Licensing of IP rights and competition law – Note by Egypt

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More documents related to this discussion can be found at http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm

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1. Introduction

1. Most legal systems view the existence and exercise of Intellectual Property Rights (IPRs) within a larger lens of competition law. IPRs enable economic actors to capture some of the benefits of the investment they make in establishing a good reputation, creating expressive works, and inventing new technology. In turn, guaranteeing the protection of these investments through IPRs encourages them to innovate. However, the issue is the existence of an age-old overlap between encouraging competition and protecting IPRs; IPRs grant exclusive rights, which may raise competition concerns.

2. The key is that competition authorities must balance their objective, to preserve effective competition on the markets, with the aim of IP protection, to reward and encourage investment and innovation. Authorities can do this by producing clear precedent and guidelines, aimed at accommodating and understanding new, dynamic industries. Such case law and guidelines must be aimed at minimizing the risk of undue exercise of market power through anti-competitive licensing and other practices, which may in turn entail compulsory licensing as a remedy to competition law infringements or access to essential facilities.

3. The Egyptian Competition Authority (ECA) has recently enforced such precedent in a number of cases concerning anti-competitive licensing, namely in the cases against beIN Sports, The Confederation of African Football (CAF), and The Fédération Internationale de Football Association (FIFA). The three cases are related to the area of broadcasting rights of sports events, which requires focusing on the interplay between competition law and copyrights. While the sports events are not protected by copyrights, the rights to the broadcast of sports events are. The broadcasting of sports events generates a parallel transfer of copyrighted works that should not be confused with the sporting event itself. Entities that hold these rights are both right-users and right-holders. Hence, the rights to broadcast the event can be considered an IPR. Given the exclusivity that IPRs grant, their fraudulent licensing can give rise to anti-competitive concerns.

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3 Max Planck Institute for Intellectual Property and Competition Law, Copyright, Competition and Development, December 2013, p. 22
4 European Commission, Green Paper on Online Distribution of Audiovisual Works in The EU: Opportunities and Challenges Towards a Digital Single Market, 18 November 2011
2. Background

4. The balance between competition and IPRs is necessary in relation to the different types of competition law violations – those concerning both agreements as well as unilateral conduct. In turn, the above-mentioned cases pertain to infringements concerning Articles 7 and 8 of the Egyptian Competition Law (ECL).

5. Article 7 of ECL prohibits anti-competitive agreements between parties in a vertical relationship. As the cases below will show, anti-competitive licensing can be found in the context of such relationships, where the holder of an IPR is considered a supplier. The holder of the right is also sometimes found to hold a dominant position; by the very nature of the IPR, the holder will often be the sole proprietor of the right and, hence, the only body that can license it.\(^5\) Therefore, abuse of IPRs is also addressed by Article 8 of ECL, which prohibits dominant undertakings from carrying out certain activities such as refusal to supply, discriminatory pricing, and tying and bundling. Article 8, read in conjunction with Article 4, imposes on the undertaking holding a dominant position on the Egyptian market a special responsibility not to allow its conduct to impair genuine undistorted competition. Moreover, in the majority of cases involving IPRs, the right in question does not have a substitute. In such absence of competition, the dominant undertaking has a special responsibility not to exploit the absence of competition to the detriment of consumers, in particular by imposing on them exploitative terms that they would not have suffered in the presence of a competitive market.

6. Similar to the EU Commission, ECA’s policy generally aims to regulate the conduct of undertakings that hold IPRs which place them in a dominant position, ensuring that they do not abuse this right. The cases below will show how ECA has used ECL to do so, guaranteeing that IPRs fulfill their aim of spurring innovation without harming competition.

3. Relevant Cases

3.1. The case against beIN Sports

7. beIN Sports, a global network of sports channels owned and operated by beIN Media Group, was established in 2012 as a re-brand of Al Jazeera Sports. beIN Sports obtained the exclusive license to broadcast a number of football leagues and sold subscriptions to consumers. In 2016, ECA investigated a complaint that subscribers of beIN Sports were being forced to receive transmission through a satellite platform owned by beIN, named Es’hail Sat. This case highlighted the interplay between the IPRs and competition law, where the exclusive license to broadcast football leagues gave beIN power, which it subsequently abused.

8. The complaint received in August 2016 concerned the act of beIN Media Group and its related parties forcing the subscribers of beIN Sports to switch from Nile Sat to Es’hail Sat. This meant that subscribers had to bear significant costs in order to make this shift and be able to enjoy their subscriptions.

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9. ECA found that beIN Sports held a dominant position in the market of the broadcasting of a number of sports events live, through satellite, in Egypt, as it was given exclusive rights to broadcast a number of major football events within the territory of Egypt. This included the English Premier league, the Champions League, la Liga, Bundesliga, Liga 1, UEFA Euro, World Cup 2018, and others. Hence, beIN Sports had a market share of 100% in the market of broadcasting these sports events live, through satellite, in Egypt.

10. ECA looked into whether this contravened Article 8(d), which states that “a person holding a dominant position in a relevant market is prohibited to impose as a condition, for the conclusion of a contract or an agreement of a product, the acceptance of obligations or products unrelated by their very nature or by commercial usage to the original transaction or agreement”. ECA concluded that the right to watch sports events is distinct in its nature from the method and/or satellite platform through which these events are broadcasted. When assessing whether customers were historically tied regarding the way they should watch such events, ECA did not find any justifications for the conditions imposed by beIN. Consumers could technically choose between satellites platforms, since the technology was already available on the market. Hence, the conditions were found to be unrelated to the nature and usage of the act of watching sports events.

11. ECA also found the same conduct to infringe Article 8(g) of ECL, which states that “a person holding a dominant position in a relevant market is prohibited from dictating on persons dealing with him not to permit a competing person to have access to essential facilities or services, despite this being economically feasible”. Sports content is a necessity for satellites wishing to survive on the market. In that sense, the license to the sports events may even be considered an essential facility for satellites, in line with the EU doctrine and case law. This is especially true in the case in question: in Egypt, the TV rights of football events create a particular brand image for TV channels and allow broadcasters to reach a particular audience that cannot be reached by other programs. As such, football is a main driver for the viewers’ attractions within the media sector.

12. This conduct created a barrier to competition in the sense that it deprived Nile Sat, unjustifiably, from its customer base. Moreover, it was an attempt by beIN to leverage its market power from one side of the market to another, given the special nature of sports events, which stand as essential content for all operators in the media sector. The Nile Sat platform incurred significant losses as a result of this behavior, ultimately depriving it from competing fairly for numbers of viewers. ECA regarded beIN’s behavior as falling outside of the scope of competition on the merits.

13. ECA’s decision was upheld by the Court of First Instance as well as the Court of Appeal, finding that this was a case of abuse of a dominant position by beIN Sports in the market of broadcasting international football events in an attempt to exclude Nile Sat. The court accordingly imposed a fine of 400 million EGP (22 million USD).

14. ECA’s investigation into this case shows the importance of keeping dominant IPR holders in check. The ownership or license of an IPR, especially in a market as narrow as that of live sports events broadcast by satellite, may create a monopoly. This dominance creates a special responsibility on the dominant undertaking not to abuse its position to

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7 Ibid, p. 63
distort competition on the market. While similar conduct by a smaller undertaking may not have been harmful, beIN’s position on the market meant that the consequences of its actions were detrimental to Nile Sat and, consequently, to the availability of consumer choice. This harmed competition for the market, ultimately raising costs unnecessarily for consumers. ECA addressed the competitive harm and allowed the subscribers of beIN more freedom of choice, giving other satellites a chance to compete for the market.

3.2. The case against The Confederation of African Football

15. ECA began looking into the actions of CAF in 2016. The case concerned anti-competitive behavior by a dominant undertaking, CAF, in relation to unfair exclusive licensing of all marketing and media rights of the main regional football championships in Africa.

16. ECA found CAF to be in a dominant position as it was the sole owner of all media and marketing rights of all African football tournaments. In turn, it had the power to license these rights to any other undertaking in a fair and competitive matter. ECA’s investigation revealed that CAF awarded Lagardere – a firm operating in content publishing, production, broadcasting, and distribution, including that of football events – worldwide exclusivity over the above-mentioned rights for a total of twenty years by renewing a previous contract. The rights assigned to Lagardere were sublicensed to other undertakings for the same periods, including media firm beIN. In fact, ECA found direct causality between the long exclusivity granted to beIN and its ability to abuse its dominant position on the Egyptian market, as shown before.

17. ECA’s concerns were mainly focused on the absence of any chances for competition for the market. The absence of tendering procedures for a period that exceeded thirty years led to significant harm on competition. This was attributed to a “right of first refusal” clause contained in the parties’ agreement, coupled with the long period of exclusivity. These actions diminished the ability of these undertakings to compete for different prices to purchase the license, ultimately excluding them from the market completely. It also eliminated the possibility of offering end-consumers competitive prices.

18. Firstly, ECA found that the absence of tendering procedures automatically eliminated any chance competitors had at entering or staying on the market. While private entities are not legally required to hold tenders for the provision of such licenses, a tender would have been the only way to ensure competition for the market given the dominant position of CAF. This constituted a breach of Article 8(a), which prohibits any act of dominant undertaking that may limit totally or partially, the manufacturing, or the production, or the distribution of a product(s) over a given period that is sufficient by itself to restrict competition. In the case in question, the fact that there were no tendering procedures meant that the dominant undertaking ultimately kept competitors from entering the market. As will be explained later, this exclusivity lasted for a significant period of time.

19. Secondly, ECA found that the renewal mechanism embodied within the old CAF-Lagardere agreement, covering the period between 2007 until 2016, constituted by itself a barrier to entry that would automatically exclude actual or potential competition. Instead of holding a tender, the renewal clause effectively meant an automatic refusal to deal by CAF for product(s), which are indispensable for the presence of competition within the media sector in Egypt. This harm materialized when a competitor tried, under the abusive practices, to make competitive offer to purchase the rights to broadcast the championships
in Egypt. CAF rejected these offers without providing reasons. ECA found no objective justification for the refusal to deal with the competitor in the communication exchanged between it and CAF; all offers were dismissed based on the contractual arrangement with Lagardere. All in all, these actions constituted a breach of Article 8(b), which prohibits a dominant undertaking from refusing to deal with any undertaking totally or partially if it is proven that, in the absence of objective justification, such refusal restricts the freedom of any undertaking to enter or to remain in the market or forcing him to exist the market altogether. ECA found that CAF denied competing undertakings from being granted licenses to the African sports events in a way that damaged their brand image and threatened their existence.

20. Thirdly, ECA found that CAF sold all its rights related to the major sports events in one single package, including:

- Selling all rights for a long period of time, despite the absence of any link between different tournaments. Each tournament is a market by its own right and exhibits different characteristic from each other tournament. For example, there is no natural or commercial link between The African Cup of Nations (AFCON) 2017 and that played in 2019, since each has different circumstances, players and participating teams.

- Selling the rights of all regular tournaments (i.e. those played on a yearly basis such as The African Champions League) as well as all seasonal tournaments (i.e. those played each two or four years and involving national teams, such as AFCON) within one single package.

- Selling all media rights for the live broadcasting of these tournaments via all broadcasting outlets to one single entity, despite the absence of any natural or commercial links between the different media outlets. For example, this included internet and TV broadcasting. Each broadcasting method constitutes a different market in Egypt, especially because satellite TV broadcasting is more widely-used than Internet streaming. In fact, the high internet speed required for sport online streaming is prohibitively expensive in Egypt. While ECA’s assessment showed that internet broadcasting may constitute over time a meaningful substitute for TV broadcasting, granting all the rights for one single entity restricts actual and potential competition.

- Selling all CAF rights in one single, global package, despite the fact that ECA found absolutely no necessity for selling all the rights involved to one single entity over different geographic locations. In ECA’s view, the economic importance of CAF in Africa is clearly higher than its importance anywhere else in the world. Moreover, the economic importance of CAF competitions in Egypt cannot be compared to that in any other country within the African continent. Egyptian national teams and clubs have earned the highest number of trophies offered in major football competitions organized by CAF. This attracts a huge number of viewers and football fans in Egypt, hardly matched in any other African state. As such, selling all the rights globally restricted the ability of Egyptian media operators, which have no commercial presence elsewhere, to enter the market of CAF football events. In particular, it obliges them to incur unnecessary and excessive costs that would eliminate the possibility of the emergence of efficient competition, even leading to harm on neighboring media markets.
21. The tying arrangements in the present case inhibited the ability of potential competitors from entering the designated markets. Moreover, the absence of tendering procedures explained above, when considered in conjunction with the tying arrangements, effectively meant that there was only one possible buyer for the rights attached to CAF competition over a long period of time. This severely restricts competition over the short and long run and even constitutes a serious threat to media plurality in Egypt and possibly in Africa. For these reasons, the ECA concluded that the CAF agreement with Lagardere contravened article 8(d), which prohibits such tying practices, as explained previously. In that sense, CAF’s exclusionary practices restricted the ability of Egyptian media operators from entering the market of CAF football events, harming other competitors, consumers, and the competitive ecosystem as a whole.

22. Fourthly, CAF can also be considered to have acted in a discriminatory manner between actual and potential competitors, which is prohibited by Article 8(e) of ECL. CAF, as the sole and dominant owner of the IPRs in question, was under the obligation not to “treat similar situations differently”. The renewal mechanism in the CAF-Lagardere agreement perform as an automatic mechanism for discrimination against actual and potential competitors of Lagardere within the Egyptian market. This was proven by the facts above, which show that CAF did not even solicit competition for Lagardere. It rather favored this company, with no objective reasons, over its competitors, since June 2015. Hence, ECA found CAF to have unduly discriminated between Lagardere and other efficient competitors by not giving them a chance to compete.

23. For these reasons, ECA came to a number of conclusions, all under the umbrella that CAF abused its dominant position and carried out anti-competitive licensing by granting Lagardere all exclusive rights to media and marketing of the main African championships for a long period of time and without unfair processes, infringing Article 8 of ECL. ECA used its prerogatives available under Article 20 of ECL, which allows the ECA Board to issue a decision to address a suspected breach of ECL. The measures imposed on the CAF included the following:

- Immediate termination of the CAF/ Lagardere agreement within the Egyptian market and the suspension of its effects within the Egyptian territories;
- An obligation on the CAF to follow free open, fair and transparent tendering procedures for the award of broadcasting rights within the Egyptian market;
- An obligation on the CAF to assess the offers made by different bidders according to objective pre-set criteria;
- An obligation on the CAF to offer its broadcasting rights in several smaller (reasonable and meaningful) packages on a market-by-market base, particularly separating the sale of live TV broadcasting rights from Internet live streaming and other internet rights;
- A ‘no single buyer obligation’ on packages involving valuable live rights;

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• A fallback option according to which unused rights by the CAF should fall back to the individual national association for parallel exploitation.

24. In November 2018, the Court of First Instance upheld ECA’s findings and imposed a total fine of 1 billion EGP on CAF administrators (60 million USD).

25. It is also worthy to note that in deciding the case and designing the abovementioned measures, ECA took into consideration the European Commission’s decisional practice in the field. In particular, its decisions in relation to the joint selling arrangements of the UEFA and the Football Association Premier League (FAPL). The European approach proved successful in addressing similar competitive problems and the ECA is committed to follow international best practices in defending the Egyptian markets against monopolistic practices.

26. This case serves to show that anti-competitive licensing incurs different types of harms. It minimizes competition on the market and eliminates the chance for harmed competitors to compete fairly. This ultimately harms consumers; Egyptian football fans, a large majority of Egyptians, were forced to incur unjustified costs in order to watch the relevant matches. More interestingly, these practices were likely to result in lower revenues for CAF members, as a big source of revenue is derived from media and marketing. Studies show that such practices may negatively affect the development of football teams, ultimately harming the development of the game within the African continent as a whole.\(^9\) Competition policy must accommodate the overlap between dominant positions and abuse of IPRs, making sure to capture any abuse of dominant position through anti-competitive licensing procedures.

3.3. The case against The Fédération Internationale de Football Association

27. ECA analyzed a similar complaint to the CAF, received in May 2018, concerning FIFA. FIFA was the sole owner of the rights to TV broadcasting of the 2018 FIFA World Cup, making it the only entity that could license these rights. Similar to CAF, FIFA was found to occupy a dominant position, especially given the nature of the sports events FIFA owned the rights of broadcast to. Before the 2018 World Cup, FIFA extended an existing contract with beIN Sports, giving them exclusive media rights to cover cable, satellite, terrestrial, and broadband transmission across 23 countries in the Middle East and North Africa, including Egypt, lasting until 2022. The concern was that this contract not only entailed a single bundled package for all media rights concerning the World Cup, but it was also renewed in the absence of fair, transparent, non-discriminatory tendering procedures. Granting such rights exclusively to a single entity for an extended period of time raises competition concerns and was also contrary to FIFA’s guidelines and practices.

28. ECA found, prima facie, that the practices violated Articles 7 and 8 of ECL. ECA used Article 20(2) of ECL, which gives it powers to immediately stop prohibited practices, and imposed interim measures against FIFA. It ordered FIFA to make available to the Egyptian National Media Authority (ENMA), previously the Egyptian Radio and

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Television Union (ERTU), the right to live broadcast 22 matches of the 2018 FIFA World Cup through free-to-air terrestrial transmission on reasonable financial terms. FIFA’s agreement with beIN effectively removed any chance beIN’s competitors had at offering better offers to the Egyptian consumer, which constituted a prima facie violation to Article 7 of ECL. Moreover, part of the bundled package beIN was granted included terrestrial transmission. Under Egyptian laws and procedures, only ENMA had the right of terrestrial broadcast. This in turn meant that beIN could not use their right of terrestrial transmission. By granting beIN an all-inclusive package for such a long period of time, including during an important event such as the World Cup, FIFA effectively denied the Egyptian consumer of their right to watch their national team’s matches on terrestrial television.

29. As a dominant undertaking, FIFA was also found to have infringed, prima facie, Article 8 of ECL, related to abuse of dominance, by awarding the license to beIN Sports for three reasons. Firstly, FIFA did not carry out a tender or bid for the rights. In turn, no other competitors had the chance to compete for the rights. Secondly, beIN was given a bundle of rights, as explained before, eliminating competition on all levels. Thirdly, FIFA's actions showed discrimination on their part, effectively excluding all other competitors from entering the market or competing on the merits. Granting the full range of media rights in a bundled package, over a long term of exclusivity and in the absence of tender procedures, infringed ECL and of international best practices in the field of competition law. Such a monopoly provided beIN Sports with incentives to engage in raising rivals’ cost and price squeezing types of behavior. These actions led to ECA's concluding that FIFA’s practices constituted a prima facie abuse of dominant position, ultimately harming the Egyptian consumer.

30. For that reason, ECA ordered the above-mentioned interim measure decision and requested that FIFA sells the rights to 22 World Cup matches, including live transmission and repeats and highlights of all national team matches, the opening match, the semi-finals, and the final match, to ENMA at a reasonable price.

31. This case reinstates the effect of the dynamic interplay between competition and IPRs on consumers. In the case in question, the main consumers affected were Egyptian football fans - a vast majority of Egyptians. A large portion of this majority would have not been able to afford beIN's pricing policies, and hence would have been denied the right to watch their national team play at the World Cup for the first time in almost 30 years. The ownership of IPRs in such a market places the dominant undertaking in a special position where it should not anti-competitively license said rights. For that reason, competition law must step in when the abuse involves IPRs: remedies such as compulsory licensing or requiring access to essential facilities must be viable options to competition authorities, one which they exercise when competition and consumers are at a risk of being harmed. Evident in the case in question, the exercise of these measures reaps positive results for the benefit of competition and the consumer.

4. ECA’s Policy

32. EU competition law generally takes the view that IPRs enhance economic efficiency and inspire innovation. Similarly, and as evidenced through the cases above, ECA shares the same view. For that reason, ECA has intervened when it found an overlap between IPRs and competition law infringements, ensuring that the interplay between the two fosters healthy competition. In the cases above, broadcast rights, a form of copyrights,
were framed within the spectrum of anti-competitive agreements and abuse of dominant position. The licensing of these rights must also be in line with the aims of competition.

33. Licensing is pro-competitive, as it leads to the dissemination of technology and the usage of such innovation. It is especially necessary in markets where access to unique facilities is required. To ensure that this licensing is not done in a way that harms competition, ECA has intervened in several instances. For that reason, leading jurisdictions, such as the EU, have issued guidelines with respect to licensing agreements. Such EU practices and guidelines generally aim to ensure that licensing agreements do not restrict competition by striking a balance between rewarding holders of IPRs while at the same time allowing competitors to benefit from the IPRs.

34. Similarly, ECA intends to soon publish guidelines regarding different aspects of competition law, including those relating to IPRs. For now, ECA follows international best practices, especially those of the EU and its member states, as well as the precedent set in the above-mentioned cases, to judge whether or not an IPR license is harmful to competition. Indeed, such licenses have proved harmful in cases where they have not only placed holders in a dominant position, but more specifically where the holders abused this position. Applying Articles 7 and 8 of ECL has proved effective at minimizing these risks, evidenced by ECA’s success in all three cases.

35. It is also worth mentioning that ECA’s general policy focuses on the nature of the market and the historical behavior of the undertakings in question. When deciding whether ECA should only protect the “as efficient competitor” (AEC), the highly concentrated market structure in Egypt as well as the protection of the small and medium enterprises are taken into consideration. Indeed, the AEC test would not have fit in the nature above: CAF and FIFA’s practices led to the absence of any form of competition over a long period of time. The test would not have captured the true realities of the market. By protecting competition as such, ECA ensures that the market stays dynamic and competitive.

36. In conclusion, IPRs usually put undertakings in a dominant position and thus, ECA’s policy regarding this matter is to ensure that they do not abuse this dominant position and that the relevant market remains competitive by granting competitors a chance to compete.

5. Conclusion

37. IPRs and competition policies are regarded as complementary elements: firms will be more willing to innovate when their IPRs are protected. However, a market characterized by strong competition between the companies working in the same field will

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10 European Commission, Regulation (EU) on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements, No 316/2014, 21 March 2014, §4

11 Such as Commission Regulation 316/2014 on the application of article 101(3) of the TFEU to categories of technology transfer agreements (the Technology Transfer Block Exemption Regulation, or TTBER); Commission Regulation 1217/2010 on the application of article 101(3) TFEU to categories of research and development agreements, 2010 (the R&D Block Exemption Regulation); and Commission Guidelines on the applicability of article 101 of the TFEU to horizontal cooperation agreements, 2011 (the Horizontal Co-operation Guidelines), sections 3 (Research and Development Agreements) and 7 (Standardization Agreements).
encourage them to innovate and invest. Hence, the prevention of anti-competitive licensing that infringes competition law, as well as the use of compulsory licensing as a remedy, are necessary to maintaining competition on such markets.

38. Focusing on the experience of the ECA in studying cases involving IPRs, there are three relevant cases which are all related to the broadcasting of sports events, those against: beIN Sports, CAF, and FIFA. The ECA found in these cases that the IPRs were abused by the concerned entities which has negatively affected the competition in the market of broadcasting of sports events as well as the experience of the fans. This was done through either a vertical agreement between the entity holding the right and a distributor and/or through the abuse of dominant position as a result of being an owner of IPRs.

39. The general objective of competition authorities is to protect competition within markets as well as consumer welfare through maintaining a market with a competitive structure. Therefore, when competition issues overlap with IPRs, the role of the competition authorities is to find the right balance between protecting the aim of competition and that of IPRs, ensuring that IPRs are used to facilitate competition and not harm it.