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Licensing of IP rights and competition law – Note by India

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1. Introduction

1. Intellectual Property Rights (**IPRs**) create a temporary right in favour of the IPR holder to exclude others from using that IPR. The period of exclusivity permits the IPR holder to exploit the value that is assigned to the IPR and is seen as a reward/incentive for the effort invested by the inventor in creating the IPR. Therefore, the IPR essentially grants a monopoly right to the holder of such IPR for a limited period of time.

2. Competition law, on the other hand, is concerned with preventing anti-competitive conduct, whether effectuated as a result of coordinated or unilateral action. Inherent in this interface between IPRs and competition law is the need to ensure that not only is the IPR not subject to abuse (whether in the form of excessive pricing, anti-competitive tying, refusal to license, *etc.*) but also to make sure that the antitrust regime is not overbearing and maintains the incentives for prospective inventors to innovate and create intellectual property. After all, that is what drives economic growth and by extension, a knowledge-based economy.

3. However, after an IPR has been granted, the holder of such IPR has the absolute choice to decide the most effective way to exploit it. Should the IPR holder directly exploit the IPR? Or would it be more beneficial to the IPR holder to disseminate the IPR and make it widely available by licensing it to others? The decision of the IPR holder is a commercial decision and would be contingent upon whether the IPR holder receives a *net surplus* through licensing *vis-à-vis* the alternative of exploiting the IPR itself. It is entirely plausible that the IPR holder may choose to focus on product design and outsource the manufacturing to other enterprises through licensing.

4. The focus of this Note is to examine the treatment of such licensing arrangements under the Indian competition regime. Such licensing arrangements, as we shall see, can take various forms. However, in its most simple form, licensing agreements are usually vertical agreements [covered by Section 3(4) of the Indian Competition Act, 2002[1]] that provide for an enterprise operating in the upstream market (licensor) licensing its IPR to another enterprise in a downstream market (licensee). It is possible that the Licensing agreement is entered into between enterprises operating at the same level of the production chain, for the purposes of such agreement the parties will be perceived to be vertically related. Further, in most cases, the licensor of an IP rights happens to be a dominant player in the delineated relevant market and thus, the competition assessment for a possible contravention of Section 4 of the Act owing to abuse of such dominant position also needs to be done.

5. The aspect of whether the alleged conduct under the licensing arrangement is analyzed as purely a vertical restraint or a horizontal arrangement or as a case of abuse of dominant position gains relevance, given the difference in the evaluation standard applied to various conducts examinable under the Act.

[1] The usage of the term 'Act' in this note refers to the Competition Act, 2002, unless specified otherwise.

6. The decisive criterion for assessing the agreements amenable to the scrutiny of the Act, is them having an Appreciable Adverse Effect on Competition ('AAEC') in India. While agreements falling under Section 3(3) of the Act, which deals with horizontal agreements (including cartels), are presumed to be having an Appreciable Adverse Effect in India ('AAEC'), vertical agreements set out under Section 3(4) of the Act are tested under a rule of reason analysis *i.e.* their AAEC in India needs to be proved so as to be in contravention of the provisions of the Act. Further, Section 3(5)(i) of the Act specifically provides for an exemption for agreement falling under Section 3(3) or 3(4) of the Act, in case of imposition of reasonable restrictions for protecting intellectual property rights conferred under various statutes[2]. Further, the conduct falling under Section 4 of the Act, for possible abuse of dominant position, is also tested on the touchstone of reasonability. Thus, though the specific exemption provided under Section 3(5) of the Act does not explicitly applies to Section 4 cases, implicitly such analysis is integral to the reasonability test carried out for competition assessment of such cases.

2. Whether IPRs are subject to Competition Law?

7. Before commencing a discussion on the decisional practice of the Competition Commission of India (CCI/Commission) in cases presenting antitrust-licensing issues, it would be apposite to address a preliminary question. Are IPRs subject to competition law to begin with? This question is extremely significant in the Indian context as most cases involving IPR issues have landed in general courts (High Courts/Supreme Court) pursuant to a challenge to the jurisdiction of the Commission for adjudicating such matters. The provisions of the Act as well as the jurisprudence of the Indian Courts suggests that there is no blanket exemption provided to IPRs when it comes to the jurisdiction of the CCI. The landmark judgment in this context is in *Telefonaktiebolaget LM Ericsson* vs. *Competition Commission of India*[3], where a petition was filed by Ericsson challenging the jurisdiction of the CCI to pass orders in cases involving patents, in particular, Standard Essential Patents (**SEPs**). The assertion made by Ericsson before the Delhi High Court was that the orders passed by the CCI were without jurisdiction as the CCI lacked jurisdiction to commence any proceeding in relation to a claim of royalty by a proprietor of a patent, which is covered by the Indian Patents Act, 1970. After a long-ranging discussion on the nature of remedies that are provided for in the Indian Patents Act, 1970 and the Competition Act, 2002, the Delhi High Court observed that "*if there are irreconcilable differences between the Patents Act and the Competition Act in so far as anti-abuse provisions are concerned, the Patents Act being a special Act shall prevail*".[4] However, **no** irreconcilable differences between the two statutes were found by the Delhi High Court since the remedies provided under the Act (*i.e.* Competition Act, 2002) for abuse of dominant position were materially different from

[2] In case of an agreement has been entered into to impose reasonable restriction for protecting any of the rights recognised under any of the following statutes, the provisions under Sec 3(1) to 3(4) of the Act will not be applicable: Copyright Act, 1957 (14 of 1957); Patents Act, 1970 (39 of 1970); Trade and Merchandise Marks Act, 1958 (43 of 1958) or the Trade Marks Act, 1999 (47 of 1999); Geographical Indications of Goods (Registration and Protection) Act, 1999 (48 of 1999); Designs Act, 2000 (16 of 2000); Semi-conductor Integrated Circuits Layout-Design Act, 2000 (37 of 2000);

[3] Available at http://lobis.nic.in/ddir/dhc/VIB/judgement/30-03-2016/VIB30032016CW4642014.pdf

[4] *Ibid* at paragraph 151.

the remedy as available under the Indian Patents Act, 1970. The Delhi High Court also observed that it was apparent that the remedies under the two enactments were not mutually exclusive; in other words, the grant of one was not destructive of the other. Thus, it was open for a prospective licensee to approach the Controller of Patents (under the Patents Act, 1970) for grant of compulsory license in certain cases. The same would not be inconsistent with the CCI passing an appropriate order under the Act.

8. Therefore, the application of the Act to the cases involving IPRs is not barred at all. This finding is in sync with and buttressed by the plain wording of the provisions of the Act in this regard. Section 3(5) of the Act provides that Section 3 (which prohibits agreements that have an appreciable adverse effect on competition) will not affect the right of any person to "*impose reasonable conditions, as may be necessary for protecting any of his rights*" (emphasis added). Therefore, an IPR holder cannot impose any condition as he deems fit. Indeed, the power to do so is circumscribed by Section 3(5) of the Act which provides for general exceptions in case of imposition of reasonable restrictions for protecting intellectual property rights conferred under various statutes. Thus, if the licensor, by way of an agreement, has imposed a reasonable restriction for protecting any of the rights recognised under any of the statutes[5] recognised under Section 3(5) of the Act, the provisions under Sec 3(1) to 3(4) of the Act will not be applicable. The CCI addressed this in the case of *FICCI - Multiplex Association of India* vs. *United Producers/Distributors Forum (**UPDF**)* [6]. In this case, FICCI alleged that the respondent UPDF had issued a notice instructing all its members not to release any films to the members of FICCI. The members of UPDF contended that a feature film is the subject matter of copyright under the Copyright Act, 1957 which permits the owner of copyright to exploit such copyright in a manner as they deem fit. Notice was also brought by the members of the UPDF to provisions contained in Section 3(5) of the Act to claim that the use of *non-obstante* clause excluded such rights from the purview of the Act and accordingly, it was asserted that the UPDF members were within their rights to impose reasonable conditions.

9. The CCI dismissed these submissions by observing as follows:

> *"23.30 It may be mentioned that the intellectual property laws do not have any absolute overriding effect on the competition law. The extent of non-obstante clause in section 3(5) of the Act is not absolute as is clear from the language used therein and it exempts the right holder from the rigours of competition law only to protect his rights from infringement. It further enables the right holder to impose reasonable conditions, as may be necessary for protecting such rights."*

[5] The statutes are: Copyright Act, 1957 (14 of 1957); Patents Act, 1970 (39 of 1970); Trade and Merchandise Marks Act, 1958 (43 of 1958) or the Trade Marks Act, 1999 (47 of 1999); Geographical Indications of Goods (Registration and Protection) Act, 1999 (48 of 1999); Designs Act, 2000 (16 of 2000); Semi-conductor Integrated Circuits Layout-Design Act, 2000 (37 of 2000);

[6] Case No. 1 of 2009. Available at https://www.cci.gov.in/sites/default/files/FICCIOrder260511_0.pdf

3. Licensing arrangements examined by CCI

3.1. Shamsher Kataria vs. Honda/Volkswagen/Fiat India and Others[7] ('Shamsher Kataria case')

10. The automobile Original Equipment Manufacturers (**OEMs**) procured spare parts for both assembly line and aftermarket requirements from the Original Equipment Suppliers (**OESs**). However, the investigation by the Director General (**DG**) revealed that the OESs could not supply spare parts directly into the aftermarket without seeking prior consent of the OEMs. This is because the spare parts were manufactured by OESs based on the design, drawing, technical specification, technology, know-how, that were provided by the OEMs. It was contended by the OEMs that the spare parts manufactured by OESs used IPRs that were proprietary to the OEMs and therefore, could not be sold without OEMs consent to third parties. Therefore, these agreements were in the nature of 'refusal to deal' agreements. However, the OEMs relied upon the exemption contained in section 3(5)(i) of the Act in order to justify their restrictions on the sale of spare parts by the OESs.

11. In order to arrive at the finding whether the exemption under Section 3(5)(i) could be availed, the CCI deemed it necessary to consider the following issues:

1. whether the right which is put forward by OEMs is correctly characterized as protecting an intellectual property; and
2. whether the requirements of the law granting the IPRs are in fact being satisfied.

12. The Commission noted that the OEMs could not furnish relevant documentary evidence to successfully establish the grant of the applicable IPRs, in India, with respect to the various spare parts, based on which such OEMs were claiming the exemption under section 3(5)(i).

13. The OEMs submitted that some of the IPRs claimed by the OEMs were validly held by their overseas parent corporation and such proprietary technology has been transferred to the OEMs through technology transfer agreements ("**TTA**"). The Commission noted that these IPRs claimed by the OEMs are territorial in nature and the particular right is vested upon the holder of such IPR only in a given jurisdiction. Thus, even if the parent corporation of the OEMs held such rights in the territories where such rights were originally granted, the same cannot be granted upon the OEMs operating in India by entering into a TTA, unless such rights have been granted upon the OEMs pursuant to the provisions of the statutes specified under Section 3(5)(i) of the Act. Consequently, it was held that such OEMs could not avail of the exemption provided under Section 3(5)(i) of the Act. Besides claiming exemptions for the proprietary knowledge transferred under the TTAs, the OWMs also claimed exemption on account of copyright protection over its engineering drawings for the various spare parts and the technical manuals as 'literary works' under the Copyright Act.

14. Without going into the issue of whether such designs/drawings *etc.* would qualify to be protected under the Indian Copyrights Act (which remained contentious during the proceedings), CCI decided on whether the OEMs' claim over IPR exemption passes the reasonability test engrained in Section 3(5)(i) of the Act. It was observed that the concept of protection of an IPR under Section 3(5)(i) of the Act is qualified by the word "necessary". So the question that one should ask is: can the IPR holder be able to protect

[7] Case No. 03 of 2011, available at https://www.cci.gov.in/sites/default/files/032011_0.pdf.

his IPR, even if such restriction was not present. Applying that test, CCI did not find merit in the OEMs' contention. It was noted that what the OESs will sell to the open market are spare parts which are finished products (*e.g.* bumpers, bonnet/hoods, car gears, fog lights etc). All such products are finished products and selling them in the open market does not necessarily compromise the IPR such products. The intellectual property required by the OESs to manufacture a spare part will be protected contractually pursuant to the agreement between the OEMs and the OESs and allowing OESs to sell the finished products in the open market may not affect that agreement as such.

15. Further, while devising remedies in the *Shamsher Kataria* case, the Commission directed the OEMs to allow OESs to sell spare parts in the open market and in cases where the OEMs held IPRs on some parts, CCI allowed OEMs to charge royalty/fees through contracts for such parts. However, realising that competition regulator should not step into the commercial decision-making of the entities by becoming a price regulator, CCI decided not to mandate the exact quantum of royalty that can be charged by OEMs.

3.2. M/s ATOS Worldline India Private Limited vs. M/s Verifone India Sales Private Limited[8]

16. ATOS was a Third Party Processor (**TPP**) which tracked the flow of intervening events between a card holder swiping his card and finally receiving a printed charge slip at the Point of Sale (**POS**) Terminals. Verifone, on the other hand, was a supplier of POS Terminals along with the Software Development Kits (**SDKs**) which enabled the POS Terminals to function. ATOS alleged that Verifone had abused its dominant position through restrictive and unfair conditions in the draft SDK agreement with it by requiring a 'Purpose Clause' which provided that there was a restriction on the licensee to use any third party information for development of an application.

17. Pursuant to a detailed investigation, the CCI observed that the 'Purpose Clause' restricted the licensee to develop the value added software and use the same on only those of the licensor's products that licensee had purchased directly from the licensor. Thus, the SDK agreement was found to be restrictive and anti-competitive.

3.3. Justickets Pvt. Ltd. Vs Big Tree Entertainment / Vista Entertainment[9]

18. This concerned allegations made by Justickets (an online ticketing portal) against Big Tree (owner of another online ticketing portal and a distributor of Vista) alleging abuse of dominant position by Big Tree by way of creating barriers for online movie ticketing portals from getting access to Visa API which was the Application Programming Interface created by Vista to enable online ticketing portals to integrate with the Vista software for seamless data and information flow between the ticketing website and the Vista software at specific screens. It was also submitted by Justickets that Vista had an arbitrary policy of not granting access of Vista API to another online ticketing portal and the same amounts to a denial of market access under Section 4(2)(c) of the Act.

19. Big Tree explained that when a third party like Justickets wants access to the API, it needs to enter into a Non-Disclosure Agreement (**NDA**) with Vista to ensure that Vista's

[8] Case No. 56 of 2012, available at https://www.cci.gov.in/sites/default/files/562012_0.pdf.

[9] Case No. 08 of 2016. Available at https://www.cci.gov.in/sites/default/files/08%20of%202016_0.pdf

IPR is protected. If API access is sought by an entity who has a competing box office software, Vista takes some cautious steps while granting access to API. This is because an entity providing competing software typically possesses technical capabilities to revers engineer the API provided to it and gain access to confidential trade information of Vista or proprietary information of other vendors of the movie tickets. Therefore, access was provided for all cinemas with, at most, a time lag of six months.

20. The CCI, during *prima facie* determination, dismissed the case since Big Tree and Vista had provided Justickets access to Vista API, albeit belatedly. Further, the CCI found that "*the rationale given by the OPs for the time taken in providing access to Vista API software to the Informant also seems a plausible explanation*".

3.4. K Sera Sera Digital Cinemas Limited vs. Pen India Ltd. And Others [10]

21. In this case, the Informant (K Sera Sera, a digital cinema service provider) alleged that the Opposite Parties, being producers and presenters of a movie, had entered into an anti-competitive arrangement with other Opposite Parties (that were also digital cinema service providers) with a view to provide the content of the movie to only such other Opposite Parties, to the exclusion of the Informant.

22. One of the Opposite Parties that provided digital cinema service submitted that they were concerned that releasing the movie to the Informant may cause copyright infringement as the Informant had allegedly pirated movies that were released to it in the past. To support its contention, a press report was cited which highlighted that the Informant had earlier violated the copyright of film producer Viacom18. In the press report, it was mentioned that Viacom18 had developed an internal security mechanism, in the form of unique identifiers for each copy of the said film before the digital content packages (**DCPs**) were distributed to the digital integrators in order to tackle the menace of online piracy and to identify the source of leak. Investigations by Viacom18 revealed that the pirated copies (of a movie that was released to the Informant earlier) had originated from the copy that was sent to the Informant for digital integration. The CCI noted that the Informant did not refute these allegations and observed that the allegation made by the Opposite Parties are not baseless and have some substance in it. Therefore, the CCI dismissed the case by holding that the decision of the Opposite Parties to refuse to exhibit their movies through the Informant's digital service, with whom producers have had issue of piracy earlier, appeared to have been taken as a precautionary step to prevent any loss due to piracy.

3.5. Standard Essential Patent cases [Micromax Informatics Limited vs. Telefonaktiebolaget LM Ericsson[11], Intex Technologies (India) Limited vs.

[10] Case No. 97 of 2016. Available at https://www.cci.gov.in/sites/default/files/97%20of%202016.pdf

[11] Case No. 50 of 2013. Available at https://www.cci.gov.in/sites/default/files/502013_0.pdf?download=1

Telefonaktiebolaget LM Ericsson[12], M/s Best IT World (India) Private Limited (iBall) vs. Telefonaktiebolaget LM Ericsson[13]][14]

23. In the past, the CCI had initiated proceedings against Standard Essential Patent (**SEP**) owners such as Ericsson for their alleged abuse of dominance pertaining to their apparent refusal to license their SEP on fair, reasonable, and non-discriminatory (**FRAND**) terms to other applicant licencees. SEPs were defined by the CCI in the *Ericsson Cases* against Ericsson as a common global standard patent which is agreed to by various market players under the rubric of a Standard Setting Organisation (**SSO**) in order to set a 'common technology standard'. SEP is a patent for which there is no non-infringing alternative. In simple terms, that means that it would be impossible to implement the standard set by the SSO without making use of the IPR in the SEP.

24. The case arose out of *Ericsson*'s alleged action to license the SEPs owned by it in respect of 2G, 3G and 4G patents used for phones, tablets to Micromax/Intex/iBall on (a) discriminatory rates, and (b) payment of exorbitant royalty charges.

3.6. Monsanto cases [Ministry of Agriculture and Farmers Welfare (Department of Agriculture, Cooperation and Farmers Welfare), Government of India vs. M/s Mahyco Monsanto Biotech (India) Limited[15], Nuziveedu Seeds Limited vs. Monsanto Company and Others[16], All India Kissan Sabha (AIKS) vs. Monsanto Company and Others[17], Department of Agriculture and Cooperation, State of Telangana vs. Monsanto Company and Others[18] and National Seeds Association of India (NSAI) vs. Monsanto Company and Others[19]]

25. These cases primarily involve abuse of dominant position by Mahyco Monsanto Group in relation to sub-license agreements through which Bt. cotton technology is sub-licensed to the seed manufacturing companies in India; charging unfair trait value; limiting scientific development relating to Bt.cotton technology as well as Bt.cotton seeds and denial of market access and leveraging their dominant position in Bt.cotton technology market for expanding their presence in Bt. cotton seeds market. While dealing with the IPR exemption sought by the Monsanto Company, CCI applied the reasonability test engrained in Section 3(5)(i) and *prima facie* held as follows:

[12] Case No. 76 of 2013. Available at https://www.cci.gov.in/sites/default/files/762013_0.pdf

[13]Case No. 04 of 2015. Available at https://www.cci.gov.in/sites/default/files/042015_0.pdf

[14] These cases were sent for investigation. However, pending investigation, Ericsson approached the Hon'ble Delhi High Court challenging the jurisdiction of the Commission. The matter is currently pending in the Hon'ble Supreme Court.

[15] (Reference Case No. 02/ 2015)

[16] (Case No. 107/ 2015)

[17] Case No. 03/ 2016)

[18] (Reference Case No. 01/ 2016)

[19] (Case No. 10/ 2016)

> *"As regards the allegations under Section 3(4) of the Act, it is observed that the notification requirements coupled with the stringent termination conditions in the sub license agreement entered into between MMBL and the Informants are in the nature of refusal to deal and exclusive supply agreements within the meaning of Section 3(4)(b) and 3(4)(d) of the Act. The termination conditions are found to be excessively harsh and do not appear to be reasonable as may be necessary for protecting any of the IPR rights, as envisaged under Section 3(5) of the Act. Such agreements discourage and serve as a major deterrent for the sub licensee from exploring dealing with competitors. The agreements thus, have the effect of foreclosing competition in the upstream Bt. Technology market which is characterised by high entry barriers. In view of these aspects, the agreements entered by MMBL with sub-licensees appear to be causing appreciable adverse effect on competition in Bt cotton technology market in India, in terms of Section 3(4) r/w Section 19(3) of the Act."*

26. The Monsanto cases are currently pending for final adjudication before the Commission.

4. Conclusive Remarks

27. In sum, a balance needs to be struck between active competition enforcement and safeguarding of patent rights accorded under the IPR statutes. Though the IP rights are necessary for furthering efficiency and development in a market, their potential to lead to anti-competitive outcomes cannot be ruled out. As evident from the various cases discussed *supra*, CCI has adopted a very cautious approach while dealing with cases where IPR issues were involved, so as not to chill dynamic incentives of firms to innovate.

28. The courts in India[20] have already recognised the jurisdiction of CCI to entertain and decide cases involving IPR issues. Further, though Section 3(5) of the Competition Act explicitly provides for an exemption to Intellectual property rights from the operation of Section 3 of the Act, such exemption is not a blanket one and comes with riders. Any IPR holder, in an attempt to safeguard its rights, cannot impose any condition and/or restriction, for such condition has to pass the scrutiny of Section 3(5) to avail the exemption provided thereunder. Further, the exemption under Section 3(5)(i) of the Act is limited to the anti-competitive agreement falling under Section 3 of the Act and as such, do not explicitly apply to abuse of dominant position under Section 4 of the Act. However, given that the assessment under Section 4 of the Act necessarily involves a reasonability analysis, non-applicability of Section 3(5)(i) to Section seems to be only a technical issue.

29. Some of the cases discussed in main text *supra* are yet to be decided by the Commission and their final adjudication is expected to disentangle many issues on licensing of IPRs under the Indian competition regime.

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[20] Specifically Delhi High Court in *Telefonaktiebolaget LM Ericsson* vs. *Competition Commission of India.*