
PART 3: INTELLECTUAL PROPERTY RIGHTS AND COMPETITION

29: Competition

Article 8.2 Principles

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

SECTION 8: CONTROL OF ANTI-COMPETITIVE PRACTICES IN CONTRACTUAL LICENCES

Article 40

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include, for example, exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.

3. Each Member shall enter, upon request, into consultations with any other Member which has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultations has been addressed is undertaking practices in violation of the requesting Member's laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislation, without prejudice to any action under the law and to the full freedom of an ultimate decision of either Member. The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall cooperate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available

to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member.

4. A Member whose nationals or domiciliaries are subject to proceedings in another Member concerning alleged violation of that other Member's laws and regulations on the subject matter of this Section shall, upon request, be granted an opportunity for consultations by the other Member under the same conditions as those foreseen in paragraph 3.

1. Introduction: terminology, definition and scope

Exploitation of Intellectual Property Rights (IPRs) could give rise to anticompetitive behaviour, whether by individual firms or by concerted practices or agreement among firms. An adequate definition and implementation of public policies to deal with this problem represents one of the most important criteria for the efficient functioning of any intellectual property system. IP laws aim at conferring exclusive rights on individuals to enable owners to appropriate the full market value of the protected subject matter. By promising that the intellectual property holder may obtain a full reward from the market, IPRs may serve as an incentive for the creation, use and exploitation of inventions, works, marks and designs. They may also provide, in a well-functioning market economy, a stimulus to competition to the extent that substitutes for the IPR protected product or service may be developed and marketed.

However, some IPR owners may exploit their legal rights to unreasonably block competition. They may do this, for example, by exploiting the unique characteristics of certain protected products that prevent rival firms from developing alternative products or entering certain markets, and refusing to grant licenses to prospective competitors.

According to one view, competition and IPRs should normally be seen as interdependent rather than contradictory. The efficiency of the intellectual property system, according to this view, is undermined when competition is distorted or artificially restrained. Moreover, a competitive market is likely to minimize the social costs resulting from the reality that IP protection cannot be adjusted to suit individual needs, notwithstanding the fact that over- or under-protection of IP are unavoidable from time to time.

Another view conceives competition law as a necessary limit to the legal powers conferred by IPRs on the basis that conflicts between the two are bound to arise given their different objectives. This view emphasizes the restrictions – especially from a static perspective – that IPRs impose on competition. Accordingly, “market economies only lead to efficient outcomes when there is competition, and intellectual property rights undermine the very basis of competition”.¹

¹ Joseph Stiglitz, *The roaring nineties. A new history of the world's most prosperous decade*, W.W. Norton & Company, New York-London, 2003, p. 208.

1. Introduction: terminology, definition and scope

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In safeguarding the efficient functioning of the market, competition policy seeks to deal with situations where the promotion of competitiveness is undermined by other factors. There are, in this context, three types of conflicts that may arise between the pursuit of competitiveness and IPRs. First, intellectual property may be used contrary to the objectives and conditions of its protection, a situation called misuse. Second, market power resulting from intellectual property may be used to extend the protection beyond its purpose, such as to enhance, extend or abuse monopoly power. Third, agreements on the use or the exploitation of intellectual property may be concluded in restraint of trade or adversely affecting the transfer or the dissemination of technology or other knowledge, a situation called restrictive contracts or concerted practice. In order to prevent or control such conflicts and to distinguish pernicious practices from competition-enhancing ones, many countries have enacted antitrust regulations or other competition legislation to respond to anticompetitive behaviour.² The approaches taken depend on the particular conditions of national markets, national legal traditions, and on public interest considerations. Competition rules are not designed to curb the functioning of the intellectual property system, but rather to safeguard its proper functioning.

Part 3 of this book covers the relationship between IPRs and the law of competition. This relationship involves the effects of intellectual property (which is inherently exclusionary) on economies whose functioning, in varying degrees, depends on the free movement of goods and services. The legislator may use an analysis of this relationship as the basis for specific rules (i.e., competition laws) that place boundaries on the use of IPRs (such as in the licensing context). However, in many instances the potential anticompetitive effect of IPRs is evaluated within more broadly applicable competition laws, and the analyst must then consider how IPRs should be evaluated within that broader framework. TRIPS has defined the scope of IPR protection that WTO Members should maintain bearing in mind its in-built flexibilities as analysed throughout this volume. TRIPS has, on the other hand, left largely open the way Members may address the potential anticompetitive effects of IPRs.

The relevant provisions of TRIPS in this respect are Article 8.2 and Article 40. Article 8.2 is part of the “General Provisions and Basic Principles” of Part I of the Agreement (see Part 1 of this book). It should be read as a complement to the first paragraph of Article 8, authorizing Members to adopt measures to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development. Part II, Section 8, on “Control of Anti-competitive practices in contractual licenses”, consists of Article 40. Whereas paragraphs 1 and 2 of this provision deal with issues of substantive law relating to anti-competitive licensing practices, paragraphs 3 and 4 relate to matters of enforcement.

Another relevant competition provision of the Agreement is Article 31(k) dealing with compulsory licenses in the case of practices which have been determined,

² A large number of developing countries, however, have no competition law or little tradition and weak institutional mechanisms to apply competition policies.

after judicial or administrative process, to be anticompetitive and need to be remedied by the grant of compulsory licenses.³

2. History of the provision

2.1 Situation pre-TRIPS

TRIPS is the first international treaty to generally recognize the need to control anticompetitive IPR practices. Article 5A(2) of the Paris Convention for the International Protection of Industrial Property, though framed more broadly (“... to prevent abuses which might result from the exercise of the exclusive right conferred by the patent...”),⁴ established a basis for remedying anticompetitive practices, but gave limited attention to defining the types of practices that would constitute abuse (beyond non-working). As regards abuses more generally, the provision relates only to patents. Article 10*bis* of the same Convention relates only to protection against acts of unfair competition, i.e., dishonest practices in business.⁵ These are generally to be distinguished from restrictive trade practices, even though there may be some overlaps between the two sets of rules (e.g., boycott, discrimination, etc.).

The stillborn Havana Charter of 1948 on an International Trade Organization (ITO) contained in Article 46 an undertaking by Members to prevent restraints on competition (and to cooperate with the Organization in preventing such restraints), and permitted a Member to bring a complaint to the Organization on the

³ Article 31(k) reads: “Members are not obliged to apply the conditions set forth in sub-paragraphs (b) and (f) above where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur”. For a discussion of Article 31 see Chapter 25; Roffe, *Control of Anti-Competitive Practices in Contractual Licenses under the TRIPS Agreement*, in Correa, Yusuf (ed.), *Intellectual Property and International Trade – The TRIPS Agreement*, London 1998, 261 at 281 et seq. [hereinafter Roffe 1998].

⁴ Article 5 A of the Paris Convention (1967) reads in relevant parts:

“(2) Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.

(3) Forfeiture of the patent shall not be provided for except in cases where the grant of compulsory licenses would not have been sufficient to prevent the said abuses....”

⁵ Article 10*bis* (“Unfair Competition”) of the Paris Convention (1967) reads

“(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

(3) The following in particular shall be prohibited:

1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.” See also the discussion on unfair competition in Chapter 28 of this book.

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basis that another Member was failing to deal with a competition-related situation. The specific kinds of practices that the Organization's dispute settlement system would have addressed included commercial conduct:

"3(e) preventing by agreement the development or application of technology or invention whether patented or unpatented;

(f) extending the use of rights under patents, trademarks or copyrights granted by any Member to matters which, according to its laws and regulations, are not within the scope of such grants, or to products or conditions of production, use or sale of which are likewise not the subjects of such grants."⁶

The ITO would have had the authority to

"request each Member concerned to take every possible remedial action, and . . . recommend to the Members concerned remedial measures to be carried out in accordance with their respective laws and procedures."⁷

The Organization would have prepared, distributed to Members and made public a report on its decisions, and the remedial actions taken by Members.⁸

Attempts to establish general principles of public international law as regards the control of restrictive trade practices in general and, more particularly IPR-related anticompetitive conduct, such as a Code of Conduct on Transfer of Technology, have been suspended (see below Section 5.2). Therefore, the control of anticompetitive practices relating to IPRs has been a matter of national and regional law only. In this respect, the major industrialized countries, such as the USA, Japan, the European Union and some of its member states (in particular Germany), have well-developed rules and control practices, though these are by no means uniform.

2.2 Negotiating history

Industrialized countries with established rules for the control of intellectual property-related anticompetitive practices were not interested in establishing such rules in the TRIPS context. Instead they focused on the formulation of adequate standards of intellectual property protection. Thus, it was the developing countries, once it became clear that TRIPS negotiations would extend beyond matters of counterfeiting and piracy, who insisted on including the issue of anticompetitive practices in the Agreement.⁹ In part they were of the opinion that restrictive trade practices were the only trade-related aspects of intellectual property protection,¹⁰

⁶ Havana Charter for an International Trade Organization, United Nations Conference on Trade and Employment, held at Havana, Cuba, Nov. 21, 1947 to Mar. 24, 1948, Final Act and Related Documents (March 1948), at Chapter V, Restrictive Business Practices, Article 46. See Frederick M. Abbott, *Public Policy and Global Technological Integration: An Introduction*, in *Public Policy and Global Technological Integration 3* (F. M. Abbott and D. Gerber eds. 1997) (Kluwer).

⁷ Id. Articles 8 and 48(7).

⁸ Id. Article 48(9) and (10).

⁹ See Gervais, paras. 2.48, 2.182 *et seq.*; Cottier, *The prospects for intellectual property in GATT*, 28 CML Rev. 383, 409 *et seq.* (1991) [hereinafter Cottier]; Roffe 1998, at 278 *et seq.*

¹⁰ See Communication from India of 10 July 1989 MTN.GNG./NG11/W/37 sub. 2 and VI.

but were also concerned about the pernicious effects of a number of contractual practices, opposition to which they had pursued unsuccessfully in negotiations on the Code of Conduct for the Transfer of Technology.¹¹ Their position was largely mirrored in the Anell Draft of 23 July 1990 (W/76)¹² by the two provisions that later became Articles 8.2 and 40.

2.2.1 The Anell Draft

The draft provision corresponding to the current Article 8.2 read as follows:

“2B Each PARTY will take the measures it deems appropriate with a view to preventing the abuse of intellectual property rights or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology. PARTIES undertake to consult each other and to co-operate in this regard.”

The important difference with respect to the current version of Article 8.2 is that this provision did not expressly require the national measures to be consistent with the other provisions of the Agreement. Each Party was authorized to take any measure it deemed appropriate, according to its own discretion, without any express obligation to consider the effects of these measures on the substantive disciplines of IPR protection. This very wide language was later restricted.¹³

The Anell Draft article of what later became Article 40 provided that:

“1B PARTIES may specify in their national legislation practices in licensing contracts deemed to constitute an abuse of intellectual property rights or to have an adverse effect on competition in the relevant market, and adopt appropriate measures to prevent or control such practices. [. . .]

2B PARTIES agree that practices which restrain competition, limit access to the technology or to markets or foster monopolistic control, and which are engaged in by licensors, may have harmful effects on trade and transfer of technology among their countries. Accordingly, each PARTY agrees upon the request of any other PARTY to consult with respect to any such practices and to co-operate with any other PARTIES with a view to ensuring that IPR owners, who are nationals or domiciliaries of its country, comply with the obligations prescribed in this respect by the national legislation of the PARTY granting them such rights.”

The first paragraph largely corresponds to the current Article 40.2. Again, the difference is that the above draft provision did not require that the “appropriate” measures taken by Parties be consistent with the other provisions of the Agreement. The first sentence of the second draft paragraph is quite similar to the current paragraph 1 of Article 40. It acknowledges that certain licensing practices may harmfully affect trade and technology transfer. Other than Article 40.2, the above draft did not contain any exemplary list of possible IPR abuses.

¹¹ See Gervais, paras. 2.48, 2.182 *et seq.*; Cottier, at 409 *et seq.*; Roffe 1998, at 278 *et seq.* See also Communication from Brazil of 11 December 1989 MTN.GNG/NG11/W/57 sub. No. 29; Communication from Argentina, Brazil, Chile China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay, of 14 May 1990, MTN.GNG/NG11/W/71, Article 15.

¹² Chairman's report to the Group of Negotiation on Goods, document MTN.GNG/NG11/W/76, of 23 July 1990.

¹³ For an analysis of the consistency requirement, see Section 3, below.

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The second sentence of the second draft paragraph contained a cooperation and consultation procedure like the current Article 40.3 of TRIPS. The latter is, however, more limited in scope in that while the draft provided an obligation to consult and to cooperate *with a view to ensuring compliance* of nationals or domiciliaries with domestic legislation, Article 40.3 does not refer to such final objective. On the contrary, it expressly provides that the obligation to consult does not affect the freedom of either Member to treat the alleged violation according to its own discretion. The obligation to cooperate is limited to the supply to the other Member of certain information. There is thus no obligation to undertake any concrete measures to stop the alleged violation.¹⁴

2.2.2 The Chairman's Draft of 23 November 1990 and the Brussels Draft

Article 8 (para. 2) and Article 43 of the Chairman's Draft Text on Trade Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods of November 23, 1990, came quite close to the current version of Articles 8.2 and 40. Thus, Article 8 (para. 2) recognized that

"appropriate measures [...] may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or affect the international transfer of technology."

Article 43 (para. 2 B) of the Chairman's Draft Text of November 23, 1990 listed a series of licensing clauses which members may deem to be abusive or anticompetitive. This provision read in relevant parts:

"1. PARTIES agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

2B. PARTIES may specify in their national legislation licensing practices or conditions that may be deemed to constitute an abuse of intellectual property rights or to have an adverse effect on competition in the relevant market, and may adopt appropriate measures to prevent or control such practices and conditions, including non-voluntary licensing in accordance with the provisions of Article 34 and the annulment of the contract or of those clauses of the contract deemed contrary to the laws and regulations governing competition and/or transfer of technology. The following practices and conditions may be subject to such measures where they are deemed to be abusive or anti-competitive: (i) grant-back provisions; (ii) challenges to validity; (iii) exclusive dealing; (iv) restrictions on research; (v) restrictions on use of personnel; (vi) price fixing; (vii) restrictions on adaptations; (viii) exclusive sales or representation agreements; (ix) tying arrangements; (x) export restrictions; (xi) patent pooling or cross-licensing agreements and other arrangements; (xii) restrictions on publicity; (xiii) payments and other obligations after expiration of industrial property rights; (xiv) restrictions after expiration of an arrangement".

Whilst Article 8 (para. 2) of the draft text required an assessment of the "unreasonableness" of a practice, Article 43 arguably allowed members to hold the listed

¹⁴ For a detailed analysis of this provision, see under Section 3, below.

clauses to be unlawful *per se*. It is primarily because of this risk of a ruling of *per se* illegality that the draft text was not acceptable to industrialized countries. The same problem arose with respect to the Brussels Draft text, which was submitted to trade ministers meeting in Brussels soon after the Chairman's draft text of November 1990.¹⁵ The Brussels Draft was essentially identical to the parts of the Chairman's draft as quoted above.

However, the industrialized countries conceded that, upon a circumstantial assessment of the effects of a licensing stipulation on competition, illegality may be found in individual cases.¹⁶ Therefore, the final negotiations resulted in a more open-ended text.

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3.1 Article 8.2

Article 8.2 Principles

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

As indicated by its heading, Article 8.2 states a "principle", which is different from a mere "policy statement".¹⁷ It constitutes a general rule of the treaty providing rights and duties for Members. The fact that it only states a "principle" rather than a specific rule mirrors the intention of the treaty-makers not to rule on the matter itself in any detailed form, but to leave Members broad discretion as regards its implementation. Article 8.2 purports, indeed, to recognize Members' authority to rule on IPR-related practices that are abusive, unreasonably restrain trade or adversely affect international transfer of technology. However, the provision does not simply spell out a "permissive" or, to the contrary, a "limiting" principle.¹⁸ Rather, it positively recognizes that there "may be a need" to prevent the practices mentioned, and in that sense it represents an enabling provision: Members agree that there are such practices and that they have to be remedied. However, Article 8.2 also sets limits to Members' authority to prevent said practices: first, regarding the substance of preventive measures, and second, concerning the nature of the remedy. Thus, the measure must be "consistent with the provisions of this Agreement", and it must be "appropriate" to prevent the practices in question. It is in

¹⁵ Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Revision, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 Dec. 1990.

¹⁶ Reinbothe, Howard, *The State of Play in the Negotiations on TRIPS (GATT/Uruguay Round)*, (1991) Eur. Int. Prop. Rev. 157, 160; See also Cottier.

¹⁷ For different views see Gervais, at 68, para. 2.49.

¹⁸ For different views see Fox, *Trade, Competition and Intellectual Property – TRIPS and its Antitrust Counterparts*, 29 Vanderbilt J. Transnat'l. L. 481, 484, 491, 494 (1996) [hereinafter Fox].

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view of these limitations that the scope of Article 8.2 must be further explored including the precise meaning of its requirements.

3.1.1 Scope of application

The practices that Members may prevent relate to all disciplines of intellectual property dealt with in TRIPS as well as their differing forms of exploitation. The practices covered by Article 8.2 must be defined accordingly. They are of three kinds: the abuse of intellectual property rights by rights holders, practices which unreasonably restrain trade, and practices which adversely affect the international transfer of technology.

Since the practices that Members may prevent through domestic measures are listed in alternative form (“or”), they need to be distinguished. The distinctions are not obvious, since restrictive practices may cover both unilateral abuses of IPRs and contractual restraints of trade, and since contractual restraints may either affect trade or impair technology transfer.¹⁹ However, in view of the twofold purpose of the provision to set forth a principle recognizing Members’ power to act, and also in view of the multiple objectives of the Agreement as stated in Article 7, a broad construction of the practices in question seems to be justified. In particular, the meaning of the terms used may not be reduced to what they might mean according to the national laws of some Members or according to pre-determined concepts of antitrust laws. Any “national” reading of Article 8.2 would miss the international character of the Agreement and the underlying intention of the Article, which is precisely to largely maintain Members’ sovereignty in the matter.²⁰

As a general matter, Article 8.2 applies only to IPR-related abuses or practices. This means that the assessment of broader restrictive agreements or arrangements, which involve IPRs, but which, under general principles of competition law, are dealt with as separate categories of possible antitrust law violations, may not be subject to the limits set by Article 8.2. Thus, merger control (in particular, the sale and acquisition of enterprises) may involve ancillary licensing transactions, and authorization of a merger may be made conditional on certain licensing concessions by the merging firms either *inter se* or as regards third-party access to the technology in question. The provisions of Article 8.2 do not apply to merger control merely because of these IPR implications. The same holds true for merger control over the establishment of joint ventures.

Similarly, where the use or exploitation of IPRs is only indirectly related to the allegedly anticompetitive conduct, such as agreements between competitors on prices for their respective protected products, it is questionable whether Article 8.2 should apply. The question may not be important in the example given, since the application of Article 8.2 would hardly have any bearing on the outcome of the assessment of such a practice. However, it becomes important in cases of a territorial division of markets by competitors. As it does make a difference whether such horizontal market division that happens to relate to protected products is based on existing IPRs of the parties, or is agreed upon to solve IPR conflicts

¹⁹ See Article 40.1 of the Agreement, and Subsection d) below.

²⁰ See also Fox at 485 *et seq.*

between the parties, it would seem that the dividing line between the applicability and the non-applicability of Article 8.2 must be drawn in accordance with where the centre of gravity of an agreement or of a transaction is. It is only where the practice is directly and essentially IPR-related that TRIPS may be deemed to require that Article 8.2 be taken into consideration. After all, it is an Agreement on intellectual property, not one on competition law. Therefore, the same prudence should be observed when research and development agreements, subcontracting arrangements or outsourcing agreements become subject to an antitrust control, which relates to the collusive or otherwise anticompetitive character of the practice rather than to the concomitant exploitation of IPRs, or which covers such exploitation only to the extent that it is subordinate to or instrumental for a more pervasive antitrust-relevant practice. Nonetheless an IPR-related restrictive practice is in no way “immunized” from competition law scrutiny and remedial action merely because it is part of a large scale transaction. It is for the national competition authorities to determine whether a particular practice will be addressed within the context of a transaction.

a) Abuse of intellectual property rights

For the reasons stated above, “abuses” of intellectual property must cover the illegitimate use of intellectual property. In particular, Members may consider a particular conduct of right holders to be abusive regardless of whether the enterprise in question dominates the market or not,²¹ and regardless of whether there is an anticompetitive use or simply a use of an intellectual property right which defeats its purpose, e.g., the purpose of innovation or of dissemination of technology. Indeed, it is not Article 8.2 which defines the concept of abuse, but Members themselves through appropriate domestic measures. This is so because TRIPS uses the term “abuse” only to determine the connecting factor for Members’ regulatory power. However, it follows from the very term that the use at stake must be illegitimate, i.e., contrary to the basis and/or the objectives of IPR protection. In that respect, it is the consistency requirement which defines the limits within which Members may determine both the basis and the objectives of domestic IPR protection and the abusive character of its use.

b) Practices which unreasonably restrain trade

Likewise, practices which “unreasonably” restrain trade are not only those, which, under a given concept of a “rule of reason” of antitrust law, would be held to be anti- rather than pro-competitive,²² but any practice which “reasonably” may be held to be unreasonable. What Article 8.2 seeks to avoid is that Members outlaw practices that are inherently beneficial, such as contractual clauses facilitating the productive use of the intellectual property.²³ Conversely, the provision may

²¹ See also: Fox at 482; abuse does not presuppose market domination, but may result from relational market power (e.g., discriminatory practices). However, abuse may also exist in the absence of market power, e.g., no challenge agreements.

²² See text under Section 3.2.1 b) on Article 40.1.

²³ The distinction is not always easy, but typical examples are confidentiality requirements under trade secret agreements and licenses, or conditioning the grant of sub-licenses by the licensee on

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not be read as excluding rules of *a priori* illegality of certain restrictive practices (so-called *per se* rules). It is true that, when negotiating the Agreement, Members did not wish to include such *per se* prohibitions in the Agreement.²⁴ But as many of them have such rules,²⁵ they did not wish to exclude them either as a matter of national law. This is the more true as Article 8.2 purports only to generally designate the practices upon which Members may rule autonomously, and not to rule itself on these practices other than by limiting Members' discretion. In that regard, however, the interpretation and the application of the requirement of consistency may not be anticipated by a narrow reading of the practices in question.

c) Practices which adversely affect the international transfer of technology

The third category of practices which Members may seek to prevent, namely practices which adversely affect the international transfer of technology, must be understood broadly as well. First, practices adversely affecting international technology transfer must be distinguished from practices which restrain trade. This is so because they are named separately in Article 8.2,²⁶ and because Article 7 of the Agreement singles out transfer of technology as one of the objectives of the Agreement. Thus practices which are not anticompetitive, but which do have an adverse effect on technology transfer, may be subject to specific national regulation.²⁷ Whether this is politically wise is another matter.²⁸ The consistency requirement already provides the necessary safeguards against truly counter-productive regulation of technology transfer. Second, compared to Article 40, which is ambiguously

the consent by the licensor. On the other hand, hardcore restrictions such as limiting a party's ability to determine its prices, do not fall under this category of beneficial practices, see Article 4 of Commission Regulation (EC) No. 772/2004 of 27 April 2004 on the application of Article 81 (3) of the Treaty to categories of technology transfer agreements, Official Journal of the European Union (OJEU) 2004 L 123/11 [hereinafter EU Regulation on Technology Transfer Agreements]; for another example see Court of Justice of the European Communities (CJEC) of April 19, 1988, case 27/87, *Erauw-Jacquery/La Hesbignonne*, Rep. 1988, 1919.

²⁴ See above, Section 2.

²⁵ See Article 3 of the EU Regulation on Technology Transfer Agreements, and the overviews of national antitrust law relating to IPRs exploitation by Anderson, *The Interface between Competition Policy and Intellectual Property in the Context of the International Trading System*, J. Int'l Ec. L. 1998, 655, 662 et seq. [hereinafter Anderson]; Marschall, *Patents, Antitrust, and the WTO/GATT: Using TRIPS as a Vehicle for Antitrust Harmonization*, 28 L. Pol'y Int'l. Bus. 1165, 1170 et seq. (1997) [hereinafter Marschall].

²⁶ It is true that Article 40.1 uses cumulative ("and") rather than alternative ("or") language, but Article 40.1 is a provision with a narrow meaning, and, most likely, needs corrective reading, see Subsection 3.2.1 below.

²⁷ Conversely, there are many possibly anti-competitive practices which do not affect technology transfer, e.g., restrictive licences concerning copyrights or trademarks.

²⁸ See the introductory contributions by the UNCTAD Secretariat, and the contribution in Part III of Patel, Roffe, Yusuf, *International Technology Transfer – The Origins and Aftermath of the United Nations Negotiations on a Draft Code of Conduct*, The Hague 2001, 3 et seq., 259 et seq. [hereinafter Patel, Roffe, Yusuf]; Stoll, *Technologietransfer – Internationalisierungs- und Nationalisierungstendenzen*, 1994, 365 et seq. [hereinafter Stoll]; Cabanellas, *Antitrust and Direct Regulation of International Transfer of Technology Transactions*, Munich 1982, 157 et seq. [hereinafter Cabanellas]. See also Section 5.2 below.

formulated in this respect, Article 8.2 clearly covers not only contractual practices affecting international transfer of technology, but also unilateral practices.²⁹ Third, in accordance with the Agreement's rationale of improving international trade relations, Article 8.2 covers all practices affecting international transfer of technology, both inbound and outbound.

However, the provision concerns only international transfer of technology, not domestic technology transfer, such as from the national science base to domestic industry. This is a difference as compared to restrictive trade practices, whose control is subject to Article 8.2 precisely whenever these practices affect domestic markets. As a rule, TRIPS concerns the acquisition, use and exploitation of intellectual property in national markets. The difference means that the regulation of domestic technology transfer is not subject to the requirements of consistency and proportionality of measures taken against adverse practices.

3.1.2 Requirements for the application of appropriate measures

It is only once the scope of application of Article 8.2 has been defined properly that the requirements limiting the exercise of national antitrust control, namely the requirements of consistency with the Agreement and of proportionality of the corrective measure, come into play.

a) The consistency requirement

The requirement of consistency may have two different meanings. It may be limited to the particular remedy taken; or it may apply more generally to the domestic substantive rules of competition law that are at the basis of such remedies.

(i) A narrow interpretation: consistency as regards remedies against unlawful practices

Read literally, the consistency requirement of Article 8.2 only refers to the nature of the measures that may be taken as against practices that have been found to constitute an abuse, a restrictive practice or a practice adversely affecting international technology transfer. Such a reading would appear to be confirmed by similar language in Article 40.2, which clearly separates the qualification of anti-competitive practices as a matter of substantive law (Article 40.2, first sentence) from the remedies that may be taken against such measures (Article 40.2, second sentence.). Such an understanding of the provision would make sense in that, for instance, remedial measures ought not normally to result in public disclosure of secret know-how or in frustration of the exclusivity of IP-protection by general

²⁹ Such as abusive refusals to license or to pre-disclose information on innovations affecting related industries (spare parts, complementary equipment or services etc.), see Fox, at 487 et seq.; Ullrich, *Intellectual Property, Access to Information, and Antitrust: Harmony, Disharmony, and International Harmonization* [hereinafter Ullrich, *Intellectual Property, Access to Information, and Antitrust*], in Dreyfuss et al. (ed.), *Expanding the Boundaries of Intellectual Property*, Oxford 2001, 365, 385 et seq. [hereinafter Dreyfuss]; id., *Competition, Intellectual Property Rights, and Transfer of Technology*, in Patel, Roffe, Yusuf, at 363, 375 et seq. [hereinafter Ullrich, *Competition, Intellectual Property Rights, and Transfer of Technology*].

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licensing requirements.³⁰ If the consistency requirement were limited to this meaning, its application presumably would largely overlap with the requirement of the proportionality of the measures taken. Another view is that the provision introduces a reservation against enforcement of national antitrust laws in a manner that would frustrate systematically the purpose and the operation of intellectual property protection in general.

(ii) A broad interpretation: consistency as regards the substance of IPR-related rules on competition

If the requirement of consistency of antitrust control over abusive and anticompetitive IP practices may have a broader meaning of requiring also consistency of the substantive rules of national competition law or antitrust law with the provisions of this Agreement,³¹ it must nevertheless be clear that it does not justify an extensive application of the requirement. Since Article 8.2, read in conjunction with Article 8.1 and with Article 40.2 (first sentence), expressly authorizes Members to define and apply IPR-related rules of competition law, the consistency requirement may not be used to subject national antitrust laws to any TRIPS-supremacy, let alone to any specific antitrust standards of TRIPS origin, which TRIPS has not set forth anyway. Rather, the consistency requirement represents a reservation made to prevent an excessive application of national competition rules, which would bring the regular exercise and exploitation of IPRs, as they are assumed by TRIPS standards, within the ambit of and control by antitrust authorities. This understanding follows from two facts. First, competition law and intellectual property law are *in pari materiae* in that competition law is supposed to safeguard the kind of dynamic competition that should result from and is the basis for intellectual property protection.³² Second, Members, in particular industrialized States, did and do follow different approaches as regards the assessment of potentially restrictive or anticompetitive IPR practices.³³ They cannot be presumed to have abandoned any of these approaches as a matter of contracting for and adopting TRIPS, because these approaches and the highly complex set of IPR-related antitrust rules, which they have produced, have not been made the object of any detailed negotiations.³⁴ It was only a general concern that some Members, in particular some major developing countries, might put too much reliance on competition, law with a view to limiting TRIPS concessions.³⁵

³⁰ The relevant provisions of the TRIPS Agreement are Article 39 on trade secrets and Article 31 recognizing compulsory licenses, but subjecting their grants to certain pre-requisites.

³¹ See also Heinemann, *Antitrust Law of Intellectual Property in the TRIPS Agreement of the World Trade Organization* [hereinafter Heinemann], in Beier, Schricker (ed.), *From GATT to TRIPS*, Weinheim 1996, 239, 242 et seq. [hereinafter Beier, Schricker]; implicitly Fox, at 492 et seq.

³² See UNCTAD, *The TRIPS Agreement and Developing Countries*, Geneva 1996, 3 et seq. [hereinafter UNCTAD 1996]; Ullrich, *Intellectual Property, Access to Information, and Antitrust*, at 367 et seq.; id., *Competition, Intellectual Property Rights, and Transfer of Technology*, at 368 et seq.

³³ See Fox, at 486 et seq., 492 et seq.; UNCTAD 1996, at 55 et seq. (para 271 et seq.). See also Anderson; Marschall.

³⁴ See Cottier, at 410.

³⁵ See Section 2 above.

For these reasons, the consistency requirement neither adopts any of the various national approaches to or standards of antitrust assessment of IPR-related restrictive practices³⁶ nor establishes any standard of its own.^{37, 38} Rather it must be understood as a negative limitation preventing an application of national competition rules that outlaw generally accepted methods of exploiting intellectual property that TRIPS recognizes through requiring the protection of IPRs. It is therefore the systematic development of national competition law as a general curtailment of intellectual property protection (as required by TRIPS) that the consistency requirement is intended to prevent. In other words, what it seeks to achieve is to contain national competition laws within the limits of their proper purpose, and to keep this purpose within limits: the safeguarding of competition, however defined.

(iii) Examples of non-compliance with the consistency requirement

It is difficult to specify in the abstract what might amount to inconsistencies with this requirement. As a general proposition, it may be said that antitrust rules which would tend to *systematically* invalidate the constitutive elements of intellectual property protection by exclusive rights, as distinguished from subjecting licensing obligations in *particular* circumstances to rules regulating anti-competitive

³⁶ According to Fox, at 492 et seq., the various existing approaches of national competition law, in particular, those of major industrialized countries (USA, EU) must be presumed not to violate the consistency requirement.

³⁷ Note that the variation of antitrust approaches to IPRs over time and the evolving insights into the operation of both IPR-systems and competition require a high degree of flexibility of international conventional law.

³⁸ In particular, it does not favour or disfavour the so-called scope-of-the-exclusivity test or the reasonable-reward test or a pure competition test or a profit maximizing efficiency test. For the various tests see Anderson; Marschall; and Ullrich, *Intellectual Property, Access to Information, and Antitrust*, at 367 et seq.. Basically, the scope-of-the-exclusivity test, which is still enshrined in Section 17 of the German Act Against Restraints of Competition, and the reasonable-reward test once followed by the USA, mean that all restrictive covenants in licensing agreements are justified, which only mirror the exclusivity or seek to secure to the IPRs-holder the profit due under his "legal monopoly". The profit-maximisation rationale of the efficiency test represents a modern variation in that it assumes that restrictions in licensing agreements between non-competitors (vertical restraints) generally are innocuous to the extent that they only mirror the market value of the licensed technology – a licensee will only accept restrictions that are justified by the value the technology has for him, provided that the market is itself competitive. All of these approaches present the following problems:

- they relate only to restrictions imposed on the licensee, not to those to which the licensor may be subject (e.g., exclusivity requirements, most-favoured-licensee clauses);
- they do not take account of either differences of bargaining power or of the fact that license transactions are negotiated on an overall-benefits basis;
- the horizontal/vertical distinction does not systematically apply (license transaction may be based on make-or-buy decisions by the licensee as a potential entrant);
- technology markets are not transparent;
- and competition is only interested in the answer to the question whether, in the absence of the restrictive agreement, competition would be enhanced or not, i.e., whether the agreement is pro- or anti-competitive in its results. Since the answer depends on the kind of competition a given competition policy wishes to favour, modern approaches do treat intellectual property as any property, i.e., they apply their general concepts to IPRs-related restrictions as well, see *infra* Section 6.1.

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practice,³⁹ would be inconsistent with TRIPS.⁴⁰ Outlawing restricted licenses altogether and with no circumstantial qualification might be inconsistent with TRIPS to the extent that the exclusivity is divisible by nature and must be allowed to so be divided into different license rights (even though there is no specific TRIPS rule to this effect). Conversely, it may be said that competition rules, which equally apply to IPR-related and to non-IPR related conduct, that is, rules of general application, may hardly ever violate the consistency requirement.⁴¹ Only antitrust rules that discriminate by singling out IPRs for treatment that is not justified by public policy concerns may be caught by the consistency requirement. Again, however, the dividing line may be narrow, since IPR-specific rules of competition law, which are designed to control the particular risks that IPR-related conduct may produce for competition, normally will satisfy the consistency requirement. Most national competition laws have developed such rules, either by legislative action, by administrative practice or through case law.⁴²

Finally, the measures taken to prevent abuses and other unlawful IPR-related practices must be in conformity with the general principles of TRIPS. In particular, they must be non-discriminatory. They must provide national and most-favoured-nation treatment for the parties affected by the regulation. Normally, the consistency requirement will not raise problems in this respect; competition rules should be non-discriminatory by definition.

b) The proportionality requirement

The principle of proportionality, to which Article 8.2 subjects the application of antitrust remedies to IPR-related violations of national competition law, follows from the fact that Article 8.2 requires the measures to be “appropriate” and “needed” to prevent the abuses and practices covered by the provision. The principle seems to be less difficult to apply than the consistency requirement, since it is well known in many national competition laws. Again, however, due account must be taken of the fact that Article 8.2 leaves the control of the practices in question to domestic law. It is, therefore, national law which determines the nature of the available and applicable remedies, i.e., criminal law, administrative law and/or tort law or their cumulative application. TRIPS does not provide rules on these matters (except in Article 42 et seq. as regards infringement of IPRs).

The rigour of the remedies, e.g., criminal sanctions or other punitive or simple damages, would appear to be a matter of national law. Being merely an Agreement on intellectual property, TRIPS cannot interfere on these questions with the general sovereignty of Members. As a result, the proportionality requirement, as well, should be understood as imposing only a negatively defined limitation on national

³⁹ Which Article 31(k) of TRIPS accepts in principle.

⁴⁰ See Subsection 3.1.1 c) above on practices which unreasonably restrain trade.

⁴¹ See the approach favoured by the U.S. Department of Justice, Federal Trade Commission, *Antitrust Guidelines for Licensing of Intellectual Property*, Washington D.C., April 6, 1995 (reprinted in 4 Trade Reg. Rep. (CCH) § 13.132 = 49 BNA – PTCJ 714/1995), sub. 2.0, 2.1; Ullrich, *Intellectual Property, Access to Information, and Antitrust*, at 375 et seq.

⁴² See Anderson; Fox; Marschall; and UNCTAD 1996.

remedial action against abusive anticompetitive IPR-related practices. It outlaws clearly excessive remedies, which unnecessarily put the intellectual property altogether in jeopardy. More particularly, the proportionality requirement might be meant only to exclude generally excessive antitrust remedies for IPR practices, but does not control the remedies taken under the specific circumstances of individual cases. This should be a matter of discretion for the national judicial or administrative authorities.⁴³ Typically, the proportionality requirement will be disregarded if national competition rules provide for IPR-specific remedies that are not justified by the nature of an antitrust law violation,⁴⁴ or that arbitrarily discriminate against IPR-related violations as compared to similar, non-IPR-related anticompetitive conduct.

3.2 Article 40

3.2.1 Rules of substantive law

a) Relationship between Article 40 and Article 8.2

The relationship between Article 40 and Article 8.2 is not self-evident. Whilst some authors hold the view that Article 8.2 contains a policy statement, which is implemented by Article 40,⁴⁵ a more consistent interpretation seems to be that Article 40 represents a *lex specialis* provision. This is so, first, because Article 40 has a narrower scope of application than Article 8.2;⁴⁶ second, Article 8.2 is a rule of treaty law, not merely a policy statement.⁴⁷ Third, Article 40 contains rules which, with regard only to some of the conduct of IPR-holders listed in Article 8.2, may establish obligations on Members that are not mandated by Article 8.2. That is to say, Article 40.1 arguably imposes an obligation on Members to act on “licensing practices or conditions pertaining to intellectual property rights, which restrain competition” . . . if they “have adverse effects on trade and may impede the transfer and dissemination of technology”, and it certainly requires Members to cooperate in accordance with Article 40.3 and 4, when and only when they enforce their national rules on competition with respect to practices mentioned in Article 40.1 and 2.

b) Article 40.1

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

⁴³ This is the more true as Article 8.2 of the Agreement, by its very nature, is not directly applicable, i.e., may not be relied upon in litigation before national courts.

⁴⁴ As to the admissibility of compulsory licensing as an antitrust remedy, see Article 31(k).

⁴⁵ Gervais, at 68, para. 2.49.

⁴⁶ See below sub b) (ii).

⁴⁷ See above, Section 3.1.

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(i) A minimum obligation to act

Article 8.2 only recognizes that there may be a need to prevent certain abuses and anticompetitive practices, thereby leaving it up to Members to act or not. Article 40.1, on the other hand, contains a definite though unspecific statement of Members' agreement that "some licensing practices or conditions... which restrain competition may have adverse effects...". Although some authors⁴⁸ do not see the difference, the consensus of Members on the existence of licensing practices which, because they restrain competition, may have adverse effects on trade and technology transfer, creates a different legal situation. If Members have indeed agreed that certain licensing practices should be addressed, it is difficult to see why TRIPS would allow Members to remain inactive with respect to such practices, since these run directly contrary to the objectives of Article 7. Reading Article 40.1 in conjunction with Article 7 may well be understood as imposing an obligation on Members to address certain forms of anticompetitive practices in licensing agreements.

Article 40.1 is not worded as strictly as comparable provisions in other agreements of GATT/WTO, such as Articles VIII and IX of the GATS.⁴⁹ Therefore, it does not provide for a specific obligation of Members to actively enforce their rules on competition relating to matters covered by Article 40, each time these are violated. It is also true that, as a matter of principle, Article 40.1 and 2 leaves the definition of the anticompetitive practice in question to Members.⁵⁰ However, under Article 1.1 (first sentence), Members have obliged themselves "to give effect to the provisions of this Agreement". Anticompetitive practices, which adversely affect trade or impede technology transfer, may frustrate the very purpose of the protection of IPRs, as provided for by TRIPS. Therefore, a total absence of rules of competition even as regards such properly abusive practices may be considered as "inconsistent" with the provisions of the Agreement (Article 40.2,

⁴⁸ Gervais, at 191 (para. 2.184 *in fine*) considers Article 40.1 to be a non-binding "chapeau" of the section; Heinemann, at 245 also holds Article 40.1 to be non-committal.

⁴⁹ Article VIII and IX GATS-Agreement provide in relevant parts:

"Article VIII: Monopolies and Exclusive Service Suppliers

1. Each Member shall ensure that any monopoly supplier of a service in its territory does not, in the supply of the monopoly service in the relevant market, act in a manner inconsistent with that Member's obligations under Article II and specific commitments.

2. Where a Member's monopoly supplier competes, either directly or through an affiliated company, in the supply of a service outside the scope of its monopoly rights and which is subject to that Member's specific commitments, the Member shall ensure that such a supplier does not abuse its monopoly position to act in its territory in a manner inconsistent with such commitments."

"Article IX: Business Practices

1. Members recognize that certain business practices of service suppliers, other than those falling under Article VIII, may restrain competition and thereby restrict trade in services.

2. Each Member shall, at the request of any other Member, enter into consultations with a view to eliminating practices referred to in paragraph 1. The Member addressed shall accord full and sympathetic consideration to such a request and shall cooperate through the supply of publicly available non-confidential information of relevance to the matter in question. The Member addressed shall also provide other information available to the requesting Member, subject to its domestic law and to the conclusion of satisfactory agreement concerning the safeguarding of its confidentiality by the requesting Member."

⁵⁰ See below sub. c) on Article 40.2.

second sentence). Consequently, Members may be considered to contradict the spirit of Article 40.1 if they systematically abstain from taking measures against practices which directly offend the basis and the objectives of TRIPS provisions and/or principles, or if they systematically fail to enforce existing national rules on competition regarding such practices.

(ii) Restrictive licensing practices or conditions

Article 40.1 is only concerned with restrictive practices in contractual licensing, not with restrictive practices relating to other business transactions, such as assignments, joint ventures, subcontracting and outsourcing, regardless of how IPR- or technology transfer-related such transactions may be.⁵¹ As licensing may occur in the context of some of the transactions referred to, the necessary distinction must be made in accordance with the overall nature of the arrangement as a business transaction and the centre of gravity of the restriction in question. Nonetheless, the fact that an abusive licensing practice takes place within the context of a transaction with a larger scope would not insulate that practice from being addressed by a Member. It is customary for competition authorities to address particular anti-competitive elements of large-scale arrangements such as mergers and acquisitions without necessarily seeking to prevent the conclusion of the arrangement.

Article 40.1 applies to licensing of any kind of intellectual property covered by TRIPS. This is so even though most of the practices mentioned in Article 40.2 seem to point to patents, or possibly also to trademarks. The reason is that, in a systematic perspective, Section 8 complements the rules of Part II on standards concerning the availability, scope and use of IPRs, which is to say, the “use” of *all* “intellectual property rights”.

Although Section 8 relates only to “contractual” licenses, Article 40.1, by referring in general terms to “licensing practices or conditions”, clarifies that it covers all conduct surrounding the grant and the execution of licenses. Thus, refusals to license, discriminatory grant of licenses as well as discriminatory license terms, and restrictive clauses in general, all fall within the scope of the provision. It is less clear whether, in addition to unilateral conduct and to restrictive contract terms, Article 40.1 also extends to multilateral licensing relations, such as cross-licensing or patent pools. While bilateral and multilateral licensing agreements may be distinguished for purposes of antitrust analysis under some national laws, the usual distinction, which is common to all competition rules, is between agreements among competitors (horizontal agreements) and agreements among non-competitors (vertical agreements), and this distinction cuts across all types of licensing. It would appear, therefore, that in the context of an international agreement which recognizes, as does Article 40, Members’ authority to act on the basis of national law, the distinction between bilateral and multilateral licensing agreements is immaterial. Multilateral licensing agreements need the more to be

⁵¹ The scope of application of Article 40.1 relates to a specific segment of the practices covered by Article 8.2 (see *supra* Subsection 3.1.1 b) – d), namely to license practices. As these are IPR-related by nature, the additional distinction to non-IPRs-related practices (see above 3.1.1 e) is immaterial in the Article 40-context).

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included in Article 40 as they may produce effects on trade and technology transfer at least as adverse as bilateral licensing agreements.

(iii) The particular link between the restriction of competition and the effects on trade or technology transfer

Article 40.1 must be interpreted from the perspective of Article 40.2. It constitutes the consensual recognition of the likely existence of harmful licensing practices and conditions, which Members may subject to control in accordance with Article 40.2. This consensual recognition means that Members will respect whatever measures other Members take pursuant to Article 40.2, because these are considered to be within the purpose and the spirit of TRIPS. Such general acceptance, however, only relates to “some” licensing practices or conditions, which “restrain competition” and may have “adverse effects on trade and may impede the transfer and dissemination of technology”. These qualifications do not mean that Members may not act on other licensing practices, e.g., as regards their treatment under general rules of commercial law or under general or specific market regulations. It only means that the particular rules of Article 40 concern only practices which are potentially harmful for competition. The harm in question must result from the restrictive character of the practice or condition at issue, i.e., it must result from a restraint of competition, and it must consist of either an adverse effect on trade or of an impediment to the transfer or the dissemination of technology. The link between the restrictive nature of the licensing practice or condition and its effects on trade or technology transfer is important. It means that Article 40.1 does not recognize national measures, whereby Members subject technology transfer to a control in the abstract and regardless of their relationship to competition, or whereby they incriminate certain practices of technology transfer because of perceived general negative effects. Rather, it recognizes only those measures which address technology transfer, specifically cases of harmful effects resulting from a restraint of competition. In that sense, Article 40.1 enshrines a competition approach to the regulation of technology transfer, albeit not to the exclusion of other approaches.⁵²

Article 40.1 takes into consideration only those licensing practices and conditions which have an “adverse” effect on trade or which constitute an impediment to technology transfer. Despite the express language (“and”), these negative criteria are meant to apply alternatively, not cumulatively. The reason is that Article 40.1 also relates to licensing of intellectual property which is not related to technology transfer.

Although referring to transfer or dissemination of technology in general, Article 40.1, like Article 8.2, only means international technology transfer. This is so because of the international character of the Agreement, and because of the procedural rules to which Article 40.3 and 40.4 subjects measures which Members take under Article 40.1 and 40.2. These rules make sense only with regard to licensing practices having some international component. However, there is no reason to apply a restrictive understanding to the requirement of an international element. For example, ownership of a local enterprise by a foreign direct investor

⁵² For the various approaches to technology transfer, see Patel, Roffe, Yusuf; Stoll; and Cabanellas.

would provide a sufficient international element since ultimate control over the local activity would have an international character. Moreover, the harmful effects of such practices may concern national markets only, because TRIPS seeks to ensure adequate protection on national markets⁵³ and technology transfer to national markets.

Finally, Article 40.1 does not establish any degree of gravity or of harm caused by the negative effects of the practice. Any adverse effect on trade and any impediment to technology transfer suffices. Nor does Article 40.1 require that the practices and conditions produce an overall negative effect or are negative “on balance”. Reading it in the context of Article 40.2, the provision merely provides for a threshold for Members’ action to control potentially harmful licensing practices and conditions. The way and the standards by which Members determine which restrictive practices and conditions are so harmful as to require intervention and prevention, are left to their judgment. The proper yardstick for avoiding excessive control is the consistency requirement.

c) Article 40.2

2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include, for example, exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.

Article 40.2 affirms Members’ sovereign power to establish and define rules of competition law regarding licensing practices and conditions (first sentence), and then goes on to recognize Members’ authority to take appropriate measures to prevent or control such practices consistent with other provisions of the Agreement (second sentence). Both sentences must be read as mutually complementary, and they must be read in the light of Article 40.1, because Article 40.2 describes the action which Article 40.1 invites Members to take, if they so wish.

(i) The concept of anti-competitive practices (Article 40.2, first sentence)

Article 40.2 (first sentence) is more narrowly worded than Article 40.1. It affirms each Member’s sovereign power of “specifying in their national legislation licensing practices or conditions” only in view of “particular cases” in which they “constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market”. Distinguished from Article 40.1, the negative effects seem to have to relate to competition rather than to trade, and impediments to

⁵³ For the territoriality principle underlying the TRIPS Agreement, see Ullrich, *Technology Protection According to TRIPS: Principles and Problems*, in Beier, Schricker, at 357, 361 et seq., 372 et seq.

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the transfer or dissemination of technology are not mentioned at all. However, in view of the interrelationship between Article 40.1 and Article 40.2, and considering the link, which Article 40.1 establishes between the restrictive nature of licensing practices or conditions and its impact on trade or technology transfer, the difference seems to be one of wording rather than of substance. In particular, Article 40.2 confirms a competition law approach to the control of technology transfer, and does not elevate competition as such to the exclusion of promoting technology transfer, particularly in light of Article 7 and Article 8.2, which put particular stress on technology transfer as one of TRIPS' objectives.

The real difficulties of interpretation, which the first sentence of Article 40.2 raises, result from the fact that on the one hand, Article 40.2 fully confirms Members' sovereign power to specify in their national legislation which licensing practices or conditions they consider to be abusive and anti-competitive; and on the other, it seems to limit that discretion by stating that such practices or conditions "may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market". The difficulties of interpreting this limitation stem from the fact that the wording is both tautological and contradictory. Abuses always exist only in particular cases. Licensing practices that constitute an abuse of IPRs having an adverse effect on competition are always unacceptable. In all the cases where these two requirements are met, the licensing practice *must* be unlawful. Therefore, the provision seeks to ensure by its qualifying language that Members do not specify anticompetitive practices or conditions of licensing in general and in the abstract, but in reasonably detailed circumstantial form and by reference to their actual impact on the conditions of competition existing in the markets concerned.⁵⁴

This particular understanding of Article 40.2 (first sentence) is confirmed by both the history of the provision⁵⁵ and by the literature.⁵⁶ It does not mean that Members may not, by their sovereign judgment, define what constitutes an abuse. Article 40.2 expressly refers to their national legislation. But they must do so on the competition merits of a practice as they see them. Nor does the provision exclude the establishment or the development of well defined *per se* prohibitions of licensing practices or conditions that have no redeeming virtues, i.e. which, as such, are *a priori* and under all foreseeable circumstances anticompetitive.⁵⁷ Members have and traditionally had such rules, and they have qualified the same licensing agreements differently.⁵⁸ The limits of such qualification may not be

⁵⁴ See Gervais, at 191 (para. 2.185) stressing that, contrary to the draft text submitted during negotiations, abuse and adverse effects on competition are cumulative ("and"), not alternative ("or") conditions, thus reaffirming the competition approach to the control of licensing practices, which Article 40.1 requires.

⁵⁵ See *supra* Section 2.2. In particular, Article 40.2 is intended to contain claims of developing countries to subject intellectual property and its exploitation as such to a pervasive competition test.

⁵⁶ See Heinemann, at 245 et seq.; Fox, at 492 et seq. (1996).

⁵⁷ Heinemann, at 246 considers that Article 40.2 (second sentence) itself lists examples of *per se* unlawful licensing practices.

⁵⁸ See Fox, 486 et seq., 492 et seq. A good example are the no-challenge clauses, which at least in principle are unlawful under U.S. law (see *Lear v. Adkins*, 395 U.S. 653 (1969) and for a critique

found in a preconceived notion of abuse or in its combination with adverse effects on competition, but only by reference to the purpose and the provisions of TRIPS, i.e., by reliance on a requirement of consistency.

(ii) The consistency and proportionality requirements (Article 40.2, second sentence)

Indeed, the first sentence of Article 40.2 must be read in conjunction with its second sentence, which specifies the measures Members may take to prevent or to control the practices mentioned in the first sentence. As in the case of Article 8.2, the requirement of consistency of such measures with the provisions of TRIPS concerns not only the nature of the remedy, but also the substance of the relevant rules on competition. In this regard the considerations and comments made with respect to Article 8.2 apply *mutatis mutandis* in the context of Article 40.2.

In particular, the examples given by the second sentence of Article 40.2, namely exclusive grant-back conditions, no-challenge clauses and coercive package licensing, refer only to practices which might be held to be abusive “in the light of the relevant laws and regulations of that Member”. Thus, they may be qualified differently, just as other practices that are not mentioned may be deemed to be abusive.⁵⁹ In fact, the few practices listed are expressly referred to as mere examples, and they are in no way representative of the large number and variety of restrictive licensing practices and conditions, which may or may not be, depending on both their definition and their context, either pro- or anti-competitive.⁶⁰

Finally, Article 40.2 (second sentence) requires Members to limit the measures to prevent anticompetitive practices to what is “appropriate”. This requirement of proportionality must be understood similarly as the same requirement in Article 8.2. In particular, the appropriateness of the measure may only be assessed “in the light of the relevant laws and regulations of that Member”. Therefore, TRIPS in no way precludes Members from establishing the forms of antitrust control they consider fit in view of their legal traditions and their socio-economic conditions. For example, they may establish an *ex-ante* control or an *ex-post* control by specific administrative agencies or by courts, and they may do so on the basis of administrative or of criminal law. The proportionality requirement means only that the measure must be suited to effectively address and deal with the risk and the harm for competition which a given licensing practice may entail.

Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Invent*, 72 *Virg. L. Rev.* 677 (1986)). On the other hand, they are perfectly lawful according to Section 17 (2) (Nr. 3) of the German Act Against Restraints of Competition. Consequently, even the clauses listed as examples by the second sentence of Article 40.2 are not necessarily good examples of bad clauses.

⁵⁹ For the listed examples, see Heinemann; for non-listed practices see Fox, at 488, as regards the treatment of territorial restrictions under EU competition law, and extensively Rey, Winter, *Exclusivity Restrictions and Intellectual Property* in Anderson, Gallini, *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy*, Calgary 1998, 153 [hereinafter Anderson, Gallini]; Anderson, Feuer, Rivard, Ronayne, *Intellectual Property Rights and International Market Segmentation in the North American Free Trade Area*, in Anderson, Gallini, at 397 et seq. [hereinafter Anderson, Feuer, Rivard, Ronayne].

⁶⁰ For the different treatment of such practices, see UNCTAD Secretariat, *Competition Policy and the Exercise of Intellectual Property Rights*, TD/B/COM.2 CLP/22 of 8 May 2001.

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3.2.2 Procedural rules

a) Consultations and cooperation between Members (Article 40.3)

3. Each Member shall enter, upon request, into consultations with any other Member which has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultations has been addressed is undertaking practices in violation of the requesting Member's laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislation, without prejudice to any action under the law and to the full freedom of an ultimate decision of either Member. The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall cooperate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member.

(i) The limited purpose of the provision

Article 40.3 provides for a consultation and cooperation procedure regarding the enforcement of measures of antitrust control, within the meaning of Article 40, by a Member A with respect to the nationals or domiciliaries of another Member B. This provision must be interpreted against the background of similar bilateral agreements, which were made or which were considered to be needed when TRIPS was negotiated.⁶¹ As evidenced by the main obligation, which Article 40.3 imposes on Members, namely an obligation of information, its aim is to enhance effective control over potentially anticompetitive practices. Therefore, the consultation and cooperation procedure, which Article 40.3 establishes, has nothing to do and little in common with the consultation procedure of the WTO Dispute Settlement Mechanism.⁶² In particular, the Article 40.3 mechanism is not aimed at preventing or settling disputes on whether the terms of Article 40, in particular, the requirements of consistency and proportionality, are complied with. The reason for this is that Article 40.3 provides for an obligation of information for the benefit of the enforcing State, and this obligation exists prior to the taking of any measures that might be inappropriate or inconsistent with TRIPS. The importance of Article 40.3 is that, for the first time in public international law, a duty of assistance in antitrust law enforcement has been established by a multilateral agreement,

⁶¹ See UNCTAD Secretariat, *Experiences Gained so far on International Cooperation on Competition Policy Issues and the Mechanisms Used*, TD/B/COM.2/CLP/21 of 8 May 2001, annex 1 [hereinafter UNCTAD Secretariat, 2001]; Fullerton, Mazard, *International Antitrust Cooperation Agreements*, 24 (3) *World Competition* 405, 412 et seq. (2001) [hereinafter Fullerton, Mazard].

⁶² But see Gervais, at 193 (para. 2.186).

albeit a duty limited to control over restrictive contractual licensing practices and conditions.⁶³

(ii) Scope and obligation of consultation and cooperation

Article 40.3 is of limited scope in other respects as well. All it establishes is a basic obligation of consultation and cooperation. The obligation exists only if Member A has reason to believe that its competition laws and regulations regarding licensing practices or conditions have been violated by a national or domiciliary of Member B. This means that the latter may deny the request, if Member A does not provide a minimum of information on the alleged violation, thus substantiating the basis of its request both as regards the likelihood of such violation⁶⁴ and its involving a licensing practice or condition within the meaning of Article 40. There is no time set for the request nor is there a time limit set to Member B's reply to the request. There is no indication either as to what the reply should be other than that it must accord full and sympathetic consideration to the request, since the consultation must be held in such a spirit, and that it should accord adequate opportunity for such consultations. The main objective of the consultation seems to be to define the information needed by the Member requesting it, in particular, its nature and scope in view of the alleged violation.

The obligation of cooperation of the Member to which the request has been addressed is limited to an obligation to supply information to the Member making the request. This obligation in turn is limited to information which is relevant to the matter,⁶⁵ which is non-confidential and publicly available⁶⁶ or which is not publicly available and/or confidential, but available to Member B, provided that by giving such information Member B does not violate its domestic law, and provided, that "mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member" are concluded either in an *ad hoc* form or more generally.

Neither the request for nor the reaction to the consultation and cooperation procedure bind Members as regards "any action under law and . . . an ultimate decision" on the case. Thus, Members are free to abandon the enforcement activities subsequent to the request, whether it has been replied to their satisfaction or not, or to engage or not to engage in enforcement procedures of their own, if, due to the request or to the consultation, they have learned of an anticompetitive licensing practice falling within their jurisdiction. Likewise, they enjoy full freedom as to their ultimate decision on the matter. This means, on the one hand, that compliance with the requirement of consistency and of proportionality by the Member requesting the consultation is a separate matter, which may and must

⁶³ See above, Section 3; also in respect of similar provision in Article IX GATS.

⁶⁴ Such substantiation of the request is also necessary as a matter of establishing jurisdiction over the licensing practices in question, because Members may deny requests by Members not having jurisdiction.

⁶⁵ Such information might include the size of the domestic market and the share held by the enterprises in question, the turnover of such enterprises, their corporate affiliations, the ownership of registered IPRs, etc.

⁶⁶ By contrast, non-confidential information which is not publicly available need not be supplied, unless otherwise available to the Member to which the request has been addressed.

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be dealt with in accordance with the general rules regarding consistency with TRIPS; and on the other, the Member to which the request has been addressed is under no duty to act or decide even if, due to the consultation procedure, it turns out that the licensing practice also or exclusively comes under its jurisdiction. This is so because Article 40.3 does not impose any duty of positive comity upon Members.⁶⁷

(iii) Article 40.3 in the context of bilateral agreements on cooperation in antitrust law enforcement

Article 40.3 is, indeed, only a rudimentary provision on consultation and cooperation in matters of international antitrust law enforcement and differs substantially from more advanced bilateral agreements on the subject.⁶⁸ First, it is incomplete in the sense that practical matters such as formalities, time limits, designation of competent authorities, are not specified. Second, the connecting factor for a Member's obligation to enter into consultation and cooperation is the nationality or the domicile of the enterprise engaged in the licensing practices in question, rather than the fact of the practice in question and, consequently in most cases the remedy addressed to such conduct, also affects another Member's market. That, however, is normally the connecting factor for taking concurrent or conflicting jurisdiction by several States over international restraints of competition.⁶⁹ Thus, a Member may be obliged to cooperate and to supply information on grounds of personal jurisdiction only, and even in the absence of any anticompetitive conduct affecting its territory. This may be in conflict with domestic law, which may impair the efficacy of the cooperation.

Third, Article 40.3 provides for no obligation to inform other Members of anti-competitive conduct occurring on its territory, which may also in turn affect the territories of still other Members. Neither does it foresee any duty of coordination of enforcement activities of the Members concerned. Finally, the provision does not oblige Members to take account of the effects of their antitrust control measures on other Members' markets or on the competition policy of these other

⁶⁷ Positive comity agreements would oblige Members to intervene against anti-competitive practices over which they have jurisdiction, if such practices substantially affect competition on the markets of another Member. This has to be distinguished from general international (negative) comity which conversely requires States to take account of the negative impact which measures they take against anti-competitive practices occurring on their domestic markets might produce as regards the other Members' national interests and policies, see Article V (positive comity) and Article VI (negative comity) of the Agreement between the Government of the United States of America and the Commission of the European Communities regarding the application of their competition laws of September 23, 1991 as authorized by the Council of the EU on April 10, 1995, OJEC 1995 L 95, 45; Agreement between the European Communities and the Government of the United States on the application of positive comity principles in the enforcement of their competition laws of June 4, 1998, OJEC 1998 L 173, 28; Lampert, *International Cooperation Among Competition Authorities*, Eur. Comp. L. Rev. 1999, 214, 216 et seq. [hereinafter Lampert].

⁶⁸ See UNCTAD Secretariat, 2001; Fullerton, Mazard; Lampert.

⁶⁹ See Fullerton, Mazard, at 407 et seq.; for the EU: Ritter, Braun, Rawlinson, *European Competition Law*, 2nd ed. The Hague 2000, 61 et seq. [hereinafter Ritter, Braun, Rawlinson]; for the USA (and the EU compared): Sullivan, Grimes, *The Law of Antitrust: An Integrated Handbook*, St. Paul 2000, 968 et seq. [hereinafter Sullivan, Grimes].

Members. It is thus a weak provision on many accounts of both negative and positive comity in international antitrust law enforcement. Put positively, it is an invitation to enter into more elaborate bilateral or plurilateral agreements on the matter.

b) Opportunity for consultations (Article 40.4)

4. A Member whose nationals or domiciliaries are subject to proceedings in another Member concerning alleged violation of that other Member's laws and regulations on the subject matter of this Section shall, upon request, be granted an opportunity for consultations by the other Member under the same conditions as those foreseen in paragraph 3.

Article 40.4 provides that Members, whose nationals or domiciliaries are subject to competition law proceedings in another Member relating to restrictive licensing practices, in their turn, may request an opportunity for consultations by the other Member on the same conditions as foreseen in Article 40.3. *Prima facie*, the provision seems to be simply a counterpart to Article 40.3.⁷⁰ This, however, appears not to be the case given that Article 40.4 establishes only a claim to consultation, and not to cooperation and information. If that is the correct reading of Article 40.4, it cannot be aimed at allowing the Member making the request to institute antitrust law proceedings of its own with respect to possible adverse effects of the restrictive licensing practice on its domestic market.⁷¹ Unless the referral to “the same conditions as those foreseen in paragraph 3” is construed broadly so as to include an obligation of information and cooperation, Article 40.4 seems to have a different meaning. It would allow Members to request only consultations with a view to “defending” their nationals and domiciliaries in foreign antitrust law proceedings. Arguably, such a reading of Article 40.4 may correspond to the pro-protection bias of TRIPS.

However, this interpretation may not be consistent, first, with the overall purpose of Article 40. Second, it is inconsistent with the system of TRIPS, which as regards potential disputes between Members, provides for specific procedures in Article 63, and, ultimately, refers Members to Dispute Settlement (Article 64). Third, such reading might be difficult to reconcile with the general principle of international competition law according to which States may generally apply fully their national competition rules to any conduct that affects domestic markets, provided that such adverse effects be sufficiently substantial to warrant control and prevention.⁷² In brief, Article 40.4 would appear to be in need of clarification with a view to making it a real complement to an improved Article 40.3. At the very least, bilateral agreements implementing Article 40.3 should be used to make Article 40.4 properly operational.

⁷⁰ See Gervais, at 193 (para. 2.186); Heinemann, at 246.

⁷¹ See also Heinemann, at 247.

⁷² See Fullerton, Mazard; Ritter, Braun, Rawlinson; Sullivan, Grimes.

5. Relationship with other international instruments

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4. WTO jurisprudence

There is no WTO jurisprudence on disputes relating to either Article 8.2 or Article 40 or, more generally, to competition rules of Members concerning IPR-based restraints of competition. The USA-Japan dispute on *Measures Affecting Consumer Photographic Film and Paper* so far seems to be the only dispute at least indirectly related to matters of competition law. However, the complaint brought by the USA against Japan was not based on a violation of the GATT possibly resulting from the non-enforcement of domestic competition rules against a distribution system for certain photographic material, but on allegations that by various measures the Japanese Government had supported or tolerated the development and existence of a *de facto* closed distribution system, thus denying access to its market contrary to Article XXIII:1 (b) GATT. The Panel Report of March 31, 1998 dismissed the complaint mainly on the ground that it had not been established that market access had been impeded by government action.⁷³ The case thus is evidence of the difficulties of transposing on the GATT-WTO-level a dispute which essentially is one of litigation between private parties or between private parties and States on whether and how competition rules should be applied to private conduct that amounts to restrictions of access to national markets.⁷⁴

5. Relationship with other international instruments

5.1 WTO Agreements

Whereas Articles 8.2 and 40 concern only IPR-related restrictive practices and business conduct, the WTO Agreements do not, as yet,⁷⁵ contain rules on restraints of competition or on anticompetitive practices in general. However, the GATS expressly covers antitrust matters in two provisions.⁷⁶ Thus, Article VIII GATS obliges Members to ensure that monopoly suppliers or exclusive service suppliers (Article VIII (5)) do not act in a manner inconsistent with the obligations and commitments of Members under the Agreement, and also that such monopolists or suppliers do not abuse their monopoly position in markets outside the scope of their legal monopoly. While Article VIII imposes a definite obligation on Members, Article IX, like Article 8.2, only recognizes that service suppliers may engage in restrictive practices, and that, therefore, under such circumstances, Members may intervene. In addition, Article IX (2) provides for an obligation of consultation and of cooperation of Members similar to that contained in Article 40.3 of TRIPS.

Since Articles VIII and IX GATS concern any service-related restrictive practice, they also cover such practices in cases where acquisition, use and exploitation of IPRs are involved. Such cases may occur in many service industries, in particular

⁷³ Panel Report *Japan-Measures Affecting Consumer Photographic Film and Paper* of March 31, 1998, WT/DS44/R; see also Furse, *Competition Law and the WTO-Report: "Japan-Measures Affecting Consumer Photographic Film and Paper"*, Eur. Comp. L. Rev. 1999, 9.

⁷⁴ See Drexl, *Trade-Related Restraints of Competition – The Competition Policy Approach*, in Zäch (ed.), *Towards WTO-Competition Rules*, Berne 1999, 225, 242 et seq. [hereinafter Zäch].

⁷⁵ As regards future inclusion of competition rules, see Section 6.2 below.

⁷⁶ See the text of Articles VIII, IX GATS, under 3.2.1 b) (i) above.

in the context of *de facto* or *de jure* standardization and interconnection. The Agreement on Telecommunications Services expressly points to the risks of misuse of information obtained from competitors and, conversely, the risks of undue withholding of essential information.⁷⁷ Obviously, in both situations, intellectual property, in particular trade secret protection (Article 39 of TRIPS), but also patent and copyright protection may raise particular problems.

5.2 Other international instruments

In the field of competition rules relating to restrictive business practices, the development of international instruments is marked by hesitancy.⁷⁸ There seem to be no other binding international⁷⁹ instruments directly dealing with competition rules that specifically apply to IPR-related restrictive practices. The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, which concerns anticompetitive conduct in general, was adopted by the United Nations General Assembly in 1980 as a non-binding resolution only.⁸⁰ It has the character of a recommendation addressed to Members, and, as such, may have guided the design of competition rules, which so many countries have adopted in recent years.⁸¹

Some instruments, such as the Paris Convention for the International Protection of Industrial Property,⁸² refer indirectly to the existence of abusive practices by dealing with the grant of compulsory licences. The most ambitious effort to establish international rules of competition on IPR-related business practices was

⁷⁷ See Section 1 of the “Reference Paper” accepted by Members as “additional commitments” when signing the “Fourth Protocol to the General Agreement on Services” of February 15, 1997 (reprinted from 36 Int’l Leg. Mat. 354, 367 (1997):

“1. Competitive safeguards

1.1 Prevention of anti-competitive practices in telecommunications

Appropriate measures shall be maintained for the purpose of preventing suppliers who, alone or together, are a major supplier from engaging in or continuing anti-competitive practices.

1.2 Safeguards

The anti-competitive practices referred to above shall include in particular:

a) engaging in anti-competitive cross-subsidization;
b) using information obtained from competitors with anti-competitive results; and
c) not making available to other services suppliers on a timely basis technical information about essential facilities and commercially relevant information which are necessary for them to provide services”.

⁷⁸ For an overview and the various approaches to the establishment of international competition rules see Abdelgawad, *Jalons de l'internationalisation du droit de la concurrence: vers l'éclosion d'un ordre juridique mondial de la lex economica*, Rev. int. dr. écon. 2001, 161; Ullrich, *International Harmonisation of Competition Law: Making Diversity a Workable Concept*, in Ullrich (ed.), *Comparative Competition Law: Approaching an International System of Antitrust Law*, Baden-Baden, 1998, 43.

⁷⁹ For regional agreements see Section 6.3 below.

⁸⁰ Reprinted in 19 Int’l Leg. Mat. 813 (1980).

⁸¹ See for an analysis of the set, its implementation and function in practice Dhanjee, *The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices – an Instrument of International Law?* 28 (1) Leg. Iss. Int’l. Integr. 71 (2001); for a broad account of existing national competition laws, see UNCTAD, *World Investment Report 1997*, Geneva 1998, 189 et seq. and annex A 22 [hereinafter UNCTAD, WIR 1997].

⁸² See also Section 2.1 above.

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the International Code of Conduct on the Transfer of Technology, which was negotiated under the auspices of the United Nations.⁸³ However, the negotiations were suspended in 1985,⁸⁴ and have not been resumed since. The Draft Code⁸⁵ covered both the contract law and the competition law aspects of technology transfer agreements, dealing specifically with restrictive business practices in Chapter 4. This chapter contained a detailed list of stipulations, which basically were deemed to be anticompetitive. Moreover, according to its preamble and its objectives and principles as stated in Chapter 2, the Code was transfer-oriented rather than competition-oriented. It is for these reasons, and due to the general change of circumstances⁸⁶ that Articles 8.2 and 40 relegate the issues to national law within the limits explained in this chapter.

6. New developments

6.1 National laws

The interface between intellectual property protection and competition rules relating to restrictive business practices is a matter of primary concern in most countries having and actually enforcing competition law. In general, the concern is more with technology-related intellectual property rights (patents, trade secrets, copyright for computer programs and copyright-protected databases) than with distribution-related trademark protection (the matter is largely covered by general antitrust rules on vertical restraints regarding the various forms of distribution systems), or with copyright in general (though there are problems in the media industries and as regards the dominant position of collecting societies). Moreover, the concerns have varied over time, and so have the economic and legal analyses of restrictive practices and the resulting terms of the competition rules. These developments are bound to continue as economic insights evolve and technology advances, in particular in the information-based society.⁸⁷ In addition,

⁸³ For the historical development see the "Chronology" in Patel, Roffe, Yusuf, at p. XXVII, and Sell, *Negotiations on an International Code of Conduct for the Transfer of Technology*, *ibid.* at 151 et seq.; Fikentscher, et al., *The Draft International Code of Conduct on the Transfer of Technology*, Weinheim 1980, 5 et seq. [hereinafter Fikentscher].

⁸⁴ See references in the last footnote, and UNCTAD, Secretary-General, *Negotiations on an International Code of Conduct on the Transfer of Technology*, Doc. TD/Code TOT/60 of September 6, 1995.

⁸⁵ For the text of the Draft Code and commentaries relating to Chapter 4 see Fikentscher, at 39 et seq., 64 et seq., 151 et seq.; Patel, Roffe, Yusuf, Annex II (p. 417 et seq.); Thompson, *Overview of the Draft Code*, in Patel, Roffe, Yusuf, at 51, 62 et seq.

⁸⁶ See UNCTAD Secretariat, *The Status of Negotiations: A 1990 Evaluation*, in Patel, Roffe, Yusuf, at 139, 146 et seq.; Roffe, Tesfachew, *The Unfinished Agenda*, in Patel, Roffe, Yusuf, at 381 et seq.; Fikentscher, at 22 et seq.

⁸⁷ These new issues are discussed, *inter alia*, by Church, Ware, *Network Industries, Intellectual Property Rights and Competition Policy*, in Anderson, Gallini, at 227 et seq. [hereinafter Church, Ware]; Anderson, 655, 669 et seq.; De Santi, Cohen, *Competition to Innovate: Strategies for Proper Antitrust Assessments*, in Dreyfuss at 317 et seq. [hereinafter De Santi, Cohen]; Ullrich, *Intellectual Property, Access to Information, and Antitrust*, at 365 et seq.; OECD, *Competition Policy and Intellectual Property*, Paris 1998 [hereinafter OECD] (background note by Tom, p. 21 et seq.; special contributions by Barton, *The Balance between Intellectual Property Rights and Competition*, p. 295 et seq.).

the broadening scope and wider use of intellectual property protection as well as increased tolerance of and reliance on international inter-firm-cooperation may raise new issues both as a general matter and as regards intellectual property, e.g., pool-building, licensing exchanges, joint research and development, etc. It is not pertinent to examine these developments in an exhaustive manner in this book, and the less so as the general theoretical background of economic and legal analysis of antitrust law has changed and is continuously changing. Two examples (the USA, Subsection 6.1.1, and the EU, Subsection 6.3.1) of these important developments could illustrate the character of those changes as well as the evolving nature of competition policies.⁸⁸

6.1.1 The United States

After many years of controversies resulting from the so-called antitrust revolution of the 1980's,⁸⁹ the antitrust law enforcement authorities of the USA have issued Guidelines for Licensing of Intellectual Property, which are based on the following express or implied principles:⁹⁰

- Intellectual property is regarded as being essentially comparable to any other form of property, therefore no particular rules should apply to IPR-related restraints of competition.
- There is no presumption that intellectual property by itself creates market power.
- Unless licensing agreements are concluded between competitors (or at least actual-potential competitors), it is generally recognized that intellectual property allows enterprises to combine complementary factors of production and, therefore, is pro-competitive; this concerns in particular cross-licensing, but also field-of-use, territorial and other limitations on licenses.
- Unless the combined market shares of the parties to a license agreement exceed 20 % of the relevant markets, the antitrust authorities will not intervene (so called "safe haven").

⁸⁸ For an overview see Omer, *An Overview of Legislative Changes*, in Patel, Roffe, Yusuf, at 295 et seq.

⁸⁹ See Bowman, *Patents and Antitrust Law*, Chicago 1973. The "antitrust revolution" in the USA, emerging from the Chicago School, *inter alia* refers to the doctrinal shift under U.S. legal theory to approach vertical and horizontal restraints in licensing agreements. As opposed to earlier practice, *vertical* arrangements such as tying were no longer prohibited *per se*, but were increasingly regarded as causing pro-competitive effects. As a consequence of this approach, antitrust attention focused more on the way *horizontal* arrangements can harm competition and consumers. See *Vertical Restraints with Horizontal Consequences: Competitive Effects of "Most-Favored-Customer" Clauses* (1995), Remarks of Jonathan B. Baker, Director, Bureau of Economics, U.S. Federal Trade Commission, available at <<http://www.ftc.gov/speeches/other/bakersp.htm>>.

⁹⁰ See U.S. Department of Justice, Federal Trade Commission, *Antitrust Guidelines for Licensing of Intellectual Property*, Washington D.C., April 6, 1995 (reprinted in 4 Trade Reg. Rep. (CCH) §13.132 = 49 BNA – PTCJ 714/1995), sub. 2.0, 2.1; Ullrich, *Intellectual Property, Access to Information, and Antitrust*, at 375 et seq., and Gilbert, Tom, *Is Innovation King at the Antitrust Agencies? The Intellectual Property Guidelines Five Years Later*, 69 Antitrust L.J. 43 (2001); note that the Guidelines do not apply to trademark-related restrictive practices.

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- With a few exceptions, license restrictions will not be subject to *per se* rules of unlawfulness, but will be examined on a “rule of reason” basis on the merits of each individual case, the test being whether a given restriction is efficiency-enhancing under the circumstances.

It is clear that such an approach is a far cry from the enforcement policy of the seventies,⁹¹ and from the rules proposed in the Draft Code of Conduct on the Transfer of Technology.⁹²

6.2 International instruments

The OECD Guidelines for Multinational Enterprises,⁹³ which contain a Chapter IX on Competition, and which have been revised and adopted in 2000, remain general and non-binding.

The outcome of ongoing work within the WTO on competition is difficult to predict.⁹⁴ For the time being, WTO Members do not agree on a common approach to the possible inclusion of competition rules in the WTO legal framework. The “Working Group on the Interaction Between Trade and Competition Policy”, which was established by the WTO Ministerial Conference in December 1996, has discussed the interrelationship between the trade-related aspects of intellectual property and competition policy quite extensively.⁹⁵ However, it has only a preparatory role of gathering and defining the issues, not of suggesting solutions or rules.

6.3 Regional and bilateral contexts

6.3.1 The EU

On 1 May 2004, the new EU Regulation on Technology Transfer Agreements entered into force.⁹⁶ This Regulation is the result of the EU’s overhauling and “modernizing” its entire enforcement system as well as reconsidering its policies *vis-à-vis* horizontal and vertical cooperation, and, in particular, its policy *vis-à-vis* licensing agreements.⁹⁷ By a “more economic approach” the Regulation clearly

⁹¹ See Tom, Newberg, *U.S. Enforcement Approaches to the Antitrust-Intellectual Property Interface*, in Anderson, Gallini, at 343, 347 et seq.

⁹² See Section 5.2.

⁹³ OECD, *Guidelines for Multinational Enterprises – Revision 2000–*, Paris 2000, at 26 (text), 53 et seq. (commentary).

⁹⁴ For the various approaches within the WTO see Jenny, *Globalization, Competition and Trade Policy: Issues and Challenges*, in Zäch, 3, 25 et seq.; Petersmann, *Competition-oriented Reforms of the WTO World Trade System – Proposals and Policy Options*, *ibid.* at 43 et seq.

⁹⁵ See WTO, Report of the Working Group on the Interaction Between Trade and Competition Policy to the General Council of December 8, 1998 (WT/WGTCP/2); WTO, Annual Report 1997, 72; Heinemann, *Problems of Intellectual Property Rights and Competition Policy – The Approach of the WTO Working Group on Trade and Competition*, in Zäch, at 299 et seq.

⁹⁶ See Official Journal of the European Union (OJEU) 2004 L 123/11. See also above, under Section 3 of this Chapter.

⁹⁷ See European Commission, Commission Evaluation Report of 20.12.2001 on the Transfer of Technology Block Exemption Regulation No. 240/96 (Technology Transfer Agreements under Article 81) (COM(2001) 786 final). See <<http://europa.eu.int/eur-lex/en/com/rpt/2001/com2001-0786en01.pdf>>.

distinguishes between licensing agreements concluded between competitors and those between non-competitors. A broadly defined (automatic) block exemption is granted, for competing undertakings, where the combined market share of the undertakings party to an agreement does not exceed 20% of the affected relevant technology and product market. For non-competing undertakings, the automatic block exemption is granted where the market share of each of the parties to the agreement does not exceed 30% of the affected relevant technology and product market.⁹⁸ Above these market shares even horizontal agreements would still benefit from a broad rule of reason analysis of each individual case,⁹⁹ the more economic approach being oriented toward an efficiency test similar to that applied in the U.S.¹⁰⁰ A further requirement is that the agreement does not fall under one of the specifically listed hardcore restrictions.¹⁰¹ Finally, the Regulation provides for the possibility to refuse the block exemption to individual obligations in otherwise exempted agreements.¹⁰²

In sum, the EU, though maintaining a critical stand as regards tight territorial restrictions, has approximated its enforcement policy to that of the USA. It remains to be seen what this convergence of the approaches of the two leading antitrust law systems means for the many countries which, upon invitation by the EU or the USA, by self interest and/or in the hope of the establishment of international competition rules, have given themselves competition rules of their own or have revised them recently with a view to enhancing their effectiveness.¹⁰³

With respect to the EU's external relations, the EU has a regular practice of including the same or similar rules of competition, which it follows under Article 81, *et seq.* of the EC Treaty, in all multilateral or bilateral free trade treaties, such as the Agreement on the European Economic Area or the Europe Agreements concluded with Eastern European Countries in view of their accession to the Union.¹⁰⁴ In these cases, the Community's competition policy has to be accepted

⁹⁸ See Article 3, paragraphs 1 and 2 of the EU Regulation on Technology Transfer Agreements.

⁹⁹ The EC Commission has published guidelines on these case-by-case examinations, see *Commission Notice Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements*, OJEU C 101/2 of 27.04.2004.

¹⁰⁰ For the existing differences see Anderson; Marschall; Fox; UNCTAD 1996; and Gutterman, *Innovation and Competition Policy: A Comparative Study of the Regulation of Patent Licensing and Collaborative Research + Development in the United States and the European Community*, London 1997, 217 *et seq.*

¹⁰¹ See Article 4 of the Regulation, referring, *inter alia*, to the restriction of a party's ability to determine its prices; the contractual limitation of output; and certain allocations of markets or customers.

¹⁰² See Article 5 of the Regulation, referring, *inter alia*, to exclusive grant-back clauses.

¹⁰³ See the country reports in OECD and in Heath, Kung-Chung (ed.), *Legal Rules of Technology Transfer in Asia*, London 2002. Note also that Japan has already revised its competition policy regarding IPRs-related restrictive practices, see Arai, *Recent Developments of Japanese Antitrust Policy Regard Intellectual Property Rights*, 46 *Antitrust Bull.* 591 (2001).

¹⁰⁴ See Article 53 *et seq.* with Annex XIV EEA Agreement (OJEC 1994 L1, 1); the "acquis communautaire" listed in Annex XIV is continuously updated in accordance with the EU's secondary law on competition; for other EU free trade areas and the Europe Agreements see Bellis, *The Treatment of Dumping, Subsidies and Anti-competitive Practices in Regional Trade Agreements*, in Demaret, Bellis, Garcia Jimenez, *Regionalism and Multilateralism after the Uruguay Round*, Brussels 1997, 363, 364 *et seq.*

7. Comments, including economic and social implications

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tel quel, including, in particular, the rules on technology transfer agreements. By contrast, in other trade and cooperation agreements only general principles of competition law are provided for.¹⁰⁵

6.3.2 Other regional agreements

Other regional agreements, such as the North American Free Trade Agreement (NAFTA), oblige Parties to take appropriate action against anticompetitive practices; they are also not IPRs-specific, but of a general character.¹⁰⁶ Likewise, the Mercosul/r rules apparently are of a general nature and are not fully implemented.¹⁰⁷

6.4 Proposals for review

There have been no proposals for review on this subject.

7. Comments, including economic and social implications

The relationship between intellectual property protection and competition policy raises complex issues, which have received different legislative solutions and produced a controversial and abundant literature.¹⁰⁸ In the context of TRIPS the following observations appear pertinent.

The design and the importance of competition policy concerning IPR-based restrictive business practices depend on how domestic law has defined intellectual property protection, and whether it has been well defined with respect to the economic conditions prevailing in the relevant market.¹⁰⁹ Competition-oriented systems of intellectual property protection leave less margin for abusive practices.

While the traditional problems of technology transfer in hardware industries persist, new problems have arisen in the service industries, and practices other than those relating to licensing have become more important, in particular, in regard to foreign direct investment,¹¹⁰ cooperation agreements, outsourcing, standardization, interconnection, and access to information.¹¹¹

¹⁰⁵ See e.g., Article 45 of the Partnership Agreement between the African, Caribbean and Pacific Group of States of the one Part, and the European Community and its Member States of the other Part of 23 June 2000 (ACP-EU Agreement of Cotonou, not yet in force, text available at <<http://europa.eu.int/comm/development/cotonou/agreement.en.htm>>).

¹⁰⁶ See Article 1501 et seq. of the North American Free Trade Agreement of December 17, 1992 (reprinted in 32 Int'l. Leg. Mat. 605, 663 et seq.); for relevant IPRs-related trade and competition issues see Anderson, Feuer, Rivard, Ronayne, at 397 et seq.

¹⁰⁷ See Tavares de Aranjó, Jr., Timeo, *Harmonization of competition policies among Mercosur countries*, 43 Antitrust Bull. 45, 57 et seq. (1998).

¹⁰⁸ See Church, Ware; Anderson; De Santi, Cohen; Ullrich, *Intellectual Property, Access to Information, and Antitrust*.

¹⁰⁹ See UNCTAD, 1996, 14 et seq.

¹¹⁰ See UNCTAD, WIR 1997, 135 et seq., 163 et seq., 183 et seq.; Maskus, *Intellectual property rights, foreign direct investment and competition issues in developing countries*, 19 Int. J. Tech'y Management 22 (2000) [hereinafter Maskus].

¹¹¹ See Merges, *Antitrust Review of Patent Acquisitions: Property Rights, Firm Boundaries, and Organization*, in Anderson, Gallini, at 111 et seq.; Ullrich, *Competition, Intellectual Property Rights*,

Competition policy in itself raises considerable problems as concepts of competition vary over time and with respect to the nature and the needs of the markets concerned, in particular, the markets of developing countries.¹¹² One further complexity relates to the relative concept of markets in an economic system influenced by globalization. While Articles 8.2 and 40 clearly, albeit within limits, deem competition policy to be a matter of determination by Members, the new developments and the reduced control over domestic competition policy seem to invite Members to cooperate with regard both to the definition and the enforcement of competition policy. Regional approaches might be an important step in the evolution of international law in this sphere.¹¹³

It is not only the control of mere IPR-related restrictive business practices that matters. The control of other restrictive business practices that may involve intellectual property, and, foremost, the entire competitive environment, are significant factors.¹¹⁴ Intellectual property, by its very nature and function, is competition-dependent. It will work properly only as a means of competition in competitively structured markets.¹¹⁵ Therefore, one major concern should be to establish appropriate conditions of competition that might include, among others, effective regional integration.

In the above context, Articles 8.2 and 40 should not be understood as placing limitations on domestic law, but as invitations to establish an adequate competition policy.

Effective administration and enforcement of an IPR-related competition policy appear to be particularly important as, in view of the interdependency of intellectual property protection and competition, the costs of non-enforcement may be high. Where the efficient functioning of IPRs is impaired by restrictive practices, the market-oriented incentives decline and social costs rise. In this respect, a well-balanced design of intellectual property laws as regards, for example, exceptions for prior users, experimental or fair use, efficient and non-protectionist working requirements and misuse defences, may help both to unburden competition policy and encourage private action against undue claims for protection. Similarly, control of restrictive practices should be armed not only with administrative or criminal sanctions, but also with private remedies such as nullity of restrictive agreements, right to cancellation, and damages.

and Transfer of Technology, at 363, 375 et seq. See also Church, Ware; Anderson; De Santi, Cohen; Ullrich, *Intellectual Property, Access to Information, and Antitrust*.

¹¹² See as regards competition policy and developing countries in general Correa, *Competition Law and Development Policies*, in Zäch at 361 et seq.; UNCTAD, WIR 1997, at 183 et seq.; Godek, *A Chicago-school approach to antitrust for developing countries*, 43 *Antitrust Bull.* 261 (1998); as regards IPRs-antitrust and developing countries see Maskus; Primo Braga, Fink, *International transactions in intellectual property and developing countries*, 19 *Int. J. Tech'y Management* 35 (2000); as to the various and varying goals and concepts of competition policy see Anderson; Marschall; Fox; UNCTAD 1996; Ullrich, *Intellectual Property, Access to Information, and Antitrust*; and generally Ehlermann, Laudati (ed.), *The Objectives of Competition Policy*, Oxford 1998.

¹¹³ See UNCTAD, WIR 1997, at 217 et seq.; Ullrich, *Competition, Intellectual Property Rights, and Transfer of Technology*, at 370 et seq.

¹¹⁴ See UNCTAD, WIR 1997, at 210 et seq.; Zäch, *Competition Law as a Comparative Advantage* in Zäch, at 395 et seq.

¹¹⁵ See Maskus; Ullrich, *Intellectual Property, Access to Information, and Antitrust*, at 371 et seq.

7. Comments, including economic and social implications

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The complexities of the application of substantive competition policy rules relating to intellectual property mean that effective and legitimate control requires specialized and experienced enforcement bodies, both administrative agencies and courts. The task of distinguishing between restrictive practices or an abuse of market power and a reasonable practice to correct problems of risk management will require considerable expertise. A number of WTO Members provide for some administrative control by either advisory or enforcement agencies, whereas courts hear appeals about such agencies' decisions or direct actions by private parties. They may be either courts of general jurisdiction or of specialized jurisdiction, depending on national tradition. As regards specialized courts, it is important that they have experience in both competition matters and intellectual property law.

The establishment of enforcement agencies alongside private enforcement by action of competitors or dissatisfied parties to a restrictive agreement may entail considerable costs that may not, as in civil antitrust proceedings, be distributed between parties (although some of the costs may be compensated by charging them to enterprises violating the antitrust rules either as enforcement expenses or as fines levied on anticompetitive profits). But such administrative costs must be assessed in the light of the social costs resulting from non-enforcement. Experience shows that private enforcement of antitrust rules normally remains incomplete, both in general and in the specific area of the exercise of IPRs, so that administrative control is crucial for the effectiveness of competition policy.¹¹⁶

It appears important for developing countries to consider appropriate legal and economic responses to anticompetitive practices arising from the abuse or the misuse of IPRs. They can tailor applications of their competition laws as desired for this task, subject to the general requirements in TRIPS. Caution is in order, however, because overzealous use of competition law can increase uncertainty and limit incentives for investment, including by local firms, which, in turn, could also raise contracting costs in technology agreements. Again, a balance must be struck between promoting market incentives and the need to limit monopolistic and unfair business practices.

In sum, any implementation of TRIPS by substantive rules of competition policy must take account of a large number of complex factors, such as national and international market conditions and interdependencies and the goals and structure of national intellectual property (including its built-in competition rules such as experimental or fair use, exhaustion, patent or copyright misuse defences).¹¹⁷ Other issues include the specific objectives of national antitrust policy, the adherence of Members to international economic organizations, and the impact TRIPS itself has on competition. This is certainly no easy task and not one that can be complied with by simple and hasty legislation. Rather this is a complex, challenging and time-consuming endeavour with objectives and emphases changing over time.¹¹⁸

¹¹⁶ See UNCTAD 1996, paras. 279, 282, 283.

¹¹⁷ See Ullrich, *TRIPS: Adequate protection, inadequate trade, adequate competition policy*, in: 1995 Pacific Rim Law & Policy Journal, Vol. 14, No. 1 (March), at 154–210.

¹¹⁸ See UNCTAD 1996, para. 277.

