitation of reputation. According to the magazine Forbes the brand Apple alone is worth about 105 billion US Dollars.<sup>2</sup> This is equivalent to 20 % of Apples entire stock exchange value.<sup>3</sup>

Since patents grant the patent holder – for a limited period of time - an exclusive right of use of the protected technology and products, they are often designated as monopoly rights.<sup>4</sup> However, the term “monopoly”

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<sup>1</sup> Hall, Brownwyn H. “The Use and Value of IP Rights” (2009) p. 15 available at: [http://elsa.berkeley.edu/~bhhall/papers/BHH09\\_IPMinisterial\\_June.pdf](http://elsa.berkeley.edu/~bhhall/papers/BHH09_IPMinisterial_June.pdf).

<sup>2</sup> See <http://www.forbes.com/sites/kurtbadenhausen/2013/11/06/apple-dominates-list-of-the-worlds-most-valuable-brands/>.

<sup>3</sup> See <http://www.marketwatch.com/story/apple-is-now-a-value-stock-2013-10-23>.

<sup>4</sup> Duffy, John F. “Intellectual Property as Natural Monopoly: Toward a General Theory of Partial Property Rights “ (2005) available at: [http://www.utexas.edu/law/wp/wp-content/uploads/centers/clbe/duffy\\_intellectual\\_property\\_natural\\_monopoly.pdf](http://www.utexas.edu/law/wp/wp-content/uploads/centers/clbe/duffy_intellectual_property_natural_monopoly.pdf).

has often a slightly bitter taste because it creates the idea that a monopoly grants effortless profits made possible not due to achievement, but due to exclusion of competition.<sup>5</sup>

It is not a coincidence that the establishment of patent rights is related to the Statute of Monopolies from 1624<sup>6</sup>, which put an end to the fund raising of the British monarchs by granting monopolies, arbitrarily limiting their power to the granting of patents to the real and first inventors of new products and their production methods.<sup>7</sup>

Later, the inventors' rights were recognised in the first modern constitutions, which were influenced by the Enlightenment.<sup>8</sup> The growing enforcement of patent rights in the 19th century in Europe was accompanied by a fierce patent battle, in which the competitiveness of particular national industries played a decisive role.<sup>9</sup> In Germany, for instance, *Werner von Siemens*<sup>10</sup> acted as an eminent inventor-entrepreneur, who played a large role in the final success of the pro-patent movement.<sup>11</sup>

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<sup>5</sup> Teschemacher, Rudolf "Patentschutz und Marktmacht" (Buchbesprechung) (2012) GRURInt. p. 695.

<sup>6</sup> The Statute of Monopolies is considered as the first English codified patent law. See: <http://www.legislation.gov.uk/aep/Ja1/21/3>.

<sup>7</sup> Thorley, Simon and others *Terrell on the Laws of Patents* (2000) p. 4, 13; Teschemacher, Rudolf "Patentschutz und Marktmacht" (Buchbesprechung) (2012) GRURInt. p. 695.

<sup>8</sup> "The Age of Enlightenment was a cultural movement especially in Europe beginning in the late 17<sup>th</sup> and 18<sup>th</sup> century. It can be described as a "desire for human affairs to be guided by rationality rather than by faith, superstition, or revelation; a belief in the power of human reason to change society and liberate the individual from the restraints of custom or arbitrary authority; all backed up by a world view increasingly validated by science rather than by religion or tradition." Dorinda Outram: *The Enlightenment* (1995), p. 3; See also Wilson, Judy Ellen, Reill, Hanns *Encyclopedia of the Enlightenment* (2004) Revised Edition ix et. seq.; Teschemacher, Rudolf "Patentschutz und Marktmacht" (Buchbesprechung) (2012) GRURInt. p. 695.

<sup>9</sup> Teschemacher, Rudolf "Patentschutz und Marktmacht" (Buchbesprechung) (2012) GRURInt. p. 695.

<sup>10</sup> Inventor and the founder of the Siemens company.

<sup>11</sup> See for a brief introduction into the patent history in Europe: Uhrich, Ralph *Stoffschutz* (2010) p. 15 et. seq.

However, this did not end the discussions about the justification of a patent system and its consequences. In the mid-20th century economists started to increasingly challenge patent protection systems; and their arguments won significant influence with USA-based criticism in international organisations such as the General Agreement on Tariffs and Trade (GATT), the World Trade Organisation's (WTO) predecessor, or the Andenpakt.<sup>12</sup>

Despite all the patent criticism it seems to have become indisputable in the last few decades that the possibility to obtain patent protection on acceptable terms is an important competitive factor in the global competition of nations. Almost all states in the world, both industrial nations and developing ones, East and West, South and North, argue for patent protection in a more or less distinctive form. According to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) of the WTO, patent protection is also guaranteed in a legally binding way in all WTO member states.<sup>13</sup>

At the same time most of the states in the world with a population exceeding 80,000 inhabitants also enacted competition laws with the aim of regulating market competition by fighting anticompetitive practices, such as the formation of monopolies and the abuse of market power.<sup>14</sup> Hence, competition guardians pay close attention to the holders of intellectual property rights. This is because patent rights deny a competitor the launch of similar products on the market. This can lead to the abuse of market

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<sup>12</sup> Teschemacher, Rudolf "Patentschutz und Marktmacht" (Buchbesprechung) (2012) GRURInt. p.695; Nogues, Julio "Patents and Pharmaceutical Drugs – Understanding the Pressures on Developing Countries (1990).

<sup>13</sup> See [http://www.wto.org/english/tratop\\_e/trips\\_e/t\\_agm3\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/t_agm3_e.htm).

<sup>14</sup> Papadopoulos, Anestis *The International Dimension of EU Competition Law and Policy* (2010) Cambridge University Press. p. 15.

power and stifling of healthy competition, especially if the right holder enjoys a dominant position in a particular market.<sup>15</sup>

Thus, it seems to be clear that patent law and competition law, at least at first sight, pursue completely opposite goals: On the one hand, patent law grants monopoly rights, which enable the patent holder to deny others the use of protected technology. On the other hand, competition law considers monopolies as harmful since they restrict competition.

Furthermore, account needs to be taken of the fact that the problematic relationship between patents and competition law has been aggravated in the past years. This coincides not least with the aspect that technical innovations and hence patents have become more and more important. The number of registered patents has been growing rapidly worldwide.<sup>16</sup> In a mobile phone alone there are hundreds of different patented technologies nowadays.<sup>17</sup> Whoever intends, for instance, to develop, produce or sell complex technical devices, must often realise that he will be infringing patents. He is then dependent on a license to use the patented technology which only the patent holder can grant him. If such a license is refused, then the question arises, whether such refusal can be abusive and anticompetitive.

In addition, the introduction of technical standards keeps growing.<sup>18</sup> The technical versatility, such as in the area of the computer or entertainment industry, makes it necessary to standardise technology. For example, the MP3 standard makes sure that music data has the same

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<sup>15</sup> Teschemacher, Rudolf "Patentschutz und Marktmacht" (Buchbesprechung) (2012) GRURInt. p.695; Nogues, Julio "Patents and Pharmaceutical Drugs – Understanding the Pressures on Developing Countries" (1990).

<sup>16</sup> See for instance the USPTO statistics chart: [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm) or the patent statistics of the European Commission:

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Patent\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Patent_statistics).

<sup>17</sup> See: <http://www.iptoday.com/issues/2009/11/articles/how-many-patents-take-build-iphone.asp>.

<sup>18</sup> See for instance the WTO statement about technical barriers to trade: [http://www.wto.org/english/tratop\\_e/tbt\\_e/tbt\\_info\\_e.htm](http://www.wto.org/english/tratop_e/tbt_e/tbt_info_e.htm).

technical format worldwide and can be thus read and played by any MP3 player. Such a standard, however, acts at the same time as a market access barrier increasing the market power of those who are in the possession of patents concerning so-called “standard relevant” or “standard essential” MP3 technology.

On the other hand, great importance has been attached to the combating of monopolies and other anticompetitive practices by courts and competition authorities in the last years. Recently, for instance, the European Commission made headlines with its cases against companies like Microsoft regarding the violation of the EU competition law.<sup>19</sup> It is therefore no surprise that courts, especially in Europe, are facing the question of how intellectual property rights and competition law can be brought in line.

Thus, the aim of this thesis is to take a closer look at this interesting relationship between patent rights and competition law. The focus will be set on European and German law. The reason for it is that the European courts already started to deal with the relation between intellectual property and competition law decades ago and have assumed a leading role in handling the anticompetitive exercise of intellectual property rights. Apart of the European focus the legal situation in South Africa will be elicited as well and, as far as possible, analysed against the background of the European situation.

Since the relation between intellectual property rights, like patents, and competition law is an extremely comprehensive and multi-layered problem area, the so called FRAND<sup>20</sup> objection in patent infringement proceedings concerning so called standard essential patents (SEPs) will be used and analysed as a representative example for the entire problem.

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<sup>19</sup> See <http://www.bbc.co.uk/news/technology-21684329>.

<sup>20</sup> The term “FRAND” refers to the licensing according to so called FRAND (Fair, Reasonable and Non Discriminatory) conditions.

This case is especially relevant, since a German patent court has recently referred five questions regarding the FRAND objection to the European Court of Justice.<sup>21</sup>

When dealing with the FRAND objection the key issue is, on the one hand, that the patent holder's refusal to grant a license to others according to FRAND (fair reasonable and non-discriminatory) conditions can be deemed as an abuse of a market dominant position and therefore as anticompetitive. This thesis analyses in which cases the exercise of intellectual property laws can constitute a breach of competition law.

Subsequently, on the other hand, the question arises whether the patent infringer can defend himself in patent infringement proceedings in Court using the argument that the patent owner and claimant did not grant him a license in the past and that this refusal has been anticompetitive. The goal of this thesis is to analyse whether the legal practice of courts is appropriate.

In order to understand the relationship between patent law and competition law it is necessary to explain first how both legal institutes have developed and what their objectives are. Only then can it be clarified which of the two legal institutions can be given priority in particular conflict cases. Following this introduction chapter 2 of this thesis therefore discusses the historical development of patent law as well as its objectives and theories. By contrast, chapter 3 subsequently illustrates the development and the objectives of modern European and South African competition law. Furthermore, it also deals with the relevant European competition law provisions in general in order to respond in chapter 4 to the question about the relationship between intellectual property rights and competition law with focus on European case law in particular.

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<sup>21</sup> See <http://www.fosspatents.com/2013/03/german-court-refers-huawei-zte-standard.html>.

Having made these general observations this thesis addresses in its 5<sup>th</sup> chapter industry standards and so called “standard-relevant” or “standard essential” patents (SEPs) before analysing EU case law regarding the FRAND objection. This objection is based on the right to the grant of a compulsory license according to competition law.

After having given an account for the legal situation in Europe chapter 6 focuses on relevant South African competition law provisions and on the question how the South African courts assess the relationship between intellectual property law and competition law.

Finally, chapter 7, first summarises the main findings of this thesis, draws numerous conclusions from these findings and makes recommendations especially on how the FRAND objection can be regulated. As the FRAND objection is an objection based on competition law this thesis will only focus on competition law related compulsory licenses. Other compulsory license provisions e.g. with regard to pharmaceuticals and other essential goods which can be found inter alia in patent law provisions like Art. 31 TRIPS, Sec. 56 South African Patent Act or Sec. 24 PatG (German Patent Act) will not be addressed.

## CHAPTER 2: PATENT LAW

### 2.1 Introduction

Patent law deals with the protection of technical inventions. According to general principles, these inventions must be new, based on an inventive step and, finally, industrially applicable.<sup>22</sup> This protection is applied in the form of a national exclusive right.<sup>23</sup> An essential requirement for the granting of patent rights is that the inventor reveals the object of his invention to the public. This revelation of the technical subject matter of an invention is an essential part of the patent specification.<sup>24</sup>

In return for revealing the invention, and thus for the enrichment of the knowledge pool, the state grants the inventor the privilege and monopole of economic exploitation. The patent right differs from the know-how protection in this respect. The latter can be utilized without state “privilege” only as long as the invention is still secret and is not a part of the technological prior art.<sup>25</sup>

The patent holder has the possibility of defending his exclusive right in court by enjoining others from using the patented technology or by demanding compensation for damages.<sup>26</sup>

Patents have two historical origins.<sup>27</sup> If one regards patents in light of the granting of a certain advantage in favour of the one who has

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<sup>22</sup> See for instance Art. 27 TRIPS or Section 1 German Patent Act (PatG); Thorley, Simon and others *Terrell on the Laws of Patents* (2000) p. 11.

<sup>23</sup> Osterrieth, Christian *Patentrecht (Patent Law)* (2010) para. 1.

<sup>24</sup> Kraßer, Rudolf *Patentrecht (Patent Law)* (2009) p. 489 et. seq.

<sup>25</sup> Osterrieth, Christian *Patentrecht (Patent Law)* (2010) para. 4.

<sup>26</sup> Cornish, William Rodolph *Intellectual Property* (1999) p. 7.

<sup>27</sup> Osterrieth, Christian *Patentrecht (Patent Law)* (2010) para 24; Kraßer, Rudolf *Patenrecht (Patent Law)* (2009) p. 54 et. seq.

achieved something that benefits the public, the origins of the patent right ultimately go back to the medieval privilege system.<sup>28</sup>

The idea of giving privileges to particular individuals for achievements that are of special interest to the public or the state, so they can have the yield of their efforts for a specific time period, can be traced back to the Middle Ages.<sup>29</sup> At that time, the privilege system's key objective was, however, the promotion of trade and not the selective sovereign promotion of the invention as such.

At least concept-wise, the predecessors of today's patents can be seen in the invention and adoption privileges when the granting of privileges was handed out with public documents, called "*litterae patentes*". Today's term "patent" derives from this phrase.<sup>30</sup>

However, the origins of today's patent legislation would not have been possible without the French Revolution's new concept of humans as carriers of genuine human rights and freedoms. Hence, the French Revolution did not only promote the development of the modern patent rights by eliminating the abuse of the patent system, but also by perceiving and acknowledging the human as an inventor and the inventor as human.<sup>31</sup> If inventive activity is acknowledged as being protected as a human right, it can reasonably be expected that the result of the inventive activity should be acknowledged as a natural property right of the inventor with regard to his invention.<sup>32</sup>

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<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Thorley, Simon and others *Terrell on the Laws of Patents* (2000) p. 1.

<sup>31</sup> Kraßer, Rudolf *Patenrecht (Patent Law)* (2009) p. 60.

<sup>32</sup> Ibid.

## 2.2 Purpose of patent law<sup>33</sup>

### 2.2.1 General considerations

It is widely accepted that, in general terms, patent law serves the purpose of creating an adequate balance between the interests of the inventor, the competitors and the general public.<sup>34</sup> However, this insight does not answer the question why the legal system grants the patent owner at all the authority to exclude others – for a limited period of time - from the use of the innovation and to monetize it.<sup>35</sup>

Importantly, however, the legal system does not protect all technical inventions or all intellectual achievements. Instead, legislation only protects certain concepts, insights, ideas and creations that are considered especially worthy of protection.<sup>36</sup> Whether or not legal protection for immaterial goods is afforded is a crucial one as a comprehensive assignment of all intellectual concepts to individual right holders similar to the law of property or the right in rem would unjustifiably stifle the academic, economic and cultural progress.<sup>37</sup>

### 2.2.2 Natural law theory

The natural law theory<sup>38</sup> was described in the preamble of the French patent law by the French constituent assembly in 1791 in the following manner:

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<sup>33</sup> This chapter partly draws from an Assignment written by the author of this thesis in 2013 as part of the course *Principles of Intellectual Property Law* at University of Cape Town: Bornhaeusser, Matthias Assignment 3 Course “Principles of IP Law” CML5678F (2013).

<sup>34</sup> Haedicke, Maximilian *Patenrecht* (2012) p. 4.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> Schonwetter, Tobias “Safeguarding a fair copyright balance - contemporary challenges in a changing world: Lessons to be learnt from a developing country perspective” (2009)

*“Each new idea, the realization or development of which can be of use to the society, belongs first and foremost to the one who has devised it and it would be a violation of the essence of human rights, if an industrial invention would not be acknowledged as a property of its creator.”*<sup>39</sup>

Thus, the natural law theory acts on the assumption that every human has a natural “property right” in his own ideas. Using the ideas of third parties for oneself is considered “theft”. According to this theory the society has a moral obligation of protecting intellectual achievements, regardless of what sort, and to equate them with physical property.<sup>40</sup> The property theory has its origin in John Locke's work theory, according to which the human possesses himself and, hence, his own intellectual achievements.<sup>41</sup>

However, it becomes clear that the property theory cannot be valid in general as not all intellectual achievements justify an exclusive right in favour of those who have created it. Especially patents are granted only under strict conditions because a patent application has to fulfil the necessary legal and formal requirements.<sup>42</sup>

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p. 32; Kraßer, Rudolf *Patentrecht (Patent Law)* (2009) p. 36 Fisher, William “Theories of Intellectual Property” (2001) p. 4 available at: <http://cyber.law.harvard.edu/people/ffisher/iptheory.pdf>; Grady, Mark F., Alexander, Jay I. “Patent Law and Rent Dissipation” (1992) *Virginia Law Review* Vol. 78, No. 1 Symposium on the Law and Economics of Intellectual Property pp. 305, 310 available at: <http://heinonline.org/HOL/LandingPage?handle=hein.journals/valr78&div=21&id=&page=;> Haedicke, Maximilian *Patentrecht (Patent Law)* (2012) p. 6.

<sup>39</sup> Cited in Sprengler, Albrecht “Ist eine friedliche Koexistenz zwischen Wettbewerbsfreiheit und Patentschutz denkbar?” („Can patent protection and freedom of competition coexist peacefully“?) (1961) *GRURInt.* p. 607.

<sup>40</sup> Urich, Ralf *Stoffschutz* (2010) (PhD Dissertation) p. 99.

<sup>41</sup> Locke, John Two *Treatises of Civil Government* Book II (1764) chapter 5, sec. 25 et seq.

<sup>42</sup> Haedicke, Maximilian *Patentrecht (Patent Law)* (2012) p. 6.

### 2.2.3 Reward theory

The reward theory's purpose is to reward the inventor for his efforts and his revelation as a “teacher of the nation” and a “benefactor of the community”.<sup>43</sup> With a special focus on the revelation requirement the reward theory is also called social contract theory, especially in the Anglo-Saxon legal system: The inventor increases the available technical knowledge to the community in return for patent protection in the sense of a synallagmatic contract.<sup>44</sup> In particular, the 19th century English national economists advanced this thesis, above all John Stuart Mill, who rejected monopolies, yet argued for patents as a justified reward for the inventor's performance,<sup>45</sup> stating that:

“The condemnation of monopolies ought not to extend to patents, by which the originator of a new process is permitted to enjoy, for a limited period, the exclusive privilege of using his own improvement. This is not making the commodity dearer for his benefit, but merely postponing a part of the increased cheapness (or excellence) which the public owe to the inventor, in order to compensate and reward him for his service.”<sup>46</sup>

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<sup>43</sup> Beier, Friedrich-Karl “Die herkömmlichen Patentrechtstheorien und die sozialistische Konzeption des Erfinderrechts“ (“Traditional patent theories and the socialist theory of the inventors’ right“) (1970) GRUR Int.p.1, 2; Schmidt, Alexander K. *Erfinderprinzip und Erfinderpersönlichkeitsrecht im deutschen Patentrecht von 1877 bis 1936 (Inventor principle and the right of the inventor in German Patent Law between 1877 and 1936)* (2009) (PhD Dissertation) p.19.

<sup>44</sup> Urich, Ralf *Stoffschutz* (2010) (PhD Dissertation) p.100; Beier, Friedrich-Karl “Die herkömmlichen Patentrechtstheorien und die sozialistische Konzeption des Erfinderrechts“ (“Traditional patent theories and the socialist theory of the inventors’ right“) (1970) GRUR Int.p.1, 2.

<sup>45</sup> Schmidt, Alexander K. *Erfinderprinzip und Erfinderpersönlichkeitsrecht im deutschen Patentrecht von 1877 bis 1936 (Inventor principle and the right of the inventor in German Patent Law between 1877 and 1936)* (2009) (PhD Dissertation) p. 20.

<sup>46</sup> Mill, John Stuart *Principles of Political Economy with some of their Applications to Social Philosophy* (1909) p. 271.

Some German economists argued similarly: The state should give a social reward to the inventor for his provision of knowledge to the community.<sup>47</sup>

#### 2.2.4 Incentive theory

The so-called incentive theory relates mainly to the general social interest in technical progress. It presumes that inventions would only be carried out and used if they resulted in adequate profit. Since the earnings expectation is much too uncertain if the innovation could be soon taken over by the competition<sup>48</sup> such competition – according to the incentive theory – needs to be prevented for a certain period of time. Consequently,, patent protection significantly increases the readiness to invest effort and resources in new technical solutions and their application. Patent protection granted to the individual is thus a simple, cheap and efficient tool to promote progress.<sup>49</sup>

#### 2.2.5 Contract- or revelation theory

In contrast to the reward theory, the contract theory emphasises “the non-rival nature” of patents.<sup>50</sup> The contract theory is based on the consideration that the patent is a contract which the inventor closes with the public and in which he gives up his possession of the secret. It is presumed that it is in the interest of the entire public to reveal new technological knowledge as soon as possible. This could be provided by

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<sup>47</sup> Böhmer, Victor *Die Erfindungspatente nach volkswirtschaftlichen Grundsätzen und industriellen Erfahrungen mit besonderer Rücksicht auf England und die Schweiz (Invention patents according to economic principles with special regard to England and Switzerland)* (Besonderer Abdruck aus der Vierteljahrschrift für Volkswirtschaft und Kulturgeschichte) (1869) Vol I p.73 et seq.

<sup>48</sup> Kraßer, Rudolf *Patenrecht (Patent Law)* (2009) sec. 3 II 3.

<sup>49</sup> Ibid.

<sup>50</sup> Denicolò, Vincenzo and others “The contract theory of patents” *International Review of Law and Economics* 23 (2004) 365–380.

offering the inventor a patent in return.<sup>51</sup> This theory faces a long tradition with courts. Already in the case *Universal Oil Products v. Globe Oil&Refining* the US Supreme Court stated that: “As a reward for inventions and to encourage their disclosure, the United States offers a 17-year monopoly to an inventor who refrains from keeping his invention a trade secret. But the quid pro quo is disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention once the period of the monopoly has expired; and the same precision of disclosure is likewise essential to warn the industry concerned of the precise scope of the monopoly asserted.”<sup>52</sup>

One could argue that the revelation theory - just like the reward theory and the incentive theory – do not mandate a patent system based on exclusive patent rights. Instead, the inventor could, for example, be “rewarded” sufficiently with a corresponding acknowledgment and, possibly, a claim for remuneration against the state.<sup>53</sup> However, it would be problematic to determine the criteria according to which the claim for remuneration should be given in individual cases.<sup>54</sup> In addition, if one assumed that the majority of inventors nowadays work for companies, it is questionable whether these companies would be willing to engage in costly innovative activity if profit expectations could possibly be reduced to zero by an imitation.<sup>55</sup> Of course one could argue that in contrast to seeking patent protection companies could keep details of the invention secret. But then, as a consequence, the new technological knowledge would not be revealed to the public.

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<sup>51</sup> Machlup, Fritz *Die wirtschaftlichen Grundlagen des Patentrechts (Economic principles of patent law)* (1962) p. 377.

<sup>52</sup> *Universal Oil Products v Globe Oil & Refining Co.* available at: <http://www.law.cornell.edu/supremecourt/text/322/471>.

<sup>53</sup> Hirsch, Hans “Patentrecht und Wettbewerbsordnung“ (Competitive order and patent law) (1970) *Wirtschaft und Wettbewerb (WuW)* p. 99 et. seq.

<sup>54</sup> Bußmann, J. “Patentrecht und Marktwirtschaft“ (Patent law and market economy) (1977) p. 121 et seq.

<sup>55</sup> Bernhardt, W. *Die Bedeutung des Patentschutzes in der Industriegesellschaft (The relevance of patent protection in industrialized societies)* (1974) p. 16.

## 2.2.6 Negative patent theories – patent criticism

The term “negative patent theories” summarises the arguments of those who do not acknowledge any justification for patent protection. The negative patent theory stands in opposition to the aforementioned positive patent theories, which provide justifications for patent protection. The historical roots of a negative attitude towards patent protection in Germany for example go back to the initial stage of the German patent system in the first half of the 19th century. When the German kingdom Prussia created a patent law as the first one from the German territories in 1815, the idea of patent protection was, at first, accompanied by a flood of enthusiasm.<sup>56</sup> However, this era was also formed by the just achieved economic freedom, which the German national economists soon regarded as diametrically opposed to the granting act of patent rights to inventors.<sup>57</sup>

The basic thesis of the representatives of the negative patent theory is based on the concept of equalizing patents with monopolies.<sup>58</sup> The view of the advocates of the (positive) reward theory, who elicit as a justification for the patent protection that the inventor would have to receive a “reward” (in the form of a patent) for his social achievement (the invention) is countered by the argument that one should not be rewarded for revealing a technical concept, more or less by accident, as the first one, which actually emerges from the collective knowledge of the community.<sup>59</sup> A counterargument for the reward theory is also that the granting of exclusive patent rights, as performed by the patent law, cannot be justified. After all, a reward for the intellectual achievement of the inventor

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<sup>56</sup> Scheffler, Dietrich “Die (ungenutzten) Möglichkeiten des Rechtsinstituts der Zwangslizenz“ (The unexploited possibilities of compulsory licensing) (2003) GRUR p.97.

<sup>57</sup> Bußmann, Joachim *Die patentrechtliche Zwangslizenz (The compulsory license in patent law)* (PhD Dissertation) (1975) p. 7.

<sup>58</sup> Machlup, Fritz *Die wirtschaftlichen Grundlagen des Patentrechts (Economic principles of patent law)* (1962) p. 18.

<sup>59</sup> Ibid.

could be also done in a different way and does not necessarily have to end in such a strong right like the patent right.<sup>60</sup>

Some advocates for the negative patent theory even put into question the incentive effect of patents. In their opinion, the opposite takes place; as soon as a producer owns a patent, he is no longer motivated to further improve his product.<sup>61</sup>

### 2.2.7 Patent criticism in developing countries

Especially since the TRIPS agreement came into effect in 1996 the WTO has been facing increasing criticism by developing countries. The TRIPS agreement<sup>62</sup> under the umbrella of the World Trade Organization (WTO) is considered by industrialised nations as a breakthrough in protecting and enforcing intellectual property.<sup>63</sup> The agreement leads, for the first time, to an international alignment of the protection of intellectual property rights at a relatively high level committing most developing countries to a significant increase of the protection level on their state territory.<sup>64</sup> Since January 1st, 2005, developing countries that are not Least Developed Countries (LDCs)<sup>65</sup> must implement the conditions of the TRIPS agreement for

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<sup>60</sup> Koikkara, Sonia Elisabeth *Der Patentschutz und das Institut der Zwangslizenz in der Europäischen Union (Patent protection and compulsory licenses in the EU)* (2010) (PhD Dissertation) p. 20.

<sup>61</sup> Ibid.

<sup>62</sup> The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) has been signed in 1994 together with other international agreements which founded the World Trade Organization (WTO) in 1994. The TRIPS Agreement is administered by the WTO and defines minimum standards for the protection of intellectual property right in the WTO member states. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994, see <http://nyulaw.libguides.com/content.php?pid=55653&sid=423974>.

<sup>63</sup> See Abdulqawi A. Yusuf, Carlos M. Correa (Ed.) *Intellectual Property and International Trade: TRIPS Agreement 2<sup>nd</sup> edition* (2008) p.23 et seq.

<sup>64</sup> Ibid.

<sup>65</sup> The term “Least Developed Country (LDC)” refers to a state that, according to the UN, has the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings, see: Srinivasan, T.N. *Trade, Growth and Poverty Reduction* (2009) 3.1.; UN Office of the High Representative for the Least Developed Countries (UN-UNOHRLS) <http://unohrlls.org/about-lDCs/>.

protection of intellectual property rights and grant the full product patent protection for drugs.<sup>66</sup> Hence, the economic-political option in these countries to exclude drugs from the patent protection and to motivate the production of low-priced generics is no longer valid. This has not only consequences for the access to drugs in these countries, but also in the LDCs. The drug supply in the LDCs is highly dependent at the moment, particularly in the case of HIV/AIDS, on imports from advanced producer countries such as India.<sup>67</sup> Thus, this element of the international Global Governance architecture interferes significantly in the national capacity to act.<sup>68</sup> In many cases, therefore, TRIPS is described by its critics rather as a result of the lobbying process by multinational companies, whose goal is to establish global monopolies for the application of business ideas, inventions and discoveries.<sup>69</sup>

The most intensive dispute has been over AIDS drugs for Africa. Despite the unjustifiable role that patents played in Africa in the erosion of the public health service according to critics, the TRIPS agreement was changed in 2005, however, according to the critics' view only insignificantly.<sup>70</sup>

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<sup>66</sup> Liebig, Klaus (2006) "Auswirkungen des internationalen Patentregimes auf die Medikamentenproduktion und den Zugang zu Medikamenten in LDC's" Deutsches Institut für Entwicklungspolitik / German Development Institute (Studies 18).

<sup>67</sup> Liebig, Klaus "Protection of intellectual property in the world trading system: the TRIPS agreement and developing countries" (2001) available at: <http://www.die-gdi.de/briefing-paper/article/protection-of-intellectual-property-in-the-world-trading-system-the-trips-agreement-and-developing-countries/>; Liebig, Klaus Auswirkungen des internationalen Patentregimes auf die Medikamentenproduktion und den Zugang zu Medikamenten in LDC's (2006) Deutsches Institut für Entwicklungspolitik / German Development Institute (Studies 18) p 4.

<sup>68</sup> Deutsches Institut für Entwicklungspolitik, Geistige Eigentumsrechte und Wissenserwerb in Entwicklungsländern available at: [http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/\(ynDK\\_contentByKey\)/ENTR-7BEJPR?OpenDocument&nav=expand:Forschung%20und%20Beratung%5CProjekte;active:Forschung%20und%20Beratung%5CProjekte%5CENTR-7BEJPR](http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/(ynDK_contentByKey)/ENTR-7BEJPR?OpenDocument&nav=expand:Forschung%20und%20Beratung%5CProjekte;active:Forschung%20und%20Beratung%5CProjekte%5CENTR-7BEJPR).

<sup>69</sup> Drahos, Peter, Braithwaite, John "Information Feudalism: Who Owns the Knowledge Economy?" (2002) New York: The New Press, USA.

<sup>70</sup> See for instance Thomas, John "HIV/AIDS Drugs, Patents and the TRIPS Agreement: Issues and Options" (2001) CRS Report for Congress, available at: <http://www.law.umaryland.edu/marshall/crsreports/crsdocuments/RL31066.pdf>.

Critics focused particularly on the prices for antiviral drugs for treatment of the immune deficiency disease AIDS, that in consequence of the patent protection in the respective countries, could be determined by the pharmaceutical industry itself.<sup>71</sup> A great majority of the people in developing countries cannot afford these drugs. The relation between high prices for drugs and the existing patent protection is by no means a rumor, but a fact. A study of the United Nations has shown that 150mg of the AIDS drug Flucanazol, in India, where there is no patent protection, costs (only) 55 USD, whereas on the Philippines, on the other hand, where the drug has a patent protection, 817 USD.<sup>72</sup>

Therefore, particularly against such backdrop, both the purpose and the benefit of the patent protection are often doubted and questioned. However, one should note that the TRIPS agreement does not lead to a complete harmonization of the protection conditions, but it leaves wiggle room for political trade to the WTO member countries. Individual member countries can still grant compulsory licenses, provided that certain principles are observed. Moreover, the TRIPS agreement's purpose is to simplify the licensing for public, non-commercial use of drugs and to allow parallel imports. Exceptions from the patentability remain possible within narrow limits.<sup>73</sup>

### **2.2.8 Concluding remarks**

Patent protection, even though widely spread and acclaimed, is facing increasing criticism. It is argued that the current patent protection systems

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<sup>71</sup> Sykes, Alan O. "TRIPs, Pharmaceuticals, Developing Countries, and the Doha "Solution" available at: <http://www.law.uchicago.edu/Lawecon/index.html>.

<sup>72</sup> See United Nations Commission on Human Rights, Report of the High Commissioner, "The Impact of the Agreement on Trade-Related Aspects of Intellectual property Rights on Human Rights" 44, E/CN.4/Sub.2/2001/13 (June 2001).

<sup>73</sup> Liebig, Klaus "Auswirkungen des internationalen Patentregimes auf die Medikamentenproduktion und den Zugang zu Medikamenten in LDC's (2006) Deutsches Institut für Entwicklungspolitik" German Development Institute (Studies 18) p 4.

as provided for under international treaties and agreements are too rigid and inflexible. It is particularly problematic that these systems provide insufficient access mechanisms even in cases where such access is justified. Some also argue that the social and economic costs of having a patent system surpass the economic benefit of patent protection. The substantial criticism is aimed at the effects of the high levels of patent protection implemented by developing countries as a result of the TRIPS agreement. It is feared that patents of foreign companies are often entitled to block the access of the community and local companies to crucial knowledge and innovation.<sup>74</sup> Especially regarding patents for chemical, pharmaceutical and bio-technological innovations patent rights can lead to a deteriorated access of wide circles of the population to pharmaceutical products due to the higher prices for drugs.<sup>75</sup> Particularly in this context the question is raised whether the discussed theories for the justification of patent protection are sufficiently suited to justify a worldwide minimal protection for innovations as provided for under the TRIPS agreement.<sup>76</sup>

However, despite this criticism the conclusion can be drawn that positive effects of patents as such offset their negative effects in many cases. This is the case in particular if account is taken of the fact that the various patent right theories do not exclude each other, but that they are related to each other and supplement each other. Whereas some theories aim at presenting the patent right as an imperative of justice and the individual interests of the inventor as worthy of protection, others substantiate its use for the community.<sup>77</sup>

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<sup>74</sup> Dutfield, Graham "TRIPS and its impact on developing countries" (2001) available at: <http://www.scidev.net/global/policy-brief/trips-and-its-impact-on-developing-countries.html>.

<sup>75</sup> Haedicke, Maximilian, Timmann Henrik *Handbuch Patentrecht* (Handbook Patent Law) ((2012) sec. 1 para. 12.

<sup>76</sup> Koikkara, Sonia Elisabeth *Der Patentschutz und das Institut der Zwangslizenz in der Europäischen Union* (Patent protection and compulsory licenses in the EU) (2010) (PhD Dissertation) p. 22.

<sup>77</sup> Kraßer, Rudolf *Patentrecht* (Patent Law) (2009) sec. 3 II 5.

Of course, a patent can solely be seen as a right to stop others from doing something.<sup>78</sup> One could also say that that patent law creates monopolies which by definition are anti-competitive. However, this chapter has shown that patents also serve as an incentive for companies to invest in new technologies and therefore to enter into technological competition. Therefore, patents are useful and clearly have effects which are beneficial to competition.

### **2.3 Special considerations with regard to South African patent law**

An important particularity of the South African patent system is the lack of any substantive examination for patentability of the patent application.<sup>79</sup> Hence, one can register almost any “invention” in South Africa, as long as the formal requirements are fulfilled. So the assessment whether a patent really withstands is decided only in court. This is a crucial difference to other major patent systems, e.g. in Europe and the United States. This situation can lead to problems because the patent applicant can take legal proceedings against alleged patent infringers on the account of his patent, even though the patent has not been previously substantially asserted regarding its effectiveness by the Patent Office. The defendant is left no other choice but to defend himself in an expensive and time-consuming process against the claim of infringement and to prove the invalidity of the claimant’s patent.

Thus, the question about objective of patent rights is raised in such a system all the more because in this patent system one can obtain a patent relatively simple. Consequently this fact also plays a role when asking about the relation between intellectual property law and competition

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<sup>78</sup> See Laddie Hugh and others *The modern law of copyright and designs* 3<sup>rd</sup> edition(2000) p. 1et seq.

<sup>79</sup> Patent Regulations, 1978, regulations 41, 44; Klopper, Hennie B. *Law of Intellectual Property in South Africa* (2011) p. 294; for a detailed overview see Burrell, TD and others *Burrells South African Patent and Design Law* (1999) 1.22 et seq.

law because in South Africa it is much easier to obtain market power and monopolies through patents because no substantial examination takes place here.

However, recently, more and more voices have been raised in South Africa for a patent system with a substantial patent examination.<sup>80</sup> In addition, the draft National IP Policy makes concrete suggestions for introducing an examination based system in South Africa.<sup>81</sup>

## **CHAPTER 3: COMPETITION LAW**

### **3.1 Introduction**

The cartel law or competition law deals, in general, with the prevention of limitations in competition.<sup>82</sup> The often used designation “cartel” is, therefore, too restrictive, since almost all known competition laws do not only fight the formation of cartels, but also deal with other competition-restraining forms and practices.<sup>83</sup> Since the goal of competition law is to disable undesirable restraints of competition, the decisive questions of every competition law are: what does the term competition mean; when is it restrained; and which restraints are in fact undesirable.<sup>84</sup> This said, there is almost unanimous consent in the literature that the term “competition” does not have a homogeneous and general definition.<sup>85</sup> It is much more appropriate not to make an attempt to define the competition as such, but rather to ask immediately whether a restraint of competition has occurred

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<sup>80</sup> See for instance the presentations on the recent Africa IP Forum held in 2013 which are available at [http://www.thedti.gov.za/business\\_regulation/business\\_regulation.jsp](http://www.thedti.gov.za/business_regulation/business_regulation.jsp).

<sup>81</sup> See <http://ip-unit.org/wp-content/uploads/2013/09/DRAFT-IP-POLICY.pdf>.

<sup>82</sup> Neef, Andreas *Kartellrecht (Cartel Law)* (2008) para 1.

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

<sup>85</sup> Emmerich, Volker *Kartellrecht (Cartel Law)* (2012) sec. 1 para 2.

in certain circumstances<sup>86</sup> – and this is the case when a function of the competition is affected.<sup>87</sup> Notably, there is no uniform purpose of competition law. The competition laws of different jurisdictions follow different concepts and thus serve different purposes.

The remaining part of this chapter will give a brief overview of both the modern European and the latest South African competition law before going more into detail by analysing the relevant case law regarding the relation between intellectual property rights and competition law as well as the relevant sections of the Competition Act.

### **3.2 European Competition Law – overview and objectives**

In the 1957 Treaty of Rome (officially Treaty establishing the European Economic Community (TEEC)), which established the European Economic Community (the predecessor of the European Union), member states opted for an economic order that was marked by open markets and undistorted competition.<sup>88</sup> This decision was confirmed in the later versions of the Treaty establishing the European Economic Community (EEC) in 1958 as well as in the Reform Treaty of Lisbon of 2007, and is the foundation for the definition of the European competition in detail.<sup>89</sup>

Since 2009, European competition law is regulated in Art. 101 ff. of the Treaty on the Functioning of the European Union (TFEU)<sup>90</sup>. The competition law provisions were taken over without changes from the

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<sup>86</sup> Emmerich, Volker *Kartellrecht (Cartel Law)* (2012) sec. 1 para 2.

<sup>87</sup> Neef, Andreas *Kartellrecht (Cartel Law)* (2008) para 2; See also section 2(1) of the Competition Act 1980 UK.

<sup>88</sup> Jones, Alison, Brenda, Sufrin *EC Competition Law* (2000) p. 4 et seq.

<sup>89</sup> Ibid.

<sup>90</sup> Available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:en:PDF>.

Treaty establishing the European Economic Community (TEC), so one can still refer to legal practices and literature for the preceding provisions of Artt. 85 ff. TEC (until 1997) and Artt. 81 ff. TEC.<sup>91</sup>

Under the TFEU, the European Union, member states and the European system of central banks are committed to the “principle of an open market economy with free competition” (Art. 119 in conjunction with Art. 120 and Art. 127 TFEU). The essence of the competition rules includes the prohibition of competition restraining agreements (Art. 101 TFEU), the prohibition of abuse of a market dominant position (Art. 102 TFEU), the regulations for public companies (Art. 106 TFEU) and aid payments (Art. 107–109 TFEU).<sup>92</sup>

The competition rules that are aimed directly at companies provide subjective rights for individuals that courts and public authorities of the member states must protect. Thereby, the jurisdiction of the European Court of Justice has an elementary meaning for the interpretation, application and further development of the competition law.<sup>93</sup>

EU competition law has several objectives.<sup>94</sup> One very important objective is to economically integrate the various member states into the EU system. A common EU market with an unlimited free movement of goods and people within EU territory is an important goal of the European community.<sup>95</sup> The European competition law is also concerned about business opportunities for small and medium size enterprises and their capacity to compete in the global market.<sup>96</sup>

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<sup>91</sup> Imenga, Ulrich, Mestmäcker Joachim-Ernst *Wettbewerbsrecht Part I (Competition Law I)* A I; See also Jones, Alison, Brenda, Sufrin *EC Competition Law* (2000) p. 20 et seq.

<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

<sup>94</sup> Korah, Valentine *Competition Law of the European Community* (2001) 2<sup>nd</sup> Ed. Vol. 1 1-20.

<sup>95</sup> Fox, Eleonore “Global Competition Policy US and EU Competition Law – A Comparison” (2011) p. 340.

<sup>96</sup> Ibid.

However, the EU competition policies' main goals are protecting competition on the market to enhance and to protect consumer welfare<sup>97</sup> and to achieve maximum economic efficiency.<sup>98</sup> Despite these main objectives, however, the language of the European Competition law seems to “accept a larger element of “industrial policy” and “fairness” than is e.g. accepted in the USA”.<sup>99</sup>

### 3.3 South African competition law - overview and objectives

When dealing with the South African competition law one needs to consider the following: First of all, South African competition law is relatively young. However, spectacular competition law cases, for instance, in the food industry have nevertheless managed to make it present in the consciousness of the broad public.<sup>100</sup> Also, shortly before the FIFA Football World Cup in 2010 the suspicion of price arrangement of several airlines caused a stir.<sup>101</sup>

South African competition law is a mixture of various sources thus having features from the US, European and Canadian laws.<sup>102</sup> Therefore, it would be obvious to consider the corresponding role models when interpreting South African competition law. However, one must be careful: South Africa's history as well as its position as a developing country<sup>103</sup>

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<sup>97</sup> See Communication from the Commission *Guidelines on the application of Article 81(3) of the Treaty* (2004/C 101/08).

<sup>98</sup> Chetty, Vani, Nathan, Edward “The Place of Public Interest in South Africa’s Competition Legislation” (2005) p. 2.

<sup>99</sup> Ibid.

<sup>100</sup> See for instance: <http://www.bdlive.co.za/business/2014/01/13/entrenched-market-power-still-a-concern>; See also *The Competition Commission vs Pioneer Foods (Pty) Ltd* Case 15/CR/Feb07.

<sup>101</sup> See Federico, Giulio “SAA II: Abuse of dominance in the South African skies” (2013) available at: [http://ec.europa.eu/dgs/competition/economist/federico\\_saa2\\_en.pdf](http://ec.europa.eu/dgs/competition/economist/federico_saa2_en.pdf).

<sup>102</sup> Klees, Andreas “Das südafrikanische Kartellrecht nach dem Competition Amendment Act 2009” (“South African competition law after the Competition Amendment” Act 2009”) (2011) WuW p. 140.

<sup>103</sup> See the United Nations Country Classification 2012: [http://www.un.org/en/development/desa/policy/wesp/wesp\\_current/2012country\\_class.pdf](http://www.un.org/en/development/desa/policy/wesp/wesp_current/2012country_class.pdf)

may require a deviating interpretation of the South African law.<sup>104</sup> One must also take into consideration that the South African competition law pursues not only competition goals but also a series of country-specific industrial and socio-political goals.<sup>105</sup>

Until the end of Apartheid in 1994, the South African economy suffered from high levels of economic concentration caused by the small size of the South African economy, laws that disadvantaged small and medium size enterprises, the role of the mining industry, exchange control, lack of foreign investments and a prolonged recession.<sup>106</sup> After the end of Apartheid, tremendous change occurred to the South African landscape, both politically and economically. The new ruling party, the African National Congress (ANC) put emphasis on tackling the problem of economic concentration.<sup>107</sup> In order to do so, the ANC's goal was, *inter alia*, to establish "strict antitrust legislation to create a more competitive economic environment."<sup>108</sup> The party worked on legislation which addressed the problems of "economic concentration, interlocking directorships and anticompetitive behavior such as market domination and abuse".<sup>109</sup> Therefore, it aimed to review "the structure of economic control and competition and develop efficient democratic solutions".<sup>110</sup>

In 1997, the Department of Trade and Industry (DTI) published "Proposed Guidelines for Competition Policy: A Framework for

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<sup>104</sup> Klees, Andreas "Das südafrikanische Kartellrecht nach dem "Competition Amendment Act 2009" (South African competition law after the „Competition Amendment" Act 2009) (2011) WuW p. 140; Sutherland/Kemp, *Competition Law of South Africa*, Issue 12 (October 2009), 4.2.

<sup>105</sup> See p. 72.

<sup>106</sup> Lee, Mendelson "Introduction to and analysis of South Africa's new competition law regime" (2001).

<sup>107</sup> Sutherland, Philip, Kemp, Katharine and others *Competition Law of South Africa* (last updated 2012) 3-40.

<sup>108</sup> *Ibid.*

<sup>109</sup> *Ibid.*

<sup>110</sup> Klees, Andreas "Das südafrikanische Kartellrecht nach dem "Competition Amendment Act 2009" (South African competition law after the "Competition Amendment" Act 2009) (2011) WuW p. 140.

Competition, Competitiveness and Development".<sup>111</sup> In 1998, the "Competition Act 89 of 1998" (in the following: CA 1998) was passed, which came into effect on 1 September 1999.<sup>112</sup>

In essence, the CA 1998 established in South Africa a modern competition law containing *per se* bans for certain horizontal and vertical practices as well as a merger control system, but at the same time it attempted to follow additional country-specific industrial and socio-political goals. For the first time independent competition authorities were established with the *Competition Commission* (in the following: *Commission*) and the *Competition Tribunal* (in the following: *Tribunal*).<sup>113</sup> There is also the Competition Appeal Court. Apart from these institutions there are various sector-specific regulatory bodies such as the "Independent Communications Authority of South Africa" (ICASA) and the "National Energy Regulator" (NERSA).<sup>114</sup>

In 2006, the DTI carried out an evaluation of the competition law, which ended in the publication of a "Competition Policy Review". It confirmed that the Competition Act 1998 has improved on the whole the competition law in South Africa and, in particular, has consolidated the competition authorities. However, the Review also observed that many of the old problems still exist.<sup>115</sup> Neither the competition nor the industrial and

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<sup>111</sup> Available at:

<http://www.compcom.co.za/assets/Files/ProposedGuidelinesforCompetitionPolicy.htm>; These guidelines provided the starting point for the negotiations with the National Economic Development and Labour Council (Nedlac). See also Brassey, M. S. M. *Competition Law* (2002, Reprint 2009) p. 85.

<sup>112</sup> The Competition Act as amended by the Competition Amendment Act, No 35 of 1999; Competition Amendment Act, No. 15 of 2000; Competition Second Amendment Act, No. 39 of 2000, available at: <http://www.compcom.co.za/assets/Files/pocket-book-2005-R.pdf>.

<sup>113</sup> Klees, Andreas "Das südafrikanische Kartellrecht nach dem "Competition Amendment Act 2009" (South African competition law after the "Competition Amendment" Act 2009) (2011) WuW p. 140.

<sup>114</sup> *Ibid.*

<sup>115</sup> Hartzenberg, Trudi "Competition Policy and Practice in South Africa: Promoting Competition for Development Symposium on Competition Law and Policy in Developing Countries", 26 Nw. J. Int'l L. & Bus. 667 (2006). P. 679 et seq. available at: <http://scholarlycommons.law.northwestern.edu/njilb/vol26/iss3/32>.

socio-political goals, especially, the promotion of the market entry of small and mid-size companies and groups of persons that were discriminated during Apartheid,<sup>116</sup> could be reached to the extent hoped for.<sup>117</sup>

As a result of the Review, the DTI set out to intensify the existing enforcement regime.<sup>118</sup> The focus was on the suppression of (interference and exploitation) malpractices of the market power by big companies.<sup>119</sup> Particular attention was paid to the monopolies and especially former state monopolies that were dismissed into unregulated markets in the process of privatization, before the CA 1998 took effect. As legislative measures the enablement of “market inquires” as well as the introduction of new regulations for the so-called “complex monopoly conduct” were proposed with the high market concentration in mind. Furthermore, the introduction of the personal responsibility of directors and managers, namely, the introduction of criminal penalties in case of certain infringements of the competition law was proposed.<sup>120</sup> These propositions resulted in the “Competition Amendment Act 2009” (Act No. 1 of 2009; in the following: AA 2009)<sup>121</sup>, which came into effect on 28.8.2009.<sup>122</sup>

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<sup>116</sup> See the definition of “historically disadvantaged person” which was introduced with clause 1 Amendment Act in 2009.

<sup>117</sup> Klees, Andreas “Das südafrikanische Kartellrecht nach dem “Competition Amendment Act 2009“ (South African competition law after the “Competition Amendment” Act 2009) (2011) WuW p. 140.

<sup>118</sup> Hartzenberg, Trudi “Competition Policy and Practice in South Africa: Promoting Competition for Development Symposium on Competition Law and Policy in Developing Countries”, 26 Nw. J. Int’l. & Bus. 667 (2006). P. 679 et seq. available at: <http://scholarlycommons.law.northwestern.edu/njilb/vol26/iss3/32>.

<sup>119</sup> See the Competition Commission’s annual reports 2006/2007 and 2007/2008 available at: <http://www.compcom.co.za/annual-reports/>; Klees, Andreas “Das südafrikanische Kartellrecht nach dem “Competition Amendment Act 2009“ (South African competition law after the “Competition Amendment” Act 2009) (2011) WuW p. 140.

<sup>120</sup> Ibid.

<sup>121</sup> Vol. 530 GG of 28. 8. 2009 No. 32533, available at: <http://www.compcom.co.za/assets/Files/Competition-Amendment-Act.pdf>. The drafts are available at: <http://www.pmg.org.za/taxonomy/term/305>

<sup>122</sup> Klees, Andreas “Das südafrikanische Kartellrecht nach dem “Competition Amendment Act 2009“ (South African competition law after the „Competition Amendment” Act 2009) (2011) WuW p. 140.

## CHAPTER 4: THE RELATION BETWEEN COMPETITION LAW AND INTELLECTUAL PROPERTY LAW IN THE EU<sup>123</sup>

### 4.1 Introduction

In general, competition law acts neutrally towards patents and other intellectual property rights respecting them as an integral part of the European system of property ownership and competition.<sup>124</sup> Therefore, it was a continuous issue for a long time whether, and if so under what conditions, intellectual property rights can be restricted by competition law.<sup>125</sup> Traditionally, in both the USA and in Europe, there is a reluctance and reservation concerning the use of competition law mechanisms to restrict intellectual property.<sup>126</sup> The prevailing view is that the mere possession of monopoly rights should not lead to competition law interventions. US Supreme Court Justice Antonin Scalia gives his explanation on this issue in the case *Verizon v. Trinko*:<sup>127</sup>

“The mere possession of monopoly power, and the concomitant charging of monopoly prices, is not unlawful; it is an important element of the free-market system. The opportunity to charge monopoly prices – at least for a short period – is what attracts business acumen in the first place; it induces risk taking that produces innovation and economic growth. To safeguard the incentive to innovate, the possession of

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<sup>123</sup> This chapter partly draws from an Assignment written by the author of this thesis in 2013 as part of the course Competition Law at University of Cape Town. See: Matthias Bornhaeuser, Assignment “The Compulsory License Defense under Competition Law in Patent Infringement Proceedings – A German- European Perspective” Course CML5654S Competition Law (2013) University of Cape Town, South Africa.

<sup>124</sup> Walz, Axel “Patentverletzungsklage im Lichte des Kartellrechts”(2013) GRUR Int. 718.

<sup>125</sup> Reynolds, Michael, Best Christopher “Article 102 and Innovation: The journey since Microsoft” (2012) International Antitrust Law & Policy: Fordham Competition Law 2012 Chapter 16 Fordham Law Institute p. 323.

<sup>126</sup> Ibid.

<sup>127</sup> *Verizon Communications Inc. v. Law Offices of Curtiss V. Trinko LLP* (02-682) 540 U.S. 398 (407) (2004).

monopoly power will not be found unlawful unless it is accompanied by an element of anticompetitive conduct.”<sup>128</sup>

European courts generally share this opinion: According to European case law, patents and other intellectual property rights can infringe competition law only in exceptional cases.<sup>129</sup> However, the European Commission has recently shown a rather different approach within the current investigation against Samsung and Motorola.<sup>130</sup> Also, the criticism about the unlimited exercise of patent rights has become more prevalent in the last years.<sup>131</sup> For instance, it has been more and more criticized that patent protection is extended to technologies such as databases or business methods, which – according to some - do not deserve any patent protection in the traditional sense.<sup>132</sup> Furthermore, modern technology makes it increasingly difficult to handle patents: While there was usually only one patent in a product just a few decades ago, modern devices like, for instance, smartphones use directly or indirectly hundreds or even thousands of patents.<sup>133</sup> So-called “patent thickets” thus come into being that can be hardly pervaded any more.<sup>134</sup> Due to networking effects in the industry and industry standards, intellectual property rights can act virtually as market access barriers. The usage of intellectual property has changed as well. Today, patents have become mere investments and objects of speculation in many cases. The business

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<sup>128</sup> Ibid.

<sup>129</sup> See for instance: Case C-53/87 *Cicra & Maxicar v Régie Renault* (1988) ECR 06039

<sup>130</sup> Press Release of the European Commission: “Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents”(2012) IP/12/1448, see also Press Release of the European Commission “Anti-Trust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents – Questions and Answers“(2012) IP/13/406.

<sup>131</sup> Haedicke, Maximilian *Patentrecht* (2012) p. 45; Walz, Axel “Patentverletzungsklage im Lichte des Kartellrechts”(2013) GRUR Int. 2013 p. 718.

<sup>132</sup> Ibid.

<sup>133</sup> Pressman, Aaron “Smartphone Patent Battles Hurting Consumers” (2013) Yahoo Finance Blog: <http://finance.yahoo.com/blogs/the-exchange/smartphone-patent-battles-hurting-consumers-195702772.html>.

<sup>134</sup> Shapiro, Carl “Navigating the Patent Thickets, Cross Licenses, Patent Pools and Standard Setting” (2000) Innovative Policy and the Economy 1 National Bureau of Economic Research The MIT Press Cambridge England.

purpose of so-called “patent trolls” is solely to keep patents and take actions against industrial enterprises out of these patents. In contrast to traditional industries, those “trolls” do not produce the patent-protected technologies themselves.<sup>135</sup> They just acquire the patents, hold them, defend them and convert them into cash.<sup>136</sup>

#### **4.2 The ECJ’s distinction between the existence and the exercise of intellectual property rights**

According to Art. 34 TFEU, any direct or indirect restrictions of the free movement of goods by the EU member states within the EU are prohibited.

However, Art. 36 TFEU provides exceptions to this general prohibition. It provides that the provisions of Articles 34 TFEU “shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property.”<sup>137</sup>

It is unchallenged that the latter term “industrial and commercial property” in this article covers “intellectual property”.<sup>138</sup> Hence, according

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<sup>135</sup> Hemphill, Thomas “*The Paradox of Patent Assertion Entities*” (2013) *The American*.

<sup>136</sup> The German company “IPCom” for instance was founded by a German patent lawyer for the whole purpose of exploiting an old and huge patent portfolio which has been acquired from the German technology company Bosch. After acquiring said patent portfolio which mainly consisted of broad patents concerning basic cell phone technology IPCom sued the entire German mobile phone industry for infringement of its patents. Deutsche Telekom (Germany’s largest telecommunication company) alone paid several hundreds of million Euros to IPCom in the course of out of court settlements. See: <http://www.spiegel.de/wirtschaft/unternehmen/telekom-zahlt-hunderte-millionen-euro-an-patent-troll-ipcom-a-909323.html>.

<sup>137</sup> See Art. 36 TFEU; Foster: *EU Law Directions* 3e, Chapter 11, Online Resources Center, Oxford University Press, [http://global.oup.com/uk/orc/law/eu/foster\\_directions3e/01student/questions/ch11/](http://global.oup.com/uk/orc/law/eu/foster_directions3e/01student/questions/ch11/).

<sup>138</sup> Woods, Lorna, Watson Philippa *EU Law* (2012) 11<sup>th</sup> Edition p. 414.

to Art. 36 TFEU, prohibitions or restrictions on import and export of goods in transit justified on grounds on the protection of intellectual property are expressly tolerated and secured. Here one might follow from this regulation that law for the protection of intellectual property is absolute and cannot be restricted. However, this is only partly correct:

Since the 1960s the ECJ has consistently differentiated between the existence and the exercise of intellectual property rights. In its early decision, *Consten and Grundig vs. The Commission*, the court already held that “Nevertheless, it is clear [...] that whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial property, yet the exercise of these rights may nevertheless, depending on the circumstances be affected by the prohibitions in the treaty.”<sup>139</sup>

It, therefore, follows that only the existence of an intellectual property right like, for example, a patent is secured under EU law. In other words, it is guaranteed that the EU member states are free to set up an intellectual property system and that those regimes cannot be challenged. However, the exercise of such rights has to be in compliance with EU regulations. If they are not, they can be limited to the point where they are no longer contravening EU legislation and case law. Therefore, it is clear that, in general, EU competition law can restrict intellectual property rights as long as their exercise is in violation with it.

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<sup>139</sup>ECJ *Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc.* Case 15/74 (1974) para. 7.

#### 4.3 Art. 101 TFEU (ex. Art. 81 (1) EC Treaty)

According to Art. 101 (1) TFEU (ex Art. 81 EC Treaty), all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between EU Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, are forbidden, unless the agreements fall under the exemptions of Art. 101 (3) TFEU.<sup>140</sup>

The cartel prohibition, according to Art. 101 (1) TFEU, is applied if the exercise of a patent represents the subject, the means or the result of a cartel agreement.<sup>141</sup> However, the amicable use of patents has, besides its anti-competitive effects, often also produced effects which are desirable and pro-competitive. This is the reason why the cartel prohibition of Art. 101 (1) TFEU is limited by the exemption of Art. 101 (3) TFEU.<sup>142</sup>

However, an intellectual property right like a patent right cannot be seen in itself as an “agreement” or a “coordination” in the sense of Art. 101 (1) TFEU. In fact, Art. 101 TFEU can be applied only if it is proven that the exercise of the intellectual property right has been the subject, the means or the result of a cartel agreement.<sup>143</sup> The unilateral enforcement of patent rights as such can therefore usually not constitute an infringement against the prohibition of restrictive practices according to Art. 101 (1) TFEU, because of the lack of an agreement or other coordinative practices.<sup>144</sup>

A different situation can be found in the exercise of patent rights by means of so called standard essential or standard relevant patents (SEPs)

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<sup>140</sup> Jones, Alison, Brenda, Sufrin *EC Competition Law* (2000) p. 87.

<sup>141</sup> Haedicke, Maximilian, Timmann Henrik *Handbuch Patentrecht (Handbook Patent Law)* (2012) sec. 1 para 99.

<sup>142</sup> *Ibid.*

<sup>143</sup> *ECJ Sirena S.r.l. v. Eda S.r.l. and Others Case 40/70 (1971) ECR 69.*

<sup>144</sup> *Walz, Axel "Patentverletzungsklage im Lichte des Kartellrechts" (2013) GRUR Int. 2013 p. 718.*

which are analysed in detail in the remainder of this work.<sup>145</sup> A formal standardization can be seen as such an agreement that according to the European Commission cannot be treated as anticompetitive only under certain conditions. Thus, the view of the Commission is that a restraint of competition can be assumed when the danger of a market power emerges out of the standardization agreement in the industry.<sup>146</sup>

If the holder of SEP's impedes the access to standardized technology in an anticompetitive way<sup>147</sup>, then the exercise of exclusive patent rights can be presented as a consequence of a cartel agreement and an infringement of Art. 101 (1) TFEU.

#### **4.4 Art. 102 TFEU (ex Art. 82 EC Treaty)**

According to Art. 102 TFEU, any abuse of a dominant position by one or more undertakings within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far, as it may affect trade between Member States.

Hence, Art. 102 AEU aims to achieve the control of market dominating companies. The purpose of the norm is to intervene, when there is no competition pressure any longer for single companies due to their market domination.<sup>148</sup> The law has a corrective role in such a case and aims to preserve the operability of competition on the market.

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<sup>145</sup> See below p. 55.

<sup>146</sup> European Commission, Communication from the Commission — “Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements” (2011) C 11/01 para. 257.

<sup>147</sup> Ibid. at para. 278.

<sup>148</sup> Fiala, Donatella *Das Verhältnis zwischen Immaterialgüter- und Kartellrecht* (The relation between cartel- and intellectual property law) (2006) (PhD Dissertation) p.39 et seq.

Art. 102 TFEU prohibits the abusive exploitation of a dominant position on the single market, i.e., on an essential part on the single market by one or several companies, provided that this can lead to interference of the trade between the member states. Unlike the monopoly prohibition, according to the US American cartel law (section 2 Sherman Act), Art. 102 TFEU is not against the market dominating position of a company as such, and in principle also not against the acquisition of a market dominant position. Solely the abusive exploitation of such a position on the relevant market is prohibited.<sup>149</sup> One can therefore say that companies with a market dominant position must only be particularly careful when they operate on the market and they must ensure not to abuse their market power.

Just like Art. 101 TFEU Art. 102 TFEU is directly applicable. That means that companies, which are discriminated or damaged by the abusive behavior of a market dominating company, can bring their case to a national court. It is not necessary that the commission or a responsible national competition office has determined the abuse prior to it. Art. 102 TFEU is, therefore, self-executing. Furthermore, the commission is authorized to demand that the objectionable behavior is stopped. It can also impose fines, which it has often done in the past.<sup>150</sup>

By nature, there is no possibility to be exempted from the ban of the Art. 102 TFEU. In other words, in case of an abusive behavior that can be attributed to a market dominating company the behavior is per se unacceptable and forbidden. The commission is not in the position to allow exceptions from the ban.<sup>151</sup>

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<sup>149</sup> Schwarze, Jürgen *EU Kommentar (Commentary to EU Law)* (2012) Art. 102 TFEU para. 1-4.

<sup>150</sup> *Ibid.*

<sup>151</sup> *Ibid.*

The following sections of this chapter will explain the elements and requirements of Art. 102 TFEU in detail.

#### **4.4.1 The relevant market**

Art. 102 TFEU presumes that a company has a market dominating position. Answering the question of whether a company has a dominating position alone or together with other companies is a requirement for the differentiation of an objectively and geographically relevant market.<sup>152</sup> To put it simply: in order to find out whether a company dominates the market, one must first ask the question, what is the market? Based on the defined market, one can determine whether the company dominates the market alone or in conjunction with other companies.<sup>153</sup>

##### **4.4.1.1 The relevant product market**

According to the legal practice of the European Court of Justice, all goods and services that are exchangeable with each other belong to the same relevant product market.<sup>154</sup> The definition depends decisively on the functional exchangeability of the goods/services from the perspective of the opposite market side; in case of business markets is this, for instance, the consumer. The actual view of the purchaser is of importance here. A physical-technical or chemical identity is not necessary. This makes sense, as only products that compete with each other can be relevant in the sense of the competition law.

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<sup>152</sup> Ibid.

<sup>153</sup> Ibid.

<sup>154</sup> Case C- 6-72 *Europemballage Corporation and Continental Can Company Inc. v Commission of the European Communities* (1973) ECR 215. para. 32; Rs Case C-85/76 *Hoffmann-La Roche & Co. AG v Commission* (1979) ECR 461 para 28; Rs. C-7/97, Case C-7/97 *Oscar Bronner v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG* (1998) ECR I-7791 para. 33.

Determining a “sufficient degree of exchangeability” requires a judgmental observation. It should not only refer to the needs and the demand of the opposite market side that emerges out of the needs but also to the *cross-elasticity of demand*. *Its analysis happens within the following experiment that is also known as a hypothetical monopolist test.*<sup>155</sup> This test assesses whether the already minor increase in price of a product A leads to shifting of demand to another product B. If this is the case, then there is a sufficient exchangeability of both products. The commission evaluates the cross-elasticity of demand within the so-called SSNIP-Test (“small but significant non-transitory increase in price”).<sup>156</sup>

One cannot conclude based on an intellectual property right-related exclusive patent right that this creates an own market at the same time in the sense of the competition law. In other words: a patent matches its own market only in the most seldom cases.<sup>157</sup>

#### 4.4.1.2 The relevant geographic market

The relevant geographic market includes the area in which the relevant product is distributed. It must be sufficiently homogeneous and noticeably different from other markets, that is neighboring areas, based on its characteristics and various competition requirements.<sup>158</sup> The area must be

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<sup>155</sup> Imenga, Ulrich, Mestmäcker Joachim-Ernst Wettbewerbsrecht Teil I (Competition Law Part I) (2012) Art. 102 para. 50.

<sup>156</sup> See *Commission Notice on the definition of relevant market for the purposes of Community competition law* (1997) C 372/5 available at: [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=en&numdoc=31997Y1209\(01\)&model=guicheti](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=en&numdoc=31997Y1209(01)&model=guicheti); See also Case T-427/08 *CEAHR v Commission* (2010) ECR II-5865 for the introduction of the SSNIP Test by the courts.

<sup>157</sup> Case T-30/89 *Hilti Aktiengesellschaft v Commission of the European Communities* (1990) II-00163 para 68; Fiala, Donatella *Das Verhältnis zwischen Immaterialgüter- und Kartellrecht* (The relation between cartel- and intellectual property law) (2006) (PhD Dissertation) p. 35.

<sup>158</sup> Case C-27/76 *United Brands v Commission of the European Communities* (1978) ECR 207.

an essential part of the European common market. The term “essential” does not only refer to the geographical size but rather to its economic significance. For example, due to its great economic standing, the harbor of the Italian city Genoa is to be seen as an essential part of the common market.<sup>159</sup>

#### 4.4.2 Market dominance

After having identified the relevant market, one must evaluate, in a second step, whether the company holds a market dominant position on this particular market or not.

The Treaty itself does not provide any definition of market “dominance”. but according to the European Court of Justice (ECJ), market dominance means: “A position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers.”<sup>160</sup>

The criteria of market structure, company structure and behavior of the company on the market are part of this observation.<sup>161</sup> The market share of the company also plays a decisive role here and has at least an indicative effect. The European Court of Justice concludes, partly from especially high market shares of over 50%, that this is by implication the existence of a market dominating position.

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<sup>159</sup> Case C-179/90 *Merci convenzionali porto di Genova v Siderurgica* (1991) ECR I-5889.

<sup>160</sup> Case C-27/76 *United Brands v Commission of the European Communities* (1978) ECR 207.para. 63, 66.

<sup>161</sup> Fiala, Donatella *Das Verhältnis zwischen Immaterialgüter- und Kartellrecht* (The relation between cartel- and intellectual property law) (2006) (PhD Dissertation) p. 37; Imenga, Ulrich, Mestmäcker Joachim-Ernst *Wettbewerbsrecht Teil I (Competition Law Part I)* (2012) Art. 102 para 73.

In the *Akzo*<sup>162</sup> case the ECJ stated that: “With regard to market shares the Court has held that very large market shares are in themselves, and save in exceptional circumstances, evidence of the existence of a dominant position [...] That is the case where there is a market share of 50% and more”.<sup>163</sup>

Other important criteria are, for example, the financial power of the company, its access to the buying and selling markets, the connections to other companies, the legal and actual barriers for the market access by competitors, the actual and potential competition by companies that are based in the relevant market, the capability of reorganizing the demand and supply to other goods or commercial activities or the possibility of the opposite market side to yield to other companies.<sup>164</sup>

Intellectual property rights can support a market dominant position, but they themselves cannot effectuate it. Thus, the fact alone that a company possesses one or several patents for a specific technology does not implicate market dominance.<sup>165</sup>

#### **4.4.3 Abuse of a market dominant position**

A market dominant position per se does not lead to a breach of competition law, as it is often assumed. Hence, it is not forbidden to dominate a market. Only if a company abuses its market domination is a breach of competition law on the table. Therefore, one can say that market dominant companies are only subject to stricter requirements when

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<sup>162</sup> Case C-550/07 *Akzo Nobel Chemicals Limited and Akcros Chemicals Limited -v- Commission of the European Communities (Akzo)* (2010) I-8301.

<sup>163</sup> Under national German Competition Law market dominance is assumed at a market share of 40 % and more (see sec. 18 (4) GWB).

<sup>164</sup> Imenga, Ulrich, Mestmäcker Joachim-Ernst *Wettbewerbsrecht Teil I (Competition Law Part I)* (2012) Art. 102 para 73.

<sup>165</sup> Joined Cases C-241/91 P & C-242/91 -*Radio Telefis Eireann (RTE) & Independent Television Publications Ltd. (ITP) v. Commission("Magill")* (1995) ECR I-743.

conducting their business, as they weaken the competition already with their market domination.<sup>166</sup>

The difficult demarcation between intellectual property rights on the one hand and competition law on the other hand takes place here. This is not about answering the question whether the mere ownership of an intellectual property right represents an abuse. It is also not about the abuse of an intellectual property right itself. It is rather about the question whether the exercise of intellectual property rights by market dominating companies can represent, in individual cases, an abuse of their market dominant position.<sup>167</sup> The European Court of Justice determines in its decision *Hoffmann La Roche* that it is only about the question whether an intellectual property right is used in the individual case as means for exploitation of already existing market dominance.<sup>168</sup> On the other hand, this means that intellectual property rights are not “immune” against competition law. Intellectual property rights such as, for example, patent rights can hence be limited by competition law in particular cases.<sup>169</sup>

In the following, the ECJ landmark cases *Park vs. Davis and Sirena*, *Volvo vs. Veng and Circa vs. Renault* will be examined in order to elaborate the European Court of Justices findings regarding the abusive exercise of intellectual property rights.

#### 4.4.3.1 Park vs. Davis and Sirena

Provided the intellectual property holder actually holds a market dominant position (and this can be proven), the ECJ concluded in its cases *Parke*,

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<sup>166</sup> Case 322/81 *NV Nederlandsche Baden-Industrie Michelin v Commission of the European Communities* (1983) ECR 3461 para 70.

<sup>167</sup> Fiala, Donatella *Das Verhältnis zwischen Immaterialgüter- und Kartellrecht* (The relation between cartel- and intellectual property law) (2006) (PhD Dissertation) p. 44.

<sup>168</sup> Case C-102/77 *Hoffmann-La Roche v Centrafarm*, (1978) ECR 1139.

<sup>169</sup> Case T-51/89 *Tetra Pak v Commission of the European Communities* (1990) ECR II-309.

*Davis & Co* and *Sirena* that an abuse of such market dominant position cannot already be justified by the very fact that a intellectual property protected product is sold at a higher price than a corresponding, unprotected product.<sup>170</sup> However, the price is not completely irrelevant. It can be an indication for an abuse, if it is especially high and objectively not justifiable.<sup>171</sup>

Admittedly, the explanations of the ECJ in this judgment concerning a trademark infringement – in particular in regard to patent rights – should be perceived with great care. The ECJ has emphasized that a particular danger of artificial market partitioning is inherent to the exercise of trademark rights. However, this does not have to apply to patent rights. In addition, trademark rights are usually valid for an unlimited period of time provided those rights are regularly prolonged.<sup>172</sup> This also does not apply to patents.

#### **4.4.3.2 Volvo vs.Veng and Cicra vs. Renault**

In the cases of *Volvo v. Veng*<sup>173</sup> and *Cicra v. Renault*<sup>174</sup> concerning a design right, the ECJ corroborated the principle that the exercise of an intellectual property right is not to be objected on the merits, but that it can be forbidden when the requirements of Art. 102 TFEU are fulfilled. Furthermore, the ECJ defines both negatively and positively, in what cases an abuse cannot exist or, in an exceptional case, can.

The ECJ emphasized, on the one hand, that the mere acquisition of an (intellectual property) right that is exclusively guaranteed by the legal system cannot be held as abusive means for the elimination of

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<sup>170</sup> Case C-24/67 *Parke, Davis & Co v. Probel and Others* (1968) ECR 55.

<sup>171</sup> Case C-40/70 *Sirena S.r.l. v. Eda S.r.l. and Others* (1971) ECR 69.

<sup>172</sup> Case C-258/78 *Nungesser v Commission* Case (1982) ECR 2015.

<sup>173</sup> Case C-238/87 *Volvo v Veng* (1988) ECR 06211.

<sup>174</sup> Case C-53/87 *Cicra & Maxicar v Régie Renault* (1988) ECR 06039.

competition.<sup>175</sup> The reason for this is the fact that the purpose of intellectual property rights must be to exclude third parties from the unauthorized use of protected objects. Organizing an intellectual property rights protection portfolio including the registration and acquisition of patent rights per se can therefore not constitute a breach of competition law. The view of the ECJ is that it is also up to market dominating companies to organize and expand their IP protection portfolios.<sup>176</sup>

On the other hand, the ECJ refers explicitly to three case groups which can justify abusiveness in exceptional cases. In the cases of *Volvo v. Veng* and *Cicra v. Renault*, the ECJ took for granted such an abusiveness in the arbitrary refusal to deliver spare parts to independent service stations, in the inadequate price fixing of spare parts as well as in the abandoning of spare parts production for a specific model, although there were still many cars of this model running.<sup>177</sup>

In addition, the exercise of intellectual property rights can, according to the ECJ, be abusive in aspects that are similar to the so called essential-facilities doctrine.<sup>178</sup>

#### 4.4.4 Essential facilities doctrine

The essential facilities doctrine is a legal doctrine which describes a particular type of claim under competition laws.<sup>179</sup> In general, it refers to a specific type of anti-competitive behavior in which a market dominant firm

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<sup>175</sup> Ibid.

<sup>176</sup> Ibid; Walz, Axel "Patentverletzungsklage im Lichte des Kartellrechts"(2013) GRUR Int. Beck Verlag p. 718.

<sup>177</sup> Case C-238/87 *Volvo v Veng* (1988) ECR 06211; Case C-53/87 *Cicra & Maxicar v Régie Renault* (1988) ECR 06039.

<sup>178</sup> Ibid.

<sup>179</sup> The first case to use the idea was *United States v. Terminal Railroad Association* 224 U.S. 383 (1912), see also *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko LLP* (02-682) 540 U.S. (2004).

takes advantages of a "bottleneck" in a market to hinder competitors to enter the market.<sup>180</sup>

Such conduct can constitute a breach of competition law according to Art. 102 (I) TFEU. The essential facilities doctrine is related to a claim for refusal to deal.<sup>181</sup> The latter is expressed in an abusive refusal to deal regarding essential facilities for the access to upstream and downstream markets.<sup>182</sup> Hence, a requirement for it is that a company has a market dominant position based on its sole possession or access to an essential facility. Although the access to this essential facility is indispensable for other competitors, as well in order to be able to offer goods and services on a neighboring market, it is refused by the possessor of this facility. Thus, the possessor of the essential facility can also dominate the neighboring market and exclude potential competitors from it based on its monopoly position in this regard.<sup>183</sup> The accusation of abuse is, consequently, based on the exploitation of a market dominant position with regard to the essential facility. Such a conduct contradicts Art. 102 TFEU, whose purpose is to prevent the unnatural reinforcement of a market dominant position and its expansion to other markets.<sup>184</sup>

The essential facilities doctrine originates from the American antitrust law, which has been a role model for the European competition law. The US Supreme Court enjoined in 1912 in the case *United States*

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<sup>180</sup> Troy, Daniel E. "Unclogging the Bottleneck: A New Essential Facilities Doctrine" (1983) *Columbia Law Review* p. 441.

<sup>181</sup> Pitofsky, Robert and others "The Essential Facilities Doctrine Under United States Antitrust Law" (2002) Georgetown University Law Center available at: <http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=1342&context=facpub>.

<sup>182</sup> *Münchener Kommentar zum Europäischen und Deutschen Wettbewerbsrecht (Kartellrecht)* (2014) Art. 82 EG para. 332; Emmerich, Volker *Kartellrecht (Cartel Law)* (2012) sec. 10, para. 35.; Böttcher, Matthias "Clearstream – Die Fortschreibung der Essential Facilities Doktrin im Europäischen Wettbewerbsrecht" (2011) *Beiträge zum transnationalen Wirtschaftsrecht* Vol. 102 p. 6

<sup>183</sup> *Ibid.*

<sup>184</sup> *Frankfurter Kommentar zum Kartellrecht* Vol. II EG-KartR (Part 1) (2011) Art. 82 EG; Emmerich, Volker *Kartellrecht (Cartel Law)* (2012) sec. 10 para. 7; Böttcher, Matthias "Clearstream – Die Fortschreibung der Essential Facilities Doktrin im Europäischen Wettbewerbsrecht" (2011) *Beiträge zum transnationalen Wirtschaftsrecht* Vol. 102 p. 6

*vs. Terminal Railroad Association of St. Louis*<sup>185</sup> a contractual merger of railroad associations as possessors of essential infrastructure facilities for the regional railway system. The justification for this decision then was that the railroad companies would not have provided the required facilities for the railway system to other competitors on the same terms. The basis of the decision was the cartel ban in section 1, as well as the monopolization ban in section 2 of the Sherman Act which is part of the American antitrust-law. The monopolization ban according to section 2 of the Sherman act, that is unknown in the European competition law, prohibits obtaining and defending of a market dominating position by using inadequate means.<sup>186</sup>

The essential facilities doctrine has meanwhile penetrated the European competition law as well, but the requirements in the USA and in the EU are different.<sup>187</sup>

In Europe, it is commonly required for the application of the doctrine that – with regards to patents- the patent right holder refuses the granting the rights of use (licenses) to a third party, and the refusal prevents the emergence of a new product for which there is a potential consumer demand provided this refusal is unjustified, and it is to exclude any competition on a derived market.<sup>188</sup>

The European Commission, for the first time, established the essential facilities doctrine in Europe with its *Sea Link I* and *II*<sup>189</sup> decisions in the early 1990s. In these cases a port operator refused to open its port

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<sup>185</sup> *United States v. Terminal Railroad Association* 224 U.S. 383 (1912).

<sup>186</sup> Böttcher, Matthias "Clearstream – Die Fortschreibung der Essential Facilities Doktrin im Europäischen Wettbewerbsrecht"(2011) Beiträge zum transnationalen Wirtschaftsrecht Vol. 102 p. 6.

<sup>187</sup> Ibid.

<sup>188</sup> Case C-418/01, *IMS Health v. NDC Health* (2004) ECR I-5039 para. 52.

<sup>189</sup> Commission Decisions *B&I Line plc v Sealink Harbours Ltd and Stena Sealink Ltd* [1992] 5 CMLR 255; IV/34.689 *Sea Containers v Stena Sealink – Interim Measures*, (Commission Decision 94/19/EC of 21 December 1993, OJ 1994 L 15, 18.01.1994, pp. 8–19).

to some shipping companies under fair and reasonable conditions. This behavior brought the Commission to the conclusion that the port – due to its importance for shipping – constituted an essential facility to which its operator has to give access to all vessels under fair conditions.

However, the question whether the essential facilities should also be readily applied on intellectual property rights was controversial for a long time.<sup>190</sup> However, the ECJ has clearly affirmed this question in several cases since.<sup>191</sup> Already with the ECJ's decision in *Volvo v. Renault*, where the court held that the exercise of intellectual property rights can constitute an abuse of a market dominant position, the court opened the door for the application of the essential facilities doctrine on intellectual property laws. It was only a logical step from the courts appraisal that intellectual property rights can infringe competition law to the conclusion that the essential facilities doctrine is also applicable to intellectual property rights like patents.

The essential facilities doctrine has been further developed and applied to the refusal of granting licenses for intellectual property rights in the decisions of the European Court of Justice in the cases of *Magill*, *Bronner* and *IMS Health* as well as in the case of *Microsoft*. The relevant facts and findings of these cases are described below.

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<sup>190</sup> *Frankfurter Kommentar zum Kartellrecht* Vol. II EG-KartR (Part 1) (2011) Art. 82 EG; Emmerich, *Volker Kartellrecht (Cartel Law)* (2012) Art. 102 TFEU para. 402.

<sup>191</sup> Heinemann, Andreas „*Immaterialgüterschutz in der Wettbewerbsordnung*“ (2002) p. 511.

#### 4.4.4.1 Magill Case

In the case of Magill,<sup>192</sup> the matter in dispute was the use of copyright protected TV channel information about the channel, day, hour and title of TV shows. Different TV channels were entitled to the copyrights of the information, which they were publishing in their own printed TV program guides.<sup>193</sup>

The company Magill intended to publish a weekly comprehensive cross-channel TV program guide which combined the information of all TV channels in one single publication. Based on their copyrights, the TV channels allowed Magill to publish such information only in a very limited form.<sup>194</sup> The channels prohibited Magill the publication of a comprehensive TV program guide and refused to grant Magill a respective license.

The ECJ affirmed the abusiveness of the license refusal by the TV channels following the essential facilities thought:

The ECJ saw the exceptional circumstances constituting an abusive behavior in the fact that the refusal of a license firstly referred to a product (TV channel information), whose delivery was indispensable for the exercise of the mentioned activity (printing a general TV program guide) and that this refusal prevented the appearance of a new product, for which there was a potential demand of consumers. Moreover, the ECJ considered the refusal of the licensing to be unjustified by matter-of-factly considerations and its purpose was to exclude any competition on the derived market.<sup>195</sup>

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<sup>192</sup> Joined Cases C-241/91 P & C-242/91 - *Radio Telefis Eireann (RTE) & Independent Television Publications Ltd. (ITP) v. Commission ("Magill")* (1995) ECR I-743; Anderman Steven, Hedvig, Schmidt *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation* (2011) 2<sup>nd</sup> Edition p. 102 et. seq.

<sup>193</sup> Ibid.

<sup>194</sup> Ibid.

<sup>195</sup> Ibid.

#### 4.4.4.2 Bronner Case

In the Bronner case<sup>196</sup>, the ECJ built upon its Magill decision and further clarified the individual requirements of the essential facilities doctrine. The case concerned the issue of abusiveness of the refusal of a magazine publisher, to grant a competitor, here the Oscar Bronner GmbH, access to its own, nationwide unique home delivery system for daily newspapers in Austria. At the core of the case was the question to what extent the Oscar Bronner GmbH needed access to the home delivery system of the competitive publisher to distribute its own daily newspaper and to what extent it is competition to this competitive publisher.<sup>197</sup> The ECJ stated that a refusal of access to the relevant market for Bronner is not suitable to eliminate any competition on the daily newspaper market. Hence, solely the circumstance that it would be economically unprofitable for Oscar Bronner to establish its own home delivery system based on its significantly lower circulation was not sufficient to confirm an indispensability of the access to the home delivery system of the competitive publisher. Moreover, it should be impossible or unacceptable for every other publisher of daily newspapers out of technical, legal or economic obstacles to create such a home delivery system by itself or in cooperation with other companies.<sup>198</sup>

Therefore, to answer the question whether access to an essential facility is indispensable for a competitor, one must also consider the objective possibilities of a competitor in the economic position of the possessor of the essential facility. This objective test leading to a restrictive handling of the criterion of indispensability of the access to

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<sup>196</sup> *Oscar Bronner v. Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG* (1998) ECR I-7791.

<sup>197</sup> *Ibid.*; Walz, Axel "Patentverletzungsklage im Lichte des Kartellrechts"(2013) GRUR Int. Beck Verlag p. 718; Evrard, Sebastien, "Essential Facilities in the European Union: Bronner and Beyond" *Columbia Journal of European Law* (2004) p. 506 et seq.

<sup>198</sup> *Ibid.*

essential facilities is based on the idea of the investment and innovation protection.<sup>199</sup> As far as essential facilities go back to one's own investments and innovations, the enforced opening of these facilities leads to a decrease of the incentives in the competition in favor of the competitors. For this reason access to a facility can only be claimed if objective obstacles exist, which do not only depend on one's own economic success on the relevant market. Otherwise, the application of the essential facilities doctrine would effectively decrease competition. In the discussed case it was not enough that resorting to other distribution ways would have been less economically favorable for Oscar Bronner GmbH, as it is not spirit and purpose of the essential facilities doctrine to create competitive advantages for (prospective) competitors. Moreover, the existence of an actual or potential substitute, even though it may be less convenient, usually excludes the claims for an access to an essential facility.<sup>200</sup>

#### **4.4.4.3 IMS Health Case**

The ECJ continued the application of the essential facilities doctrine on intellectual property rights in its IMS Health decision<sup>201</sup> a few years later. The US company IMS Health is the leading supplier of information for the healthcare industry. IMS is a market leader worldwide, including Germany. In the late 1990s two other companies, a US company and a Belgium company, tried to enter the German market with similar services to compete with IMS Health. The problem was that IMS health processed and presented the information to the health care companies according to a specific system, called the "1860 brick system". This system had become

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<sup>199</sup> Ibid.

<sup>200</sup> Ibid.

<sup>201</sup> Case C-418/01, *IMS Health v. NDC Health* (2004) ECR I-5039.

a de facto “industry standard”<sup>202</sup> and was protected by IMS health copyrights. For its competitors there was no way to circumvent this standard because all health care companies were working according to it. They were willing to accept new information suppliers but it was highly unrealistic that the companies would accept having to use a different standard.

Essentially, the ECJ used the decision IMS Health to confirm and further substantiate its findings in the cases Bronner and Magill. However, the ECJ did weaken some of the requirements it had laid down in the Bronner decision. For instance, the ECJ confirmed the requirements laid down in the Bronner case for a behaviour that violates competition law resulting from the denial of a licence. However, the ECJ did no longer refer to the aspect that a license denial would have to exempt any competition on a specific secondary market; instead it referred to an exemption of any competition on a concrete, potential or a hypothetical market.<sup>203</sup> It is also doubtful whether the disputed products of the IMS Health competitors were actually “new” products in the sense of the Magill judgment, even though the competitors' products did offer some advantages in comparison to the IMS Health product. Here too, it is unclear whether the European Court of Justice has loosened the previously posed requirement that the license denial would have to prevent a new product.<sup>204</sup>

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<sup>202</sup> However, this was not a technical standard. The standard referred only to the way the information was processed and presented.

<sup>203</sup> Reynolds, Michael, Best Christopher “Article 102 and Innovation: The journey since Microsoft” (2012)

<sup>204</sup> Ibid at p. 8; See also Forrester and Czapracka, “Compulsory Licensing in European Competition Law: The Power of the Adjective” (2011) *Intellectual Property and Competition Law: New Frontiers*, Anderman and Ezrachi (Eds.) at 149, arguing that “[t]hrough the complainant asserted that its product would be delivered by a different technology and captured more data, it could be argued that its product would not be a fundamentally different product than that already offered by IMS”.

#### 4.4.4.4 Microsoft Case

In 1998, shortly after the ECJ's Magill decision, the US computer corporation Sun Microsystems Inc. filed a complaint with the European Commission. Sun Microsystems accused Microsoft of abusing its dominant position in the supply of PC operation systems, namely Microsoft's Windows. Sun argued that Microsoft unlawfully abused its dominant position by refusing to provide Sun with necessary information to develop its own software which would be able to interoperate with PC's running Windows.<sup>205</sup>

The Commission took this opportunity to start an investigation and a market enquiry about Microsoft's market behavior and issued several Statements of Objections against Microsoft addressing the interoperability of Microsoft's operating systems as well as its bundling of Windows Media Player with its Windows system.

The Commission followed Sun's arguments and came to the conclusion that Microsoft indeed held a market dominant position with its operating system Windows. Furthermore, the Commission found that Microsoft had abused this position by refusing to disclose necessary information to its competitors to produce work group server operating systems capable of interoperating with the Windows operation system:<sup>206</sup>

"Consequently, [the Commission] said that Microsoft's refusal to supply interoperability information was abusive because 1) interoperability information is needed by competitors in the market for work group server operating systems to viably stay on the market; 2) Microsoft's conduct involved a disruption of previous levels of supply; 3) there was 'a risk of

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<sup>205</sup> Ibid at p. 9.

<sup>206</sup> Case No COMP/C-3/37.792-*Microsoft*, Commission decision of 24 March 2004; Reynolds, Michael, Best Christopher, Article 102 and Innovation: The journey since Microsoft (2012) p.9.

eliminating all competition in the work group server operating system market'; 4) the refusal to supply had the consequence of 'preventing innovation in the work group server market and of diminishing consumers' choice by locking them into a homogeneous Microsoft's solution;' and 5) the refusal was not objectively justified because on balance 'negative impact of an order to supply on Microsoft's incentives to innovate was outweighed by its positive impact on the level of innovation of the whole industry (including Microsoft).'<sup>207</sup>

#### **4.4.4.5 The ECJ's requirements in detail**

The ECJ's requirements for the application of the essential facilities doctrine set out in the above mentioned judgements may be summarised as follows:

##### **4.4.4.5.1 Market dominant position of the right holder**

Even in the case of a refusal to grant a license to a third party, the market domination cannot result solely from the possession of an intellectual property right. Here, too, the general competition law criteria apply. That means the relevant market has to be defined and the position of the rights holder on this market has to be judged based on market share, market access barriers and other competitive criteria such as market conditions and market dynamics.<sup>208</sup> This is to be applied on the market, on which the rights holder denies the grant of the license.<sup>209</sup>

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<sup>207</sup> Czapracka, K A 'Where anti-trust ends and IP begins – on the roots of the transatlantic clashes', 9 (Fall Issue 2006/2007) Yale Journal of Law and Technology, p 44.

<sup>208</sup> Joined Cases C-241/91 P & C-242/91 -*Radio Telefis Eireann (RTE) & Independent Television Publications Ltd. (ITP) v. Commission*("Magill") (1995) ECR I-743.

<sup>209</sup> Walz, Axel "Patentverletzungsklage im Lichte des Kartellrechts"(2013) GRUR Int. p. 718.

#### 4.4.4.5.2 The demand of a “new” product

According to the ECJ’s judgments it is necessary that the refusal to grant a license prevents the appearance of a new product, for which there is a potential consumer demand.<sup>210</sup> Certainly, what can be understood under a “new” product can be argued. Different interpretations are possible here. One could assume, for example, that a new product in the sense of competition law exists only if a new market is opened up with this product. On the other hand, a new product can already exist, if its individual features make it different from the product of the intellectual property rights holder. Finally, a new product can exist if its individual features make it different from other products in general which includes products from third parties that are already offered on the market.<sup>211</sup>

The spirit and purpose of European competition law per se speaks for a product innovation definition that is opposed to a purely market oriented definition. The European competition law intends not only to enable the opening of new markets, but also as wide as possible product selection for consumer in general.<sup>212</sup> If competition law, however, protects the product versatility as well, the interpretation of the term “new product” cannot depend solely on the opening of a new market. A product-related approach must be selected in this case. Therefore, the protection purpose of competition law suggests that the combination of new product features in an already well-known product suffices.<sup>213</sup>

This interpretation corresponds as well to the verdict of the European Court of First Instance in the case of Microsoft. In this case, the court explicitly confirmed that a product can be defined as new if it

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<sup>210</sup> European Court of First Instance Case. T-201/04, (2007), II-3601 – *Microsoft*.

<sup>211</sup> Walz, Axel “Patentverletzungsklage im Lichte des Kartellrechts”(2013) GRUR Int. p. 718.

<sup>212</sup> Frenz, Walter “Die Lizenzverweigerung nach dem zweiten Microsoft Urteil“ (2012) WRP p. 1486.

<sup>213</sup> Walz, Axel “Patentverletzungsklage im Lichte des Kartellrechts”(2013) GRUR Int. 2013 p. 718.

contains essential elements that can be traced back to the efforts of the license seeker.<sup>214</sup> Therefore, if the license seeker can prove that his products bring a surplus value to the consumers based on their own specific features, especially if the corresponding features are advertised as sales arguments, then it can be assumed that it is a new product.<sup>215</sup> According to the court it is decisive, whether the arguable intellectual property rights (in the case of Microsoft copyright protected interface information) can be “implemented in numerous different and innovative ways”<sup>216</sup> and hence are not a sole copy of the products of the rights holder that are already on the market, but “will be distinguished from [them] with respect to parameters which consumers consider important.”<sup>217</sup>

#### **4.4.4.5.3 Elimination of any competition on the derived market**

In addition to the requirement that the right holder’s refusal to grant a license prohibits a new product, the ECJ requires that the refusal is suitable to eliminate any competition on the derived market. In doing so, one must be able to differentiate between two different production levels whose interrelation is based on the upstream product being an indispensable element for the delivery of the downstream product.<sup>218</sup>

It is not always easy to draw a clear distinction between upstream and downstream markets. According to the jurisdiction of the European courts, a distinct upstream market exists if the product, to which the license pursuer seeks access, is indispensable for the operation of the license pursuer on the derived market.<sup>219</sup>

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<sup>214</sup> Case T-201/04 *Microsoft* (2007) ECR II-3601 paras. 626, 643.

<sup>215</sup> *Ibid.* at para. 655.

<sup>216</sup> *Ibid.* at para. 656.

<sup>217</sup> *Ibid.* at para 656.

<sup>218</sup> *Walz, Axel "Patentverletzungsklage im Lichte des Kartellrechts"*(2013) GRUR Int. 2013 p. 718.

<sup>219</sup> Case T-201/04 *Microsoft* (2007) ECR II-3601 para 335.

The Advocate General Tizzano proposed, for the indispensability in the case of *IMS Health*, a two-levels check. It is crucial to determine whether firstly “there are substitute inputs, which may be used to operate (more or less effectively) on the market in question,” and secondly, whether “there are obstacles of a technical, legislative or financial nature which may make it impossible or unreasonably difficult for any undertaking seeking to operate on that market to create other inputs possibly in conjunction with other operators.”<sup>220</sup> The ECJ has not commented on this explicitly, but has left the evaluation of the indispensability to the national courts.<sup>221</sup>

If the above mentioned requirements are met, then the Commission's view is that one can frequently assume that the license refusal eliminates effective competition on the derived market.<sup>222</sup> The ECJ has insofar emphasized in the case of *Microsoft* that it must not be proven that there has been no or practically no competition any longer on the particular market.<sup>223</sup> Otherwise functioning market structures cannot be protected especially in dynamic competition environments. In fact, the competition law would protect in that case only a minimal rest of the remaining competition. In the case of an injunctive relief the requirements are anyway typically to be proven. They are in their nature directed towards a complete elimination of the concerned company from the competition.<sup>224</sup>

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<sup>220</sup> Opinion of the Advocate General Tizzano (2004) I-5042 – *IMS Health* para 80.

<sup>221</sup> Case C-418/01, *IMS Health v. NDC Health* (2004) ECR I-5039.

<sup>222</sup> Communication from the Commission — *Guidance on the Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings* (2009) C45/02, para 85.

<sup>223</sup> Case T-201/04 *Microsoft* (2007) ECR II-3601 para 563.

<sup>224</sup> *Walz, Axel "Patentverletzungsklage im Lichte des Kartellrechts"*(2013) GRUR Int. p. 718.

#### 4.4.5 Conclusions

Whereas Art. 101 TFEU is concerned with competition-constraining agreements and agreed-upon behaviour patterns among several companies, Art. 102 TFEU bans the one-sided abusive exploitation of a market-dominating position on the Common Market or an essential part of it.

The regulation includes a directly invoked ban on abusive practices, which applies to all market dominant companies. The ban on abusive practices of Art. 102 TFEU plays a key role for controlling competition-relevant behaviour of patent holders through competition law.<sup>225</sup> Altogether, an enhancement of the competition law abuse control begins to show, but its limits are in flux. In practice, cases are of particular importance in which the holder of market-dominating position secured by patents or other property rights denies the access to protected technology to a license seeker. As a result, the license seeker is prevented to compete with the property right holder.

The market-dominating rights holder can basically decide freely whom he wants to grant a license to. But the license denial can under certain circumstances be considered as a case of unfair hindrance of competitors and anticompetitive behavior, according to the principles of the essential facilities doctrine.<sup>226</sup> Consequently, such an abuse of a market dominating position can lead to a claim for granting a compulsory license to the license seeker.<sup>227</sup> According to the prevailing opinion, this claim for granting a compulsory license directly follows from Art. 102 AEUV.<sup>228</sup>

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<sup>225</sup> Ibid; Anderman Steven, Hedvig, Schmidt *EU Competition Law and Intellectual Property Rights – The Regulation of Innovation* (2011) 2<sup>nd</sup> Edition p. 33 et. seq.

<sup>226</sup> Ibid.

<sup>227</sup> Ibid.

<sup>228</sup> Hötte, Daniel Antonius *Die kartellrechtliche Zwangslizenz im Patentrecht (The compulsory license in patent law)* (2010) p. 36.

## **CHAPTER 5: STANDARD ESSENTIAL PATENTS<sup>229</sup>**

As already mentioned above, the problem of an abuse of a market dominant position according to Art. 102 TFEU is present particularly in so-called standard-relevant or standard-essential patents (SEPs), which are patents that refer to a particular industry standard.

Therefore, there has recently been a discussion especially in Europe about the question how to deal with the abusive exercise of standard relevant patents in the course of patent infringement proceedings.

First of all, this chapter will therefore explain what exactly industry standards and standard essential patents are before analysing the so called FRAND objection in patent infringement proceedings. The FRAND objection particularly refers to the abuse of a dominant position by exercising SEPs.

### **5.1 Industry standards**

An industry standard (or short: standard) is a technical standard contributing to standardized and compatibility-technical products. Because of the multitude of technical products on the market and the rapid technical development such standards are nowadays of immense significance. For example, the USB standard guarantees that every “USB slot“ on a laptop or desktop computer – regardless from which manufacturer – is equipped in the same way and that every USB flash drive can be read and written on by any computer when inserted into such a slot.

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<sup>229</sup> This chapter partly draws from an Assignment written by the author of this thesis in 2013 as part of the course CML5654S Competition Law (2013) University of Cape Town, South Africa.

There are three different kinds of formation of a standard. Firstly, the state can determine a standard with laws or other regulations. Secondly, de facto standards or quasi standards can develop over time. Thirdly, companies can contribute to the development of a standard by participating in associations (e.g., in 1992, the standard SDRAM was created by JEDEC, or the mobile telephone system standard GSM or UMTS by ETSI).<sup>230</sup> Setting a standard should, for instance, achieve a unification of goods or methods. Accordingly, certain minimum standards and compatibilities are determined in this process. The consumer might regard compatibilities as a matter of course, but in a market undergoing such a quick change like the software and hardware industry, compatibility can be only achieved when a specific norm has been determined.<sup>231</sup>

It is obvious that patent protection on the one hand and standard setting on the other can be difficult to combine: Only when the patent-holding companies agree with each other a standard can be set. For instance, setting the UMTS standard almost failed in the mid-80s because U.S.-based company Qualcomm, which held several patents for the UMTS technology, threatened not to grant any licenses in case of setting a standard. At the last minute, however, Qualcomm agreed to mutual license conditions as well as a reciprocal exchange of technologies. Only so could the standard UMTS be set.<sup>232</sup>

This case shows how problematic the relationship between patents and standards can be, before specific industry standards can be specified at all. The patent right protects the patent holder and his intellectual property. Industry standards, on the other hand, facilitate competition, benefit the consumers, and often promote the development of smaller

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<sup>230</sup> Heimann, Anni *Der Fall Rambus in den USA – Standards vs. Kartellrecht (The case of Rambus in the US – Standards vs. Antitrust Law)* (2007) p. 6 et seq.

<sup>231</sup> *Ibid.*

<sup>232</sup> *Ibid.*

companies as well, which have less financial means at their disposal.<sup>233</sup> Another problem is added to the already problematic relationship between competition law and patent law with the industry standard, which aggravates this relationship further on.

Furthermore, a critical point about the standard setting is that when a standard is set only those patents become well-known, whose holders have taken part in the settlement of the technical norm. The patents of smaller companies or from companies, which are not members in these standard setting organisations, that is, companies, which conceal their patents, remain mostly hidden and are discovered only when the standard is released and used by market participants.<sup>234</sup>

In light of special know-how requirements in the high-tech industry it is virtually impossible to appoint one single organization for the standardization procedure of all technological areas. Therefore, a great number of standardization organizations were established worldwide over time.

Companies interested in standard setting and their active participation in developing standards can join standardization organizations. However, a membership obliges members to work towards developing a standard, to disclosing existing own patents, i.e., such that have been already submitted to the best of knowledge, and to grant licenses to license seekers according to the so-called FRAND (fair reasonable and non-discriminatory) conditions.<sup>235</sup>

Well-known standards are, for instance, the ETSI's GSM standard or 3GPP's already mentioned UMTS standard. The latter is a current mobile communications standard used worldwide, that in comparison to

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<sup>233</sup> Ibid.

<sup>234</sup> Ibid.

<sup>235</sup> Ibid.

older standards, e.g. the European GSM standard, provides a higher and faster data transmission rate. Each modern mobile phone must be UMTS compatible, if it is to remain marketable in order to be able to make phone calls in the corresponding UMTS mobile communications networks.

Since the UMTS technology has been patented, every company which wants to produce and/or put on the market UMTS-compatible mobile phones, is forced to use patented technology of third parties and thus depends on a license granted by the patent holder(s) to use this technology. If the holder of standard-relevant patents refuses to grant a license to a competitor such refusal acts de facto as a market access barrier and the competitor is only left with two choices: Either to refrain from producing and marketing an UMTS-compatible mobile phone or to start producing and marketing a product that infringes patents for UMTS technology. In the second case, of course, this will likely result in patent infringement proceedings and claims for damages and an injunctive relief.

In order to remove market access and participation barriers caused by licence refusals, German and other courts around the world have developed a compulsory license defense under competition law known as the FRAND objection.<sup>236</sup> If the holder of so-called standard-essential patents (SEP) refuses to grant a license to third parties, the third party can defend itself in later patent infringement proceedings against the claims of the patent proprietor under certain conditions, using the FRAND objection.<sup>237</sup>

In the following, this thesis will look at European and German precedents in order to determine general principles if and under what circumstances the FRAND objection can successfully be invoked in patent infringement proceedings.

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<sup>236</sup> FRAND= Fair Reasonable and Non Discriminatory.

<sup>237</sup> Haedicke Maximilian, Timmann Henrik *“Handbuch des Patentrechts (Handbook Patent Law) (2012) sec. 9 para. 218.*

### 5.1.1 The decision “Orange-Book Standard” of the German Federal Court of Justice

In relation to the numerous infringement cases in different countries about SEPs, the requirements and limits of the FRAND objection are especially controversial and still not fully clarified. Especially the scope of the FRAND objection was controversial for many years until the German Federal Court of Justice (BGH) provided some additional clarity in 2009: In its verdict “*Orange-Book Standard*”<sup>238</sup> the Federal Court of Justice decided that the defendant in patent infringement proceedings can defend itself against the legal action of the patent proprietor by using the so FRAND objection provided that the patent owners refusal to grant a license constitutes an abuse of a market dominant position according to the above mentioned ECJ’s general principles. As a consequence the defendant can demand the granting of a license under competition law.<sup>239</sup>

While this was already determined in the earlier “*Standard-Spundfass (engl. Standard Borell with Screw Cap)*”<sup>240</sup> decision of the Federal Court of Justice in 2004, the Federal Court of Justice made a final and concluding decision here that a compulsory license defence under competition law can also be raised against an injunctive relief according to section 139 (1) German Patent Act.

The Federal Court of Justice's senate has supported its view dogmatically on the Latin principle “*Dolo agit, qui petit, quod statim redditurus est* (in general: a claim is raised in bad faith, if the claimed subject matter is subject to a counterclaim for immediate return).<sup>241</sup> This legal rule dates back to the Roman lawyer Iulius Paulus, who lived at the end of the second and the beginning of the third century AD. Paulus'

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<sup>238</sup> BGH GRUR 2009 p. 694 – *Orange-Book-Standard*.

<sup>239</sup> Ibid.

<sup>240</sup> BGH GRUR 2004 p. 966 - *Standard Spundfaß*.

<sup>241</sup> BGH GRUR 2009 p. 694 – *Orange-Book-Standard*.

statement had been registered twice in the Digest, a compendium of fragments from the works of classic lawyers by order of the Roman emperor Justinian.<sup>242</sup> This principle is also based in the German law, more specifically in section 242 of the German Civil Code (BGB).<sup>243</sup> Based on section 242 of the German Civil Code, the Senate of the Federal Court of Justice (BGH) assumes that the patent holder cannot ask the court for an injunction, if he demands with the injunction something what he would have to grant back immediately (i.e. in the process of a compulsory license according to competition law).

However, the Federal Court of Justice (BGH) mapped out important and very strict procedural requirements that must exist for the FRAND objection to be successful in patent infringement proceedings.<sup>244</sup> First of all, the license seeker must have given an unconditional offer for signing a license agreement to the patent holder and proposed conditions that the patent holder cannot reject without infringing upon his duties according to competition law. Thus, an offer under certain conditions, for instance, is not sufficient according to the court.

Furthermore, the license seeker must – provided that he has already used the patented technology – adhere to the license conditions he has offered and act in accordance to the proposed license agreement. The license seeker particularly has to pay or deposit license fees according to the agreement.<sup>245</sup> However, the Federal Court of Justice did not have to deal with the question of what conditions the license seeker can demand in content.

Due to these high procedural obstacles the Federal Court of Justice has set, the FRAND objection has hardly ever been successfully used in

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<sup>242</sup> See Charwath Philipp, *Römisches Recht (Roman Law)* (2011) p.411.

<sup>243</sup> See *Münchener Kommentar zum BGB* (2012) Sec 242 para. 408.

<sup>244</sup> Verhauwen, Axel “Goldener Orange-Book-Standard am Ende?” (Is the golden Orange Book Standard at the end?) (2013) GRUR p. 558.

<sup>245</sup> BGH GRUR 2009 p. 694 – *Orange-Book-Standard*.

patent infringement proceedings after the Orange-Book standard decision. Also, several questions concerning the practical implementation of the FRAND defense in court were left unanswered by the Federal Court of Justice.<sup>246</sup> For instance, one of the requirements of the compulsory license defense is the submission of an acceptable offer of the license seeker to the patent holder.<sup>247</sup> Since the license seeker must act in good faith according to the Federal Court of Justice, this offer must be made before the patented technology has been used by the defendant and license seeker. Even though it can certainly be desirable from a practical point of view that the license seeker contacts the patent holder before he starts using the patented technology, this means that making a retrospective offer during patent infringement proceedings is in principle not possible.<sup>248</sup> However, a requirement for such a previous offer is that the license seeker was fully informed from the beginning and must inter alia have known the patent situation. Only in this case the license seeker is able to make an effort to get a license and to develop an acceptable offer to the patent owner. It is debatable what demands must be made regarding such an element of awareness. It also remains disputable what should be done if the license seeker is not certain whether his product falls within the scope of the patent in dispute.<sup>249</sup> Since the Federal Court of Justice demands that the license seeker's offer must be made by all means before the process,<sup>250</sup> it strips the license seeker of the possibility, for example, to make an offer for a license agreement to the patent holder only under the condition that the license seeker's product falls within the scope of the patent or under the condition that the patent is valid.<sup>251</sup>

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<sup>246</sup> Ibid.

<sup>247</sup> Ibid.

<sup>248</sup> Maume, Philipp, Tapia, Claudia "Der Zwangslizenzienwand ein Jahr nach Orange-Book-Standard – Mehr Fragen als Antworten" (2010) GRUR Int. p. 923; Verhauwen, Axel "Goldener Orange-Book-Standard am Ende?" (2013) GRUR p. 558.

<sup>249</sup> What quite often happens in practice. In many cases only patent infringement proceedings before court ascertain whether a specific product or process falls within the scope of the patent in suit or not.

<sup>250</sup> BGH GRUR 2009 p. 694 – *Orange-Book-Standard*.

<sup>251</sup> Maume, Philipp, Tapia, Claudia „Der Zwangslizenzienwand ein Jahr nach Orange-Book-Standard – Mehr Fragen als Antworten“ (2010) GRUR Int. p. 923.

Moreover, some commentators have criticized that the Federal Court of Justice accepted only “adequate” offers of the license seeker.<sup>252</sup> However, it remains unsettled what qualifies as “adequate” as this will vary depending on the economic circumstances of a specific industry. According to the Federal Court of Justice, the court can limit itself to the decision that a sufficient amount has been deposited.<sup>253</sup> The assessment of the adequacy of the offer that the license seeker has made is not mentioned any further. This is remarkable because making an adequate offer is a condition for the compulsory license defense and can be substituted only under certain conditions with a stipulation by the patent holder.<sup>254</sup>

### 5.1.2 European Commission: Willingness to negotiate sufficient?

The European Commission advanced a different view in the case of *Samsung v. Motorola*.<sup>255</sup> Indeed, according to the Commission's opinion, injunctive reliefs represent legitimate remedies for the enforcement of intellectual property rights. Only in exceptional cases should the request for an injunctive relief fail because of competition law limits.<sup>256</sup>

According to the Commission, such an exception exists in the case of a patent lawsuit concerning a standard essential patent, for which the patent proprietor has given a so called FRAND commitment<sup>257</sup> and when

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<sup>252</sup> Ibid; Verhauwen, Axel “Goldener Orange-Book-Standard am Ende?” (2013) GRUR p. 558.

<sup>253</sup> BGH GRUR 2009 p. 694 – *Orange-Book-Standard*.

<sup>254</sup> Ibid.

<sup>255</sup> Press Release of the European Commission: “Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents”(2012) IP/12/1448, see also Press Release of the European Commission “Anti-Trust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents – Questions and Answers “(2012) IP/13/406.

<sup>256</sup> Ibid.

<sup>257</sup> Standard organizations like ETSI and others typically demand so called FRAND commitments from intellectual property right holders. In other words, FRAND commitments or declarations are made to the standard organizations, but the licensee

the license seeker is willing to negotiate about a license under FRAND conditions. In summary, three requirements must be met for the compulsory license defense in patent infringement proceedings according to the Commission's view: (1) The patent in suit must be a standard-essential patent; (2) the patent holder has given a FRAND commitment; and (3) the license seeker must have proven that he is willing to negotiate.<sup>258</sup>

Hence, the Commission formulated much lower demands on the compulsory license defence under competition law than the German Federal Court of Justice. In essence, it suffices when the patent in suit is standard-essential and the defendant is ready to negotiate for a license

The European Commission's opinion conforms with the assessment of other institutions. In fact, the Commission itself even states, in its Q&A catalogue dated 21.12.2012, that it has formed its preliminary legal concept in close cooperation with the leading U.S. competition law authorities.<sup>259</sup> In the US, the enforcement of an injunctive relief from a SEP in addition to a FRAND statement from a license-willing patent user is simply not possible. In fact, the enforcement of an injunctive relief is not pursued there either if the demanding patent user of the SEP is ready to negotiate. An example for this is Google's concluded arrangement with the FTC (Federal Trade Commission) of the European Commission, according to which Google withdrew the injunction claims from the disputed SEPs. In

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(users of the norm) must be able to rely on them. See for more detailed information about FRAND commitments: Chappatte, Philippe, "FRAND Commitments the Case for Antitrust Intervention"(2009) European Competition Journal p. 319: [http://www.slaughterandmay.com/media/1428378/frand\\_commitments\\_the\\_case\\_for\\_anti\\_trust\\_intervention.pdf](http://www.slaughterandmay.com/media/1428378/frand_commitments_the_case_for_anti_trust_intervention.pdf).

<sup>258</sup> Press Release of the European Commission: "Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents"(2012) IP/12/1448.

<sup>259</sup> Press Release of the European Commission "Anti-Trust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents – Questions and Answers "(2012) IP/13/406.

this case as well the negotiation readiness of the potential license holder is taken into consideration.<sup>260</sup>

### 5.1.3 Düsseldorf Regional Court refers five questions to European Court of Justice

Following these divergences between the Commission's EU law-based assessment and the Federal Court of Justice's "Orange-Book standard" decision, the District Court Düsseldorf, in 2013, posed five open-ended questions to the European Court of Justice.<sup>261</sup> The District Court Düsseldorf, together with the Higher Regional Court Düsseldorf, belongs to the most frequented patent infringement courts in Europe.<sup>262</sup>

The five questions the Düsseldorf Regional Court referred to the ECJ to answer are as follows:

*"1. Does a standard essential patent (SEP) owner who declared himself willing, vis-à-vis a standard-setting organization, to grant a license to all comers on FRAND terms, abuse his dominant market position if he seeks injunctive relief from a court of law against a patent infringer despite the infringer having declared himself willing to negotiate such a license or is it a requirement for the presumption of abusive conduct that the infringer has made a binding offer to the SEP owner on terms that the SEP owner cannot refuse without treating the infringer unfairly or discriminatorily and [furthermore requires that] the infringer, in anticipation of the license he is*

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<sup>260</sup> Verhauwen, Axel "Goldener Orange-Book-Standard am Ende?" (2013) GRUR p. 558.

<sup>261</sup> LG Düsseldorf (2013) GRUR-RR p. 196.

<sup>262</sup> See report on Fish & Richardson LLP:

<http://www.fr.com/files/Uploads/Documents/Focus%20Europe.Mannheim%20Steamroller-German%20City%20Aims%20to%20be%20Fastest.%20Peterreins.%20January%202013.pdf>.

*seeking, already complies with his contractual obligations with respect to past acts of infringement?*

*2. In the event that a presumption of abuse of a dominant market position may already result from the infringer's willingness to negotiate: Does Art. 102 TFEU involve specific requirements for said willingness to negotiate in substantive and/or chronological terms? Can such a presumption be based merely on the infringer's (oral) declaration in broad and general terms of his willingness to enter into negotiations or does such a presumption require that the infringer has indeed entered into negotiations, such as by, for example, communicating terms and conditions under which he is prepared to conclude a license agreement?*

*3. In the event that the [infringer's] submission of a binding offer to conclude a license agreement is a requirement for an abuse of a dominant market position: Does Art. 102 TFEU involve specific substantive and/or chronological requirements with respect to such an offer? Does the offer have to set forth all of the commercial terms that in accordance with relevant industry practice are usually set forth in such license agreements? Can the offer be conditioned upon actual use and/or validity of the SEP-in-suit?*

*4. In the event that the infringer's [precontractual] fulfilment of obligations arising from the requested license is a requirement for an abuse of a dominant market position: Does Art. 102 TFEU involve particular requirements with respect to such acts of fulfilment? Is the infringer required, in particular, to make disclosures relating to past acts of infringement and/or to pay [precontractual] royalties? Can an obligation to pay [precontractual] royalties also be fulfilled by giving security?*

*5. Do the requirements for the presumption of abuse of a dominant market position by an SEP holder also apply to other remedies for patent*

*infringement (disclosures relating to past infringement, recall [of infringing products from distribution channels], damages)?”<sup>263</sup>*

In essence, the courts first question is whether the willingness to negotiate per se is sufficient to allow the defendant to raise the FRAND defense against the patent owners action or whether the “Orange-Book standard” criteria of the Federal Court of Justice should be met. The court's second question refers to a definition i.e. paraphrasing of the patent infringer's sufficient willingness to negotiate. The third question addresses the regulatory span of an “Orange-Book standard” license offer. The fourth question handles in what way the patent infringer must offer a payment or a security deposit. The fifth question is whether the conditions applying to the injunctive relief also apply to other claims such as, for example, damage claims.

#### **5.1.4 Concluding remarks**

The Regional Court's initiative to seek clarity from the ECJ regarding the FRAND objection is laudable. Infringement lawsuits form standard-essential patents are brought to courts internationally and parallel in various countries so a harmonized approach on the European level in regard to the legitimacy of the FRAND objection at the interface between patent law and competition law is desirable. Ultimately, this benefits the holders of standard-essential patents as well as third parties which are seeking licenses.

Hopefully, the European Court of Justice will, on the one hand, soften the German approach based on the Orange-Book standard

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<sup>263</sup> LG Düsseldorf (2013) GRUR-RR 2013 p. 196; Translation by Höhne, Christof, Kamlah, Dietrich, Lunze, Anja, “What does it take to be FRAND” (2013), Taylor Wessing LLP. <http://www.taylorwessing.com/de/news-insights/details/what-does-it-take-to-be-frand-2013-04-08.html>.

decision of the Federal Court of Justice, because the past years have shown that these criteria are too rigid and therefore, can be hardly used successfully.<sup>264</sup> In other words: The German court requirements are too “patent owner friendly”. Since the exercise of SEPs can justify an abuse of a market-dominant position it is appropriate to better protect other (potential) market participants. On the other hand, it is hoped that the European Court of Justice limits the present view of the European Commission and other European courts. It goes too far to grant the patent infringer the compulsory license defense under competition law in patent infringement proceedings just because he shows a “willingness to negotiate”, expressed in whatever manner. To allow the FRAND objection so easily unjustifiably weakens the patent holders’ position and opens the floodgates for abusive behavior by the defendant.

## **CHAPTER 6: THE RELATION BETWEEN COMPETITION LAW AND INTELLECTUAL PROPERTY LAW IN SOUTH AFRICA**

At present there are only a limited number of South African cases which are particularly concerned with the relation between intellectual property and competition law. The problem of lawsuits concerning standard relevant patents has not been decided by South African courts yet. However the most important South African cases will be analysed in this chapter after taking a closer look especially at the South African abuse of dominance provisions.

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<sup>264</sup> Verhauwen, Axel “Goldener Orange-Book-Standard am Ende?” (Is the golden Orange Book Standard at the end“) (2013) GRUR p. 558, 559.

## 6.1 Abuse of dominance provisions in the South African Competition Act

Provisions against the abuse of market dominance were introduced in South Africa in 1998 in Chapter II Part B of the South African Competition Act. Although these provisions borrow from existing law of other jurisdictions, especially the EU and the US, they nonetheless differ.<sup>265</sup> Currently, there is relatively little South African case law on the abuse provisions, and important questions remain unanswered.<sup>266</sup>

Provided the regulations about the abuse of a market-dominating position are used according to section 3 and 6 of the Competition Act, the question arises whether a company is market-dominating according to section 7 of the Competition Act.<sup>267</sup> Dominance is defined by market share and market power.<sup>268</sup> If it turns out that a company dominates the market, then its behaviour must be evaluated according to section 8 and 9. The following behaviour patterns are forbidden according to the South African competition law, although in most cases it is also required that the matching behaviour has negative effects on the competition:<sup>269</sup>

- Excessive pricing;<sup>270</sup>
- refusing to give a competitor access to an essential facility;<sup>271</sup>
- conduct that impedes or prevents others from entering, or expanding in, a market;<sup>272</sup>
- requiring a supplier or customer not to deal with a competitor;<sup>273</sup>
- refusing to supply scarce goods to a competitor;<sup>274</sup>

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<sup>265</sup> Sutherland, Philip, Kemp, Katharine and others *Competition Law of South Africa* (last updated 2012) 7.1.

<sup>266</sup> *Ibid* at 7.1.

<sup>267</sup> *Ibid* at 7.4.

<sup>268</sup> OECD "Competition Law and Policy in South Africa" (2003) p. 24 available at: <http://www.oecd.org/dataoecd/52/13/2958714.pdf>; Sutherland, Philip, Kemp, Katharine and others *Competition Law of South Africa* (last updated 2012) 7.4.

<sup>269</sup> *Ibid.* at 7.4.

<sup>270</sup> Sec. 8 (a).

<sup>271</sup> Sec. 8 (b).

<sup>272</sup> Sec. 8 (c).

<sup>273</sup> Sec. 8 (d) (i).

<sup>274</sup> Sec. 8 (d) (ii).

- tying;<sup>275</sup>
- predatory pricing;<sup>276</sup>
- buying up scarce supply;<sup>277</sup>
- and price discrimination.<sup>278</sup>

The prohibitions of excessive pricing and refusal to grant access to an essential facility are governed by section 8 (a) and 8 (b) and classified by the courts as “per se provisions”. They therefore neither require proof of an anticompetitive effect nor permit a pro-competitive defence. E.g., excessive pricing by a market dominant entity in South Africa is per se prohibited by section 8 (a) of the Competition Act. A case by case analysis does not take place here.<sup>279</sup>

By contrast, section 8 (d) is not classified as a per se prohibition. This section lists 5 different market behaviours which are only deemed as anticompetitive if the specific market behaviour has an anti competitive effect in each and every individual case. In addition, the respondent can defend himself with the argument that his behavior had not only anti-competitive but predominantly pro-competitive effects.<sup>280</sup>

Section 8 (c) serves as a “catch-all-provision” and involves all anti-competitive practices which are not covered by section 8 (d). Finally, section 9 prohibits price discrimination.

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<sup>275</sup> Sec. 8 (d) (iii).

<sup>276</sup> Sec. 8 (d) (iv).

<sup>277</sup> Sec. 8 (d) (v).

<sup>278</sup> Sec. 9.

<sup>279</sup> See *Glaxo Wellcome (Pty) Ltd v National Association of Pharmaceutical Wholesalers* 15/CAC/Feb02 par 51; *Nationwide Poles v Sasol Oil (Pty) Ltd* 72/CR/Dec03 pars 79, 108; *Sappi Fine Papers (Pty) Ltd v Commission* 62/CR/Nov01 par 41; *Competition Commission v South African Airways (Pty) Ltd* 18/CR/Mar01 par 99.

<sup>280</sup> OECD “Competition Law and Policy in South Africa” (2003) available at: <http://www.oecd.org/dataoecd/52/13/2958714.pdf>

## 6.2 Section 8 Competition Act and the essential facilities doctrine

As the rulings of the ECJ which were analysed in chapter 4 of this thesis have shown, conflicts between intellectual property rights and competition law are mostly concerned with the question whether the refusal to grant a license is anti-competitive or not. Generally this situation is put on a level with a refusal to deal or sell and discussed in connection with the essential facilities doctrine.<sup>281</sup>

As already discussed, this situation is regulated in section 8 of the Competition Act which partly corresponds with the European Art. 102 TFEU. Section 8 Competition Act inter alia reads (emphasis added):

“It is prohibited for a dominant firm to

- (b) refuse to give a competitor access to an **essential facility** when it is economically feasible to do so:
- (d) engage in any of the following **exclusionary acts**, unless the firm concerned can show technological, efficiency or other pro-competitive, gains which outweigh the anti-competitive effect of its act: [...]
- (ii) **refusing to supply scarce goods** to a competitor when supplying those goods is economically feasible.

Thus, unlike many other jurisdictions, the South African competition law not only adopted the “essential facilities” doctrine, it even codified it in section 8 and defines an “essential facility” in section 1 of the Act as “an infrastructure or resource which cannot reasonably be duplicated and without access to which competitors cannot reasonably participate in the market”.

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<sup>281</sup> See for instance: Nagy, Csongor Istvan “Refusal to Deal and The Doctrine of Essential Facilities in US and EC Competition Law: A Comparative Perspective and Proposal for a Workable Analytical Framework” *European Law Review* Vol. 32 No.5 (2007) pp. 664-685.

Refusing to give a competitor access to an essential facility is considered a *per se* contravention of the Act, and the only evidentiary requirement necessary to prove that a firm has been engaging in this conduct is the conduct itself. The doctrine therefore does not allow a dominant firm to raise an efficiency defence.<sup>282</sup> Consequently, the Competition Tribunal argued in *DW Integrators vs. SAS Institute*<sup>283</sup>, that “a violation of section 8 (b) cannot be countervailed by efficiency gains. It is, in other words, *per se* illegal”.

However, despite its explicit codification, the Competition Appeal Court (CAC) advised against over-expanding the scope of the essential facilities doctrine. CAC held that “the widening of the application and scope of the essential facilities doctrine can have harmful economic effects such as discouraging investment in infrastructure”.<sup>284</sup> Furthermore, obliging a dominant firm to allow competitors access to a facility amounts to a considerable intervention. The scope of section 8(b) has therefore been limited to “traditional” infrastructure which comprises inter alia ports, airports, electricity power supply systems, telecommunication networks, railways, and pipelines. The CAC established five elements that must be alleged and proved by a complainant before the *per se* prohibition applies.<sup>285</sup>

- (i) the dominant firm involved must refuse to give the complainant access to an infrastructure or resource;
- (ii) the complainant and the dominant firm must be competitors;
- (iii) the infrastructure or resource concerned must not be capable of being reasonably duplicated;

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<sup>282</sup> Legh Robert an others *Competition Law Sibergramme* (2012) p. 3.

<sup>283</sup> *DW Intergrators CC vs SAS Institute (Pty) Ltd* 14/IR/Nov99.

<sup>284</sup> *Glaxo Wellcome (Pty) Ltd & Others v National Association of Pharmaceutical Wholesalers & Others* 15/CAC/Feb02 at [54]; Legh Robert an others *Competition Law Sibergramme* (2012) p. 3 available at: <http://www.bowman.co.za/FileBrowser/ArticleDocuments/Competition-Law-Sibergramme-Issue-6-of-2012.pdf>.

<sup>285</sup> *Ibid.*

- (iv) the complainant must not be able to reasonably provide goods or services to its customers without access to the infrastructure or resource; and
- (v) it must be economically feasible for the dominant firm to provide its competitors with access to the infrastructure or resource.

The CAC also emphasised that the term “resources” in the South African definition of an essential facility in section 1 does not include goods.<sup>286</sup> This opinion stands in contrast with the EU’s definition of an essential facility.<sup>287</sup> The CAC argues that there is a distinction between section 8 (b) which refers to the essential facility and does not include goods and section 8 (d) (ii) which in contrast refers to the refusal to supply scarce goods to a competitor. With this decision the CAC overruled the Tribunal’s opinion that both provisions are only “two sides of the same coin”.<sup>288</sup> In the same case that CAC also held that a “resource” also does not include services. Furthermore, there are doubts in the literature of whether the essential facilities prohibition will apply in respect of intellectual property rights or not.<sup>289</sup>

### **6.3 Public interest provisions in the South African Competition Act**

South Africa’s Competition Act was drafted with the explicit aim to emphasize the importance of public interests. The Act therefore takes elements into considerations which cannot be found in EU or US competition law, and which strictly speaking go beyond the boundaries of

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<sup>286</sup> *Glaxo Wellcome (Pty) Ltd v National Association of Pharmaceutical Wholesalers* 15/CAC/Feb02 pars 51, 53.

<sup>287</sup> See Alison Jones and Brenda Sufrin *EU Competition Law* (4th ed) (2011) 479 *et seq.*

<sup>288</sup> *Glaxo Wellcome (Pty) Ltd v National Association of Pharmaceutical Wholesalers* 15/CAC/Feb02 pars 50–52, 56.

<sup>289</sup> Opi, Baches, Sergio “The Application of the Essential Facilities Doctrine to Intellectual Property Licensing in the European Union and the United States: Are Intellectual Property Rights Still Sacrosanct?” (2001) *Fordham Intellectual Property, Media and Entertainment Law Journal* Vol XI Issue 2 Article 2 p. 419.

competition.<sup>290</sup> Public interest takes an important role in the South African Competition Act. This is already evidenced by the fact that the Act's objective to serve the public interest is already mentioned in the preamble of the Act<sup>291</sup> in the following way:

*“The people of South Africa recognise: That apartheid and other discriminatory laws and practices of the past resulted in excessive concentrations of ownership and control within the national economy, inadequate restraints against anti-competitive trade practices, and unjust restrictions on full and free participation in the economy by all South Africans. That the economy be open to greater ownership by a greater number of South Africans. That credible competition law, and effective structures to administer that law, are necessary for an efficient functioning economy. That an efficient, competitive economic environment, balancing the interests of workers, owners and consumers and focused on development will benefit all South Africans. In order to - provide all South Africans equal opportunity to participate fairly in the national economy; [...] regulate the transfer of economic ownership **in keeping with the public interest**; [...]”*

Furthermore, section 2 of the Act outlines the purpose of the South African Competition Act as the provision and maintenance of competition in order to achieve several goals. Some of them can be seen as not directly related to competition but to the public interest.<sup>292</sup> For instance, section 2 emphasizes “the promotion of employment and advancement of the ‘social and economic welfare of South Africans’, expanding opportunities for South African companies in world markets, providing equitable opportunities for small and medium sized enterprises and to

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<sup>290</sup> Hodge, James and others “Public interest provisions in the South African Competition Act: A critical review” in: The development of competition law and economics of South Africa (2009) available at <http://www.compcom.co.za/assets/Uploads/events/10-year-review/parallel-1b/Public-Interest-Provisions14-August-2009-2.docx>.

<sup>291</sup> Ibid.

<sup>292</sup> Ibid.

promote a greater spread of ownership, particularly with respect to historically disadvantaged individuals.”<sup>293</sup> These “soft” goals are recurring themes throughout the entire act.

Finally, in section 12 (A) of the Act public interest in respect of mergers is addressed. The provision states that in addition to competition and efficiency considerations, it is also necessary to assess whether a merger ‘can or cannot be justified on substantial public interest grounds by assessing the factors set out in subsection (3)’.<sup>294</sup>

Subsection 12A(3) outlines and explains the factors that are considered as public interest grounds: “When determining whether a merger can or cannot be justified on public interest grounds, the Competition Commission or the Competition Tribunal must consider the effect that the merger will have on:

- a) a particular industrial sector or region
- b) employment
- c) the ability of small businesses or firms controlled or owned by historically disadvantaged persons to become competitive;
- d) the ability of national industries to compete in international markets.”

Therefore, the assessment of a merger is carried out with a two-level test in South Africa. First of all, it is assessed, whether there is a “normal” infringement of competition law without consideration of the

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<sup>293</sup> Sec. 2 Competition Act; Hodge, James and others “Public interest provisions in the South African Competition Act: A critical review” in: The development of competition law and economics of South Africa (2009) available at <http://www.compcom.co.za/assets/Uploads/events/10-year-review/parallel-1b/Public-Interest-Provisions14-August-2009-2.docx>.

<sup>294</sup> Section 12A(1)(a)(ii); Hodge, James and others “Public interest provisions in the South African Competition Act: A critical review” in: The development of competition law and economics of South Africa (2009) available at <http://www.compcom.co.za/assets/Uploads/events/10-year-review/parallel-1b/Public-Interest-Provisions14-August-2009-2.docx>.

public interest thought, because the merger itself is already anti-competitive. If this is not the case, then a second step is taken, in contrast to the European law, for example, to determine whether the merger has taken place in a manner directed against the public interest.<sup>295</sup>

The introduction of the public interest element into the South African competition law is traced back in particular to the specific situation of South Africa after the end of the Apartheid regime. The objective of the regulations was, amongst others, to balance and take into consideration the suffered injustice as well as the suffered discrimination of the black and other population groups in South Africa.<sup>296</sup> Furthermore, the argument is given, that public interest considerations make more sense in developing countries than in developed countries, although the specific needs of the developing countries cannot be fully considered solely with these regulations.<sup>297</sup>

#### **6.4 Section 10 (4) Competition Act**

The Competition Act states in section 3(1) that the Act's provisions apply to all economic activity that has an effect in the Republic. This includes the exercise of intellectual property rights.

However, section 10 (4) of the Act states regarding intellectual property that “[a] firm may apply to the Competition Commission to exempt from the application of this Chapter **an agreement or practice**, or

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<sup>295</sup> Boshoff, Willem and others “The Economics of Public Interest Provisions in South African Competition Policy” (2012) p. 8 available at: <http://www.compcom.co.za/assets/Uploads/events/Sixth-Annual-Competition-Law-Economics-and-Policy-Conference-in-South-Africa-2012/NewFolder-3/The-economics-of-public-interest-provisions-in-South-African-competition-policy.pdf>.

<sup>296</sup> Reyburn, Lawrence *Competition Law of South Africa* (2000) 3-39 to 3-45. Chabane, Neo “An Evaluation of the Influence of BEE on the Application of Competition Policy in South Africa” (2003) p. 4 available at: <http://www.idrc.ca/EN/Documents/An-Evaluation-of-the-Influence-of-BEE-on-the-Application-of-Competition-Policy-in-South-Africa.pdf>.

<sup>297</sup> Ibid.

*category of agreements or practices, that relates to the exercise of intellectual property rights, including a right acquired or protected in terms of the Performers' Protection Act [...]*" [emphasis added].

Such an exemption can be granted by the Competition Commission on request, if the agreement or practice constitutes an anticompetitive behavior according to Chapter 2 of the Competition Act and the anticompetitive behavior contributes to the following objectives: Maintenance or promotion of exports; Promotion of the competitiveness of small businesses or firms controlled or owned by historically disadvantaged persons; changing the productive capacity to stop decline in an industry; maintaining economic stability in an industry designated by the Minister.<sup>298</sup> However, it is very important to bear in mind that an exemption application will not automatically be granted.<sup>299</sup>

## 6.5 Case Law

Only very few cases regarding intellectual property rights and competition law have been decided and handled in South Africa by the competition authorities or courts in this regard.<sup>300</sup> A lot of cases have only been investigated by the Commission and subsequently settled with the respondents, with the result that not all facts of the case have been put on the table, and the Commission had not decided on the merits.<sup>301</sup> In addition, the Commission function in this cases is more that of an investigator, not a judge.<sup>302</sup> In the very important case *Hazel Tau & others*

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<sup>298</sup> See sec. 10 Competition Act; The Competition Commission of South Africa: <http://www.compcom.co.za/exemptions-2/>

<sup>299</sup> See also Hlatshwayo, Nkonzo, "The Challenges of IP Protection and Competition Enforcement: An Analysis of the Microsoft Decisions (US and EU) and their Implications for South African IP and Competition Law" (2008) p.13, available at: [http://go.warwick.ac.uk/jilt/2008\\_2/hlatshwayo](http://go.warwick.ac.uk/jilt/2008_2/hlatshwayo).

<sup>300</sup> Ibid at p.12.

<sup>301</sup> Ibid.

<sup>302</sup> Ibid.

*v. GlaxoSmithkline & Boehringer Ingelheim*,<sup>303</sup> for instance, AIDS activists brought this case before the Commission and alleged GlaxoSmithkline and Boehringer Ingelheim of abuse of market dominance by charging excessive prices for their AIDS drugs. Glaxo and Boeringer held several patents regarding four very important anti viral AIDS drugs.<sup>304</sup> The Commission intended to refer this matter to the Competition Tribunal for adjudication because it had drawn the conclusion that both pharmaceutical companies had violated South African competition law by abusing their market dominant position by denying a competitor access to an essential facility; by charging excessive prices; and by engaging in exclusionary acts.<sup>305</sup>

However, before the Tribunal was able to address the case, the Commission and the parties amicably reached a settlement agreement. In the course of this agreement Boeringer and Glaxo agreed to license local generic manufacturers to produce these drugs for the South African market.<sup>306</sup>

Unfortunately, the Commissions analysis did not contain any reasoning why the Commission came to the conclusion that the defendant's refusal to license competitors constituted a refusal to license an essential facility and therefore a contravention of the Competition Act. Therefore, this case does not provide a useful precedent.<sup>307</sup> The same applies to the case *Druggist Distributors (Pty) Ltd (DD) and the National Association of Pharmaceutical Wholesalers*<sup>308</sup> where the Competition Appeal Court (CAC) only held that the conduct complained did not fall

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<sup>303</sup> Competition Commission's Media Release No. 33 of 2003, 16 December 2003, accessible online at: <http://www.wcl.american.edu/pijip/documents/MediaRelease.doc>.

<sup>304</sup> *Ibid*; Hlatshawayo, Nkonzo, "The Challenges of IP Protection and Competition Enforcement: An Analysis of the Microsoft Decisions (US and EU) and their Implications for South African IP and Competition Law" (2008) p.14:

<sup>305</sup> *Ibid*.

<sup>306</sup> *Ibid*.

<sup>307</sup> *Ibid*.

<sup>308</sup> *Glaxo Wellcome (Pty) Ltd v National Association of Pharmaceutical Wholesalers* 15/CAC/Feb02.

within the scope of the essential facilities provision but probably constituted a refusal to supply a competitor with scarce goods or services.

### 6.5.1 DW Integrators CC v. SAS Institute (Pty) Ltd

In *DW Integrators CC v SAS Institute*<sup>309</sup> (Pty), the claimant (DW Integrators) sued a major software firm (SAS Institute) that owned valuable intellectual property rights, mainly patents. The claimant itself was a company that provided consulting services to the license holders of the respondent's software programmes.<sup>310</sup> The DW Integrators applied for a court order obliging the defendant to issue a license to its intellectual property to the claimant. The claimant argued that the defendant's intellectual property constituted an essential facility according to competition law and thus, the respondent's refusal to grant a license to the claimant amounted to a violation of section 8(b) of the Competition Act.<sup>311</sup> However, the Tribunal came to the conclusion that the claimant failed to properly define the relevant market. Therefore, the Tribunal unfortunately had not to decide about the question whether competition law has been infringed or not. This especially marked a missed opportunity for the Tribunal to find whether intellectual property laws can constitute an essential facility according to competition law or not.<sup>312</sup>

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<sup>309</sup> *DW Integrators CC v SAS Institute* (Pty) Ltd [1999-2000] CPLR 191 (CT)

<sup>310</sup> Legh Robert and others *Competition Law Sibergramme* (2012) p. 3 available at: <http://www.bowman.co.za/FileBrowser/ArticleDocuments/Competition-Law-Sibergramme-Issue-6-of-2012.pdf>.

<sup>311</sup> *Ibid.*

<sup>312</sup> *Ibid.*

### 6.5.2 BMW v. Grandmark

Most recently, in September 2013, the South African Supreme Court of Appeal decided in the appeal case of *BMW v Grandmark*.<sup>313</sup> The Supreme Court was concerned with the following question: Can a car maker use registered designs (on spare parts) to stop others importing and selling so-called 'replacement parts' which are cheaper, non-original spare parts? BMW, as the claimant, sued Grandmark, a replacement part provider, for design right infringement. Thus, the complaint mainly dealt with design right issues. However, in response to BMW's claims the defendant counterclaimed, under section 31 of the Design Act, for revocation of the claimants design registrations. And in addition, most importantly, for the event that its claim for revocation failed the defendant asked for a court order referring the matter in dispute to the Competition Tribunal because then, according to the defendant, BMW would abuse a market dominant position. However, Judge Ranchod upheld the claim for revocation. It was therefore unnecessary for the court to adjudicate upon the question of referring the case to the Competition Tribunal.

### 6.5.3 Conclusion

Unfortunately the cases decided by South African courts remain unclear and do not present a useful precedent in many cases. For instance, it remains unanswered as to whether the essential facilities doctrine is applicable to intellectual property rights or not. It also remains unclear if others have a right to the grant of a compulsory license according to competition law in case a patent holder abuses a market dominant position. However, there is much to suggest that section 8 (b) which

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<sup>313</sup> *Bayerische Motoren Werker Aktiengesellschaft v Grandmark International (Pty) Ltd and Another (722/12) [2013] ZASCA 114 (18 September 2013).*

regulates the essential facilities doctrine also applies to intellectual property rights – not least because section 8 of the Competition Act partly corresponds with the European Art. 102 TFEU. To exclude intellectual property rights from the scope of section 8 (b) of the Competition Act would also mean to restrict effective options to combat anticompetitive behaviour by the exercise of intellectual property rights. In Europe, the essential facilities doctrine has shown that it is an appropriate tool for bringing intellectual property rights and competition law in line with each other. It would also be useful if the courts would define the scope of the essential facilities doctrine in each individual case, based on general principles. It seems for example not advisable to generally narrow the scope of the essential facilities doctrine to “traditional” and major infrastructure and to exclude goods and services beforehand as this has been practiced by the Competition Appeal Court.<sup>314</sup> In contrast “leeway should be given to allow for the incorporation of equipment and intangible assets”, like patents and other intellectual property rights.<sup>315</sup>

## **CHAPTER 7: SUMMARY AND CONCLUSIONS**

At first sight, patent law and competition law are radically opposed to each other: Whereas patents grant monopolies or at least monopoly-like rights, competition law attempts to prevent and fight monopolies. This conflict has been ostensibly intensified thanks to modern technologies and the growing importance of patent rights in industrialised nations.

At closer inspection, however, it becomes clear that both laws have the same objective: promoting competition. The competition law acts

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<sup>314</sup> Glaxo Wellcome (Pty) Ltd & Others v National Association of Pharmaceutical Wholesalers & Others 15/CAC/Feb02 at [54].

<sup>315</sup> Legh Robert an others *Competition Law Sibergramme* (2012) p. 3 available at: <http://www.bowman.co.za/FileBrowser/ArticleDocuments/Competition-Law-Sibergramme-Issue-6-of-2012.pdf>

rather reactively, by allowing the competition on the market until a market participant has, for instance, abused his acquired market power in a competition-constricting manner at the expense of other market participants. In other words: Competition law cleans the market of anti-competitive agreements and practices.

Patent law, on the other hand, starts earlier, by creating proactively an incentive for companies to invest in new technologies and thus to enter into technological competition. Thus, the patent law is pro-competitive.<sup>316</sup> As already illustrated in this thesis, leading patent right theories are based on the idea of promotion of competition and innovation. However, it can be noted that both patent law and competition law are not inevitably pro-competitive without any limitations. An excess of competition law or exclusive patent rights turns the pro-competitive effect into the opposite.

The challenge when dealing with both legal institutions is to create a balance between patent law and competition law in the line of a “practical concordance.” If one is to take the objective of both legal institutes, namely, the promotion of competition, as a basis, then the exercise of patent rights can be tolerated as long as the pro-competitive effect is dominant and the pro-competitive patterns of competition law are not repelled at the expense of competition. The same applies vice-versa to competition law. Both legal institutions can therefore be imagined as two scale pans with a maximally pro-competitive effect in a balanced state. As soon as the scales lose their equilibrium, the anticompetitive effect will prevail.

The patent infringement cases show how difficult it can be to reach the desired equilibrium in cases in which the claimant takes action against

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<sup>316</sup> See also the Competition Tribunal South Africa, *National Association of Pharmaceutical Wholesalers and others v. Glaxo Wellcome and others*, Case: 68/IR/JUN 00 para. 101: “competition is not diminished by patent protection – indeed, it is competition in order to achieve patent protection in respect of a new innovation.”

the defendant regarding a standard-relevant patent. The FRAND objection is a suitable means here to meet abuse of a market-dominant position through patents. However, it requires that the obstacles for a successful rise of the FRAND objection in court are not too high. On the other hand, the legitimate interests of the patent holder must also be sufficiently considered.

The German approach of the Federal Court of Justice (BGH) laid down in its Orange-Book standard decision is too rigid. It prefers the patent owner because the Courts very strict procedural requirements have the consequence that it is nearly impossible in practice to successfully raise the FRAND defence. Since this thesis has shown that the exercise of standard relevant patents can be anticompetitive by constituting an abuse of a market-dominant position it is important to better protect other market participants. Therefore it is crucial that excessive formal and procedural hurdles regarding the use of the FRAND objection are abolished. Of course, this cannot mean that whenever a patent confers a dominant position on the holder, this has to be under the obligation to grant a license to anyone who is willing to pay royalties.<sup>317</sup> It also goes too far to allow the FRAND defence in patent infringement proceedings just because the respondent and patent infringer shows a “willingness to negotiate royalties”, expressed in whatever manner. Both would exceedingly reduce and limit the patent holders’ right.

Thus, a compromise is suggested here. The solution of the German Federal Court of Justice certainly makes sense and should, in principle, be retained. However, a constraint would be meaningful so the license seeker can at least make a license offer under the condition that its products fall within the scope of the patent owner’s standard essential patent. In addition, the license seeker should be allowed the reservation that he is

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<sup>317</sup> Korah, Valentine *Competition Law of the European Community* (2001) 2<sup>nd</sup> Ed. Vol. 1 p. 3-40.

committed to a license payment only if the patent is valid and in force.<sup>318</sup> Finally, it would be desirable if the license seeker is allowed to make a late license offer even during patent infringement proceedings. This would be appropriate in those cases in which the patent infringer and license seeker can show credibly that he was not informed sufficiently about the patent right situation before the proceedings.

It remains to be seen what the decision of the European Court of Justice will look like. Due to the current and still very inhomogeneous legal practice in Europe concerning this question a clear decision of the European Court of Justice will definitely be an important step forward towards increased uniformity and legal certainty in Europe.

Like in the EU, the South African Competition Act keeps prohibitions on anti-competitive practices at hand, which are applicable to intellectual property law. Like in the EU, there is no reason why the Competition Act could not recognise certain practices related to the execution and enforcement of patents as anti-competitive and provide a basis for issuing compulsory licences.<sup>319</sup> As a consequence, there is also no obvious reason why a FRAND objection should not be allowed in South African courts under the same or similar conditions.

However, attention should be paid that in threshold and developing countries the abuse of a market dominant position, as an anticompetitive behaviour, often causes more damage to the economy than it is the case in developed nations. This applies particularly to states, in which there are small and poorer markets.<sup>320</sup> The reason for it, amongst others, is that big, multinational companies have less difficulties to spread in small and weak markets and to establish a corresponding market power there.

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<sup>318</sup> See Verhauwen, Axel "Goldener Orange-Book-Standard am Ende?" (Is the golden Orange Book Standard at the end?) (2013) GRUR p. 553 et. seq.

<sup>319</sup> Ibid.

<sup>320</sup> Brusick, Philippe, Evenett, Simon "Should developing countries worry about the abuse of dominant power?" (2008) Wisconsin Law Review p. 269.

Another problem in developing countries is that dominant companies are in the hands of the state and smaller and midsize companies are facing problems to hold their ground on the market.<sup>321</sup> In the end, the competition law authorities in developing countries very often have insufficient personnel, which hinders the fight against anti-competitive behaviour, especially if it is caused by the state itself.<sup>322</sup> Therefore, it makes sense to give higher importance to competition law in developing countries. An important role could play the consideration of public interest here. However, one of the most fundamental arguments against the introduction of public interest provisions alongside traditional competition law objectives are that this will “pull competition law in an opposite direction to that of the traditional objectives” and that this causes much uncertainty and extensive balancing.<sup>323</sup> This applies all the more as there is already a lot of uncertainty concerning the application of the FRAND objection and the question when exactly royalties are fair, reasonable and non-discriminatory (FRAND). It is therefore advisable to think about a regulation of the FRAND objection by law as an additional means for the prevention of an abuse of a market dominant position. In the South African context it furthermore seems to be appropriate to resort to the European Commission’s less stringent requirements instead of resorting to the German Orange Book Standard criteria. This would mean to allow the FRAND objection in South Africa already under the conditions that the patent holder abuses a market dominant position by holding a so called standard essential patent and that, in addition, the defendant shows a willingness to negotiate with the patent holder about the grant of a license. At least it should be kept in mind that the abuse of a market dominant position is particularly damaging for developing countries. This

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<sup>321</sup> Ibid.

<sup>322</sup> Ibid.

<sup>323</sup> Teague, Iam Graeme *The role of the public interest in competition law: a consideration of the public interest in merger control and exemptions in South Africa and how the public interest plays a more important role in the competition laws of South Africa and of developing nations* (2009) available at: [http://uctscholar.uct.ac.za/R/?func=dbin-jump-full&object\\_id=10596&local\\_base=GEN01](http://uctscholar.uct.ac.za/R/?func=dbin-jump-full&object_id=10596&local_base=GEN01).

will mean, in some cases, to give precedence to the competition law at the expense of patents. In Europe, however, the focus should clearly be on an effective competition without undermining strong patent protection. This is particularly important for industrialized nations like Germany because patent protection is of great importance for many key industries there.

In the end, the equilibrium between competition law and intellectual property rights will always remain a balancing act, which must be answered differently from one legal system to another and from one national economy to another. However, this thesis has shown that both legal institutes essentially follow the same objective. Thus, the role of intellectual property rights in our modern world can be summarized with the words of Justice *Kozinski*: “Overprotecting IP is harmful as underprotecting it. Creativity is impossible without a rich public domain. Nothing today [...] is genuinely new [...] Overprotection stifles the very creative force it is meant to nurture.”<sup>324</sup>

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<sup>324</sup> *White vs. Samsung Electronics America Inc.*, 989 F.2d 1512 (9<sup>th</sup> Cir. 1993), available at: <https://www2.bc.edu/~yen/Torts/Vanna%20White%20Koz%20ed.pdf>.

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