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# **ANTI-COMPETITIVE ABUSE OF IP RIGHTS AND COMPULSORY LICENSING THROUGH THE INTERNATIONAL DIMENSION OF THE TRIPS AGREEMENT AND THE STOCKHOLM PROPOSAL FOR ITS AMENDMENT**

*Haris Apostolopoulos*

## **I. INTRODUCTION**

Intellectual property law poses a risk of abuse of the market power created by exclusivity. For instance, intellectual property licenses have been used to transfer power from one market to another in order to dominate the latter. A sound competition policy should strike a balance between right-to-exclude and right-to-use innovations. The achievement of such balance is one of the stated objectives of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) (Article 7). Article 7 aims at balancing the rights of producers and users of technology, and leaves room for establishing pro-competitive measures that may facilitate access to and further innovation of protected goods and technologies. A strengthened and expanded intellectual property regime is likely to lead to an increase in royalty levels and to the imposition of restrictive business practices that restrain competition. The TRIPS Agreement contains only rudimentary provisions on competition policy. World Trade Organization Member countries can adopt different measures in order to promote competition in a form that is consistent with their obligations under the TRIPS Agreement.

This article will first examine the relevant TRIPS provisions about the anticompetitive abuse of IP rights and the approaches of the EU, U.S. and developing countries on this issue (Part B). It will then proceed to the establishment of an international framework of competition policy and its perspectives (Part C). Part D is devoted to the remedy of compulsory licensing for the abuse of IP rights. Part E will discuss and analyze the Stockholm Proposal for the Amendment of TRIPS.

## **II. ANTICOMPETITIVE ABUSE OF IP RIGHTS**

### *A. The Draft of International Antitrust Code and Other International Attempts*

The proposals of the EU for a multilateral WTO framework for competition policy before the WTO Ministerial Conference in Cancun in 2003 provided for core principles like transparency, non-discrimina-

tion and procedural fairness and a commitment to take measures against hardcore cartels. However, the proposals were opposed by developing countries at Cancun out of concern that their interests would not be accounted for appropriately. These developing countries feared that the competition rules would be used as an instrument to open local markets to multinational firms which would – inconsistently with development policies – push small local enterprises out of market. There was concern that, just as with TRIPS, global standards would be created in favor of the developed countries even though markets are often still fragmented. This critique refers to a trade law-oriented approach to competition policy that focuses on market access. However, a more extensive approach treats international competition policy as an instrument to develop competitively viable local market systems and structures, for example, by creating competent and independent institutions. This view more directly promotes the interests of developing countries and puts less focus on market access issues.

Furthermore, rather than elaborating a concept of misuse, the Draft of International Antitrust Code – which also failed – emphasized the legitimacy of exercising “an intellectual property right within the limits of the legal content of such rights” so as not to “entail restraints of competition.”<sup>1</sup> It prohibited the abuse of a dominant position by obtaining or exercising intellectual property rights, and prohibited pooling these rights “to suppress technology or raise prices.”<sup>2</sup> The only illegal acts the Draft Code expressly recognized in the licensing context are obligations “not to challenge the validity of the licensed right” and “to respect the license right even though [the patent] may have expired.”<sup>3</sup> On the whole, however, the licensor who strays too far from the approved conditions set out in the Draft Code becomes subject to a rule of reason, and must “bear the burden of proof” that he or she has not exceeded the legal scope of the exclusive rights in question.<sup>4</sup>

It should also be borne in mind that despite the failure of the initiative to establish an International Code on Transfer of Technology, in December 1980 the UN General Assembly adopted a “Set of Multilaterally Equitable Agreed Principles and Rules for the Control of Restrictive Business Practices.” It deals with horizontal restraints (such as price-fixing agreements, collusive tendering, and market or

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<sup>1</sup> See Working Group, International Antitrust Code, Draft International Antitrust Code as a GATT-MTO-Plurilateral Trade Agreement, Munich, Germany, July 10, 1993, reprinted in 5 *World Trade Materials* 126 (1993), art. 6 § 1(a), [hereinafter Draft Antitrust Code]; PEDRO ROFFE, CONTROL OF ANTICOMPETITIVE PRACTICES IN CONTRACTUAL LICENSES UNDER THE TRIPS AGREEMENT, IN *INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE* 261, 291 (1998).

<sup>2</sup> Draft Antitrust Code, art. 6, § 1(b) (c).

<sup>3</sup> Draft Antitrust Code, art. 6, cmt. 5.

<sup>4</sup> Draft Antitrust Code, art. 6, cmt. 6.

customer allocation agreements), and with the abuse of dominant position or market power through practices such as discriminatory pricing, mergers, joint-ventures and other acquisitions of control.

### *B. The Relevant TRIPS Provisions*

There are three provisions of the TRIPS Agreement expressly addressing the abuse of IP rights.<sup>5</sup> The first, Article 8.2, acknowledges the right of Members to act against abuse of IP rights, provided such action is consistent with the provisions of the Agreement: "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."<sup>6</sup> Article 8 is essentially a policy statement, which explains the rationales for measures taken under articles 30, 31, 40, rather than a basis for broad exceptions from the TRIPS minimum substantive standards.<sup>7</sup>

The second, Article 40, is a more detailed provision that, by its title and terms, is addressed to anticompetitive licensing practices or conditions. Article 40 of the TRIPS Agreement permits applying competition rules to restrictive business practices in licensing agreements. Some examples of restrictive business practices are given, including exclusive grant-back conditions, conditions preventing challenging to validity, and coercive package licensing.<sup>8</sup> One of the purposes of Article 40 was to restrict the possible ways in which Member countries may control restrictive business practices and, in particular, to prevent developing countries from applying a "development test" to judge such practices as proposed during the unsuccessful negotiations of an International Code of Conduct on Transfer of Technology.

The first paragraph of the preamble to the TRIPS Agreement also notes that IP rights should not themselves act to distort trade: "Desiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that

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<sup>5</sup> See Areeda/Hovenkamp, Antitrust Law 40-12 (Supp. 2004); Hans Ullrich, *Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective* 5 (Eur. Univ. Inst. Working Paper LAW No. 2004/3, 2004).

<sup>6</sup> Heinemann, *Immaterialgüterschutz in der Wettbewerbsordnung* 584 (2002).

<sup>7</sup> DANIEL GERVAIS, *THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS* 68 (1998).

<sup>8</sup> The Brussels Draft of the TRIPS Agreement, which authorized legislative measures against licensing practices deemed to be abusive or anticompetitive, offered instead a very lengthy list of example practices that might be subject to regulation. See GERVAIS, *supra* note 7.

measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.”<sup>9</sup>

### C. US, EU and Developing Countries’ Policies

The ECJ in its *IMS Health* case<sup>10</sup> concluded that it is possible to interfere with the specific subject matter of an IP right on the basis of Article 82 EC imposing compulsory licensing on the right holder, when there exist special circumstances: a) the protected product or service must be indispensable for carrying on a particular business, b) the refusal is such as to exclude any competition on the secondary market, c) the refusal prevents the emergence of a new product for which there is potential consumer demand and d) the refusal is not objectively justified. The ECJ seems to adopt a normative checklist of factors that must exist for the application of Art. 82 EC. This analytical, though not exhaustive, list aims to provide legal certainty. In the U.S., the *Kodak*<sup>11</sup> decision adopted a rebuttable presumption that the exercise of the statutory right to exclude provides a “valid business justification.” *Xerox*<sup>12</sup> went even further, holding that a legitimate holder of a patent or copyright can refuse to license anyone, regardless of intent or effect on competition. The Federal Circuit concluded in the *Xerox* case that a patentee can refuse to license or sell, and is immune under the antitrust laws for that refusal, unless one of the following conditions applies: (1) the patent was obtained by fraud on the PTO; (2) the suit to enforce the patent was “sham” to cover an intent to injure a competitor; or (3) the patent was used as part of a tie-in strategy to extend market power beyond the legitimate confines of the patent grant.

The U.S. requires sharper tools to address challenges in technologically advanced industries. The U.S. courts use a flexible and powerful tool, the misuse doctrine, in order to avoid the adverse effects of compulsory licensing on innovation.<sup>13</sup> Actually, the misuse doctrine is brought by the defendants as an “aggressive” defense against the plaintiff who misuses an IP patent or copyright. The courts can use the flexible-misuse doctrine as a balancing tool when deciding cases at the interface of intellectual property and competition law. In the U.S., the behavior of IP owners is kept in check not only by antitrust law, but also by the judicially created equitable doctrine of patent and copy-

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<sup>9</sup> UNCTAD & ICTSD, RESOURCE GUIDE ON TRIPS AND DEVELOPMENT 1 (2005).

<sup>10</sup> Case C-418/01, *IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*, 2004 E.C.R. I-5039.

<sup>11</sup> *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992).

<sup>12</sup> *CSU L.L.C. v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000).

<sup>13</sup> Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 ANTITRUST L. J. 913 (2001).

right misuse. Because of the legal uncertainty of such a fact-specific misuse approach and the unforeseeable weakening of IP rights in favor of the competition process, especially in a fiction as the Internal Market of the EU, such a misuse defense could not be practically applied in EU law. The misuse doctrine “arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.”<sup>14</sup> The policy rationale was that the misuse doctrine would prevent the IP owner from using the IP right to obtain benefits beyond those granted by statute. While the doctrine “has evolved separately from the antitrust laws. . .it is used to attack patent licensing practices that are claimed to be undesirable from a public policy standpoint.”<sup>15</sup> Misuse can be invoked as a defense by one accused of patent infringement. If successful, a misuse defense renders the IP right unenforceable against anyone until the misuse is eliminated and the effects on the marketplace are purged.

As a general rule, the misuse doctrine has a broader scope than that of antitrust laws, although there are procedural issues (such as standing) that narrow down its application. However, patent misuse may limit the validity of a patent for behavior that does not rise to the level of an antitrust violation. With the exception of non-economic reasons why the doctrine should apply (e.g. fraud on the patent office), this represents a serious flaw in the doctrine itself.<sup>16</sup> The test the Federal Circuit uses in its patent misuse jurisprudence examines whether “the patentee has impermissibly broadened the physical or temporal scope of the patent with anti-competitive effect.”<sup>17</sup>

In the United States, critical attention focuses mainly on the soundness of applying antitrust principles to limit the exercise of statutory monopolies in ways that appear to undermine the intended balance between IP protection and free competition. The tendency is to apply a rule of reason – rather than *per se* restraints – in most cases.<sup>18</sup> The extent to which courts can strike down allegedly abusive licensing clauses without establishing full-fledged violations of the antitrust

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<sup>14</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

<sup>15</sup> See Andewalt, Competition Policy and the Patent Misuse Doctrine, Remarks before the D.C. Bar Association (Nov. 11, 1982), Pat. in TRADEMARK & COPYRIGHT J. (BNA) 41, 42.

<sup>16</sup> *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969); *Heinemann*, Immaterialgüterschutz in der Wettbewerbsordnung 586 (2002).

<sup>17</sup> *Windsurfing Int'l Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986).

<sup>18</sup> *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed.Cir.1986); *Windsurfing Int'l, Inc.*, 782 F.2d 1001-02 (“Recent economic analysis questions the rationale behind holding any licensing practice *per se* anti-competitive”); ROFFE, *supra* note 1.

laws has proved particularly controversial.<sup>19</sup> In the European Union, greater emphasis is placed on "abuse of a dominant position" and on the need to improve the free flow of goods between member-states generally.<sup>20</sup> In addition, considerable efforts are made to encourage legal certainty by distinguishing permissible from impermissible licensing clauses in the abstract. Nevertheless, these abstract criteria have so far proved hard to apply with any degree of coherence,<sup>21</sup> and in Europe a more *laissez-faire* attitude has presaged a drift toward more rule-of-reason analysis in practice, with its uncertainties.<sup>22</sup>

Deregulation, privatization and the liberalization of trade pose new challenges for developing countries. By breaking up former state monopolies, states seek to ensure that the new entities do not engage in restrictive business practices.<sup>23</sup> Developing countries might be encouraged to explore, in this respect, the possibility of minimizing the impact of the TRIPS obligations by introducing extensive national competition law requirements. In less-developed countries, however, the efficiencies produced by coordinated and cooperative decision making are sometimes needed to pool all the technical and capital capacity available. Without violating some competition norms of developed nations, these nations may have considerable difficulty in modernizing. States lacking intellectual property protection prior to TRIPS did not have rights that could be abused. Non-market economies had no need for antitrust laws and many developing countries still have not reached a stage where competition policy is of major concern. In other words, the early stage of antitrust development in these countries does not allow us to draw a general conclusion about the application of competition law that the developing countries follow on the abuse of IP rights.

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<sup>19</sup> See 35 U.S.C. § 271(d) (1986 & Supp. VI 1991), amended by Pub. L. No. 100-73, 102 Stat. 4674 (1988); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982).

<sup>20</sup> See, e.g., VALENTINE KORAH, AN INTRODUCTORY GUIDE TO EEC COMPETITION LAW AND PRACTICE (4th ed. 1990).

<sup>21</sup> See Hanns Ullrich, *Patents and Know-How, Free Trade, Interenterprise Cooperation and Competition Within the Internal European Market*, 23 IIC 583, 604 (1992).

<sup>22</sup> See Ben Smulders, *European Community Competition Law and Licensing Agreements*, 20 BROOK J. INT'L L. 25 (1994).

<sup>23</sup> Susan Sell, *Intellectual Property Protection and Antitrust in the Developing World: Crisis, Coercion, and Choice*, 49 INT'L ORG 315, 336 (1995).

### III. DYNAMIC COMPETITION FOR INNOVATION AND THE TRIPS

#### A. *The Problem of International Consensus*

The “method of implementing” the TRIPS Agreement’s provisions can be freely determined within the “own legal system and practice” of each country. There are considerable differences between national legal systems for IP rights, particularly between those based on Anglo-American law and those that follow the approach of continental European law. The question of whether a particular practice “unreasonably” restrains trade involves a classical balancing test, taking into account the effects of conduct on consumers or industrial policy interests. It has been applied with significantly different results not only in different legal systems, but in the same legal systems over time. So far, the principal limitation in the TRIPS Agreement is that competition measures be consistent with it; this is a “soft” limitation. It is conceptually possible for developed countries to seek negotiation of a list of prohibited or presumptively prohibited anticompetitive restraints that would act as the outer limit of discretion for competition authorities in developing Members. Such an exercise seems unlikely to succeed in light of the need to achieve consensus on a list of practices.

The problem is rooted in an imbalance in political and economic power, not in the language of the TRIPS Agreement. For example, Article 40.3 of the TRIPS Agreement provides for consultations and furnishing of non-confidential information, and for furnishing other information subject to the national law of the requested Member.<sup>24</sup> It is difficult to know the extent to which the national law of a Member will or will not permit the mandatory furnishing of business information to the authorities (or private complainants) in another Member. Developing Members pursuing competition cases may have great difficulty obtaining critical information from private enterprises in developed Members.

#### 1. *Innovation-based Competition Policy of Economic Efficiency or/and Fairness?*

The U.S. approach relies on a control of market results in the sense of an efficiency approach, while European approach has used a combination of market structure and market conduct control. Despite the fact that the efficiency approach is winning over a growing number of supporters in Europe, this approach is not absolutely convincing. The basic method of the efficiency approach is to look at the outcome of the conduct or to the enterprise acting in the market and evaluate whether positive effects outweigh negative ones. The outcome of the

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<sup>24</sup> Heinemann, *Immaterialgüterschutz in der Wettbewerbsordnung* 592 (2002).



conduct and its efficiency are determined. To come to a conclusion, an accurate and extensive economic analysis of the individual case is necessary. Such an analysis is difficult and extremely expensive for the public authorities and courts, especially in the least developed countries. The European Union's approach now follows a trend set by the United States, in particular by the Department of Justice's and the Federal Trade Commission's Antitrust Guidelines for the Licensing of Intellectual Property.<sup>25</sup> The aim of the competition analysis is to bolster the licensor's incentives to innovate.

In this context, countries possessing market power will have considerable leverage to push other countries to abandon dissemination-oriented competition rules as an impediment to investment, in exchange for access to markets. From the perspective of innovation-oriented countries, access to other markets by virtue of dissemination-based competition rules normally is not an issue. On the contrary, they would like to control these markets, too, so as to further protect and bolster their own innovation efforts.<sup>26</sup>

Within the TRIPS framework, an innovation-oriented competition policy would only in exceptional cases allow authorities to limit excesses of IP protection, namely, when they attract regulatory attention precisely because they obstruct innovation. Instead of relying on competition policy to control excessive intellectual property protection, Members may directly revise their IP laws to provide adequate levels of protection consistent with the flexibility that the TRIPS Agreement affords. Indirectly, however, a competition policy that views IP-related restrictions through the lens of innovation and incentives raises problems for the balanced operation of the Agreement. An innovation-based competition policy also tends to undermine the dissemination-oriented technology transfer objective of the TRIPS Agreement, and, generally speaking, the goal of technology access that has become so crucial today.

Where social goals conflict with economic efficiency, both goals cannot be materially promoted. The undeviating pursuit of wealth dispersion and the small size of firms at the expense of efficiency will be costly in small economies, because inefficient firms will be preserved in the market. Moreover, regardless of the appropriateness of consid-

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<sup>25</sup> Compare Commission of the European Communities, *Evaluation Report on the Transfer of Technology Block Exemption Regulation 240/96*, (Brussels 2001) 186, 187, and Commission Regulation 772/2004, 2004 O.J. (L 123) 11-12 (EC), with U.S. Dep't of Just. & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.3 (1995), available at <http://www.usdoj.gov/atr/public/guidelines/0558.htm> (providing pertinent U.S. antitrust law).

<sup>26</sup> See Hanns Ullrich, *Expansionist Intellectual Property Protection and Reductionist Competition Rules: A TRIPS Perspective*, 7 J. INT'L ECON. L. 401, 427 (2004).

ering non-economic goals of antitrust policy, which might include, dispersed control of economic resources, fairness concerns and concern for small business, the result remains that the economic interests of nations are often inconsistent, making an international agreement on antitrust policy unlikely.

According to Art. 7 (a) (iii) of the Stockholm-Proposal for the Amendment of TRIPS,<sup>27</sup> fairness of trade in the interests of all three groups concerned – producers, traders and consumers – is added as an important and obvious parameter of the IP rights equation, which is also reflected in the principle laid down in Article 8b. This supports TRIPS Articles 39 and 40, which address protection of anticompetitive licensing practices or conditions that restrain trade respectively, including anticompetitive practices arising from the abuse or misuse of IP rights. The use of the “fairness” term shows that the Member countries are not ready to adopt the US-efficiency approach.

## 2. *Trade-Policy-Driven or National-Based Competition Policy?*

Because the TRIPS Agreement was negotiated and conceptualized as a trade agreement, it is based on the principles of territoriality, the protection of home markets and substantive trade reciprocity,<sup>28</sup> rather than on principles of protecting the competition process, let alone on principles of protecting the intellectual property or competition regimes of other Members or in their markets. Articles 8.2 and 40.2 limit the Members’ sovereign power to prescribe national competition policy by requiring measures to control abusive or anticompetitive practices that are consistent with the provisions of this Agreement.<sup>29</sup> It means that they may not use antitrust regulation as a pretext to undermine the protection of IP rights as guaranteed by the TRIPS Agreement.<sup>30</sup> This kind of conflict could also be avoided through judicial interpretation of the national courts. At a minimum, the TRIPS Agreement is an international convention dealing with intellectual property rights and arising issues of competence of WTO Panels with regard to antitrust values, and not competition law.

A competition policy for TRIPS must reflect the new dimension of intellectual property protection when applying traditional antitrust

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<sup>27</sup> Copy with the author; see also Part E.

<sup>28</sup> For a more detailed analysis, see Hanns Ullrich, *Technology Protection According to TRIPS: Principles and Problems*, in FROM GATT TO TRIPS—THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 357, 361 *et seq.*, 377 *et passim* (1996) [hereinafter Ullrich, *Technology Protection According to TRIPS*].

<sup>29</sup> The UNCTAD Secretariat, *The TRIPS Agreement and Developing Countries*, 54 (1996) describes it as a “proportionality test.”

<sup>30</sup> See also Ullrich, *supra* note 26.

concepts. Thus, competition analysis should account for the adequate levels of protection achieved internationally. In this respect, territoriality must be viewed critically in the context of internationally harmonized intellectual property protection and global competition across national markets.<sup>31</sup> As TRIPS forecloses such national policies in the interest of international innovation and trade in technology, territoriality may no longer be allowed to separate, for example, licenses according to national territories where economically the licenses are intended to be coherent parts of an international licensing strategy covering a global market. Antitrust is by no means bound to take intellectual property-based territorial divisions as given. Rather, it would tend to disregard the artificial territoriality of international intellectual property that has been harmonized for the global extension of markets.

However, competition law generally remains within the residual territorial jurisdiction of the WTO member states, and a review of state practice in the developed countries reveals no consensus concerning applications of the abuse or misuse doctrine to specific cases. The TRIPS Agreement reflects this lack of consensus by expressly allowing states to regulate abuses of intellectual property rights as they deem fit, subject to certain duties of cooperation<sup>32</sup> and consultation,<sup>33</sup> without endorsing any particular approach to this subject. Realistically and practically, there is still only one way: national-based competition law.

### *B. How Strong are the Chances of Convergence or Harmonization?*

Several premises motivate a relatively cautious view toward trade-policy-driven harmonization. To achieve clear and unified rules, jurisdictions would be required to adopt similar competition rules, and to ensure their harmonized interpretation and application. Given that efficiencies vary widely from one industry to another, such that no general presumptions can be made based on market structure alone, this requires a case by case or industry-specific analysis of the potential efficiencies in each specific market setting. Moreover, given the ability of larger, more dominant nations to impress their will on smaller jurisdictions, such negotiations carry a serious risk of grossly discounting the domestic considerations of smaller, weaker economies.

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<sup>31</sup> See also Ullrich, *Technology Protection According to TRIPS*, *supra* note 28, 361 *et passim*.

<sup>32</sup> See Council Decision on Uruguay Round of Multilateral Trade Negotiations, Annex 1C, art. 40(3), 1994 O.J. (L 336) 319, 337 (EC).

<sup>33</sup> See at 321 (EC); J.H. Reichman, *From Free Riders to Fair Followers: Global Competition under the TRIPS Agreement*, 29 N.Y.U. J. INT'L L. & POL. 11, 54-55 (1997).

In an international context, where the harmonization of IP rights can mask the erection of legal and economic barriers to entry that may retard the developing countries' efforts to improve their own technical capabilities, the corrective role of competition law becomes even more problematic.<sup>34</sup> On one hand, the developing countries may legitimately seek to correct anti-competitive practices stemming from any abuse of market power that the grant of exclusive intellectual property rights seems to aggravate.<sup>35</sup> On the other hand, overzealous resort to the rules of competition law in this area, as in others, breeds uncertainty and can reduce incentives for firms to invest in a reforming economy. However, twelve years after the adoption of the TRIPS Agreement and the introduction of IP regimes in all national jurisdictions according at least to minimal standards, there is an international need and shift towards some more free space for the competition process and the dissemination values. This shift represents the first attempts to amend TRIPS, by adding antitrust law provisions. Since a consensus on the international level is impossible, the only way of converging the different legal systems is through harmonizing IP rights on minimum standards as the TRIPS Agreement has already done and adding competition values on a minimum level in a generally formulated way, as the Stockholm Proposal aims to do.<sup>36</sup>

#### IV. COMPULSORY LICENSING

##### A. *The TRIPS Provisions*

A compulsory license is an authorization given by the government for use of a patent or copyright by a third party, without the consent of the right owner.<sup>37</sup> Article 31 of the TRIPS Agreement expressly allows the granting of compulsory licenses under certain "reasonable commercial terms and conditions."<sup>38</sup> It specifies when an exception in the form of compulsory licensing legislation is allowable. Presumably, a member state cannot rely on Article 30's general exceptions clause to justify a compulsory licensing regime, but must instead demonstrate compliance with Art. 31.<sup>39</sup> However, no specification is made in the Agreement on the grounds under which such licenses can

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<sup>34</sup> See Eleanor M. Fox, *Trade, Competition, and Intellectual Property: TRIPS and Its Antitrust Counterparts*, 29 VAND. J. TRANSNAT'L L. 481, 486-91 (1996).

<sup>35</sup> See Council Decision on Uruguay Round of Multilateral Trade Negotiations, *supra* note 32.

<sup>36</sup> See Part E.

<sup>37</sup> Not for trademark rights since TRIPS explicitly states "compulsory licensing of trademarks shall not be permitted". Council Decision on Uruguay Round of Multilateral Trade Negotiations, *supra* note 32.

<sup>38</sup> *Id.*

<sup>39</sup> GERVAIS, *supra* note 7 at 242.

be granted. A particular, but not exhaustive, reference is made to cases of national emergency or extreme urgency, dependency of patents, licenses for governmental non-commercial use, and licenses to remedy anti-competitive practices.<sup>40</sup> For instance an explicit recognition of “refusal to deal” may be recognized as a ground for compulsory license.<sup>41</sup>

Article 31(k) of the TRIPS Agreement, acknowledges that compulsory licensing is a remedy available to correct abuse of patents, providing:

“Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anticompetitive. 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.”<sup>42</sup>

Article 31(k) is the only part of the TRIPS compulsory licensing rules that incorporates a waiver of the condition that compulsory licenses must be issued “predominantly” for the supply of the domestic market. A complainant who seeks a compulsory license under Article 8(2), to rectify abuse of a patent, will remain exempt from both the duty to negotiate and restrictions on exports, provided that some judicial or administrative authority deems the patentee’s conduct anticompetitive.

### B. EU and US Approaches

In its *Microsoft* decision, the European Commission ordered Microsoft to disclose interoperability information to its competitors on the work group servers market.<sup>43</sup> As to the terms of this mandatory disclosure, the Commission provided that “Microsoft must not be allowed to render the order to supply ineffective by imposing unreasona-

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<sup>40</sup> Licenses to remedy anti-competitive practices are subject to special treatment with regard to the remuneration to be paid to the IP-holder. See Council Decision on Uruguay Round of Multilateral Trade Negotiations, *supra* note 32.

<sup>41</sup> As accepted under many national laws, a compulsory license may be granted for “refusal to deal” when the patent holder has refused to grant a voluntary license on reasonable commercial terms, particularly when this prejudices the development or establishment of a commercial or industrial activity or the supply of an export market. See, e.g. Patents Act, 1977, c. 37, § 48A (Eng.).

<sup>42</sup> Council Decision on Uruguay Round of Multilateral Trade Negotiations, *supra* note 32.

<sup>43</sup> Commission Decision Relating to a Proceeding under Article 82 of the EC Treaty, ¶ 1005, at 279, COM (2004) 900 final (Mar. 24, 2004).

ble conditions with respect to the access to, or the use of, the information to be disclosed”<sup>44</sup> and that “Microsoft must disclose the specifications and allow the use thereof on a non-discriminatory basis.”<sup>45</sup> It also states, “The requirement for the terms imposed by Microsoft to be reasonable and non-discriminatory applies in particular: (ii) to any remuneration that Microsoft might charge for supply; such a remuneration should not reflect the “strategic value” stemming from Microsoft’s market power in the client PC operating system market or in the work group server operating system market.”<sup>46</sup>

In the *Magill* case,<sup>47</sup> the ECJ approved the Commission’s decision to order a license on terms which were “reasonable” and “non-discriminatory.” To set fee levels under a formula of compulsory access in a vertically integrated, two-market situation, courts must attempt to approximate a regulator’s task. The process would gain in clarity and predictability if the Commission provided more precise guidelines<sup>48</sup> on the methodologies to be relied upon by the authorities. More guidance is needed when courts are asked to rule or provide advice on price or other important technical issues.

However, even where there has been an antitrust violation, compulsory licensing is not favored in US law as a remedy. The advantages of compulsory licensing are outweighed by administrative difficulties. The courts would have to supervise the process with no way of determining what a “reasonable” royalty rate would be. It is clear from the case law and commentary that IP owners risk compulsory licensing of their property only if: a) they are a monopolist for a particular treatment, b) have some intent to foreclose competitors from that particular treatment, c) or are otherwise engaging in anti-competitive activity. Generally, the patent right itself will be a legitimate business justification for refusing to license a patent. In its *Trinko* judgment,<sup>49</sup> the Supreme Court suggests that decisions over access prices are not a matter for a court. In the opinion of the Court, mandating access would turn antitrust courts into “central planners.” Access pricing decisions cannot be dismissed as secondary issues. All those who have been involved in access issues know that what often matters the most is not so much whether access should be given, but at

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<sup>44</sup> *Id.*

<sup>45</sup> *Id.* ¶ 1006.

<sup>46</sup> *Id.* ¶ 1008.

<sup>47</sup> Joined Cases C-241 and 242-/91, *Rado Telefis Eireann v. Comm’n*, 1995, E.C.R. I-743.

<sup>48</sup> See Andreas Heinemann, *Compulsory Licensing and Product Integration in European Competition Law*, 36 IIC 63,70 (2005).

<sup>49</sup> *Verizon Comm. Inc. v. Law Offices of Curtis Trinko*, 540 U.S. 398, 408 (2004). See also Daniel Kanter, *IP and Compulsory Licensing on both Sides of the Atlantic—An Appropriate Remedy or a Cutback Innovation?*, 27 E.C.L.R. 351, 357 (2006).

which price it should be given. From the above analysis, it is obvious that among developed countries there are different application of anti-trust rules and the remedy of compulsory licensing.

### *C. Different Approaches and Different Remedies*

A serious impediment to international cooperation in antitrust policy is enforcement. The problem of enforcement is conceptually simple. Antitrust policy is generally expressed through relatively vague statutes and enforced mainly by government authorities and independent antitrust agencies. These authorities inevitably have some discretion in their choice of actions to pursue. Consequentially, antitrust policies that are statutorily similar may produce radically different results when enforced. This is particular true in countries where market economy is not applied or has not always existed. Antitrust law and enforcement is not a primary concern of these countries. Additionally, this does not account for the socio-cultural differences in countries which do not seem to take antitrust law into serious consideration.

Due to their differing needs, developing and developed nations have contrasting viewpoints concerning compulsory licensing. Developing nations fear that multinational companies will exploit local consumers by charging higher prices for goods made in foreign countries.<sup>50</sup> The result is a populace that becomes dependant upon goods for which there is no local production. This argument seems to have particular legitimacy where the product is essential to the well being of the populace. For these reasons, developing nations are generally strong advocates of maintaining a system which allows for compulsory licensing. These regulations limit the scope of protection and rights available to foreign companies and individuals. However, a system of compulsory licensing could have the effect of making investment in patented inventions less secure and less attractive.<sup>51</sup> Compulsory licensing is therefore viewed as having no place at all in U.S. IP law.

## V. THE STOCKHOLM-PROPOSAL FOR THE AMENDMENT OF TRIPS<sup>52</sup> AND ITS IMPLICATIONS

### *A. Introductory remarks*

Following the general idea that the TRIPS Agreement should be transformed into a more balanced instrument, Article 41a is pro-

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<sup>50</sup> Gianna Julian-Arnold, *International Compulsory Licensing: The Rationales and the Reality*, IDEA 1993, 349, 351.

<sup>51</sup> *Id.* at 352.

<sup>52</sup> Copy with the author.

posed through the Stockholm Proposal. The proposed article is included in order to emphasize that Member countries are under an obligation to provide for efficient sanctions with regarding IP infringement rights. Additionally, countries must also monitor and deter right holders from misuse or abuse of their rights, particularly regarding unjustified claims. The proposed provision does not seek to regulate these aspects in more detail. It is, however, submitted that the general aim and motivation of the drafters of this Proposal was to achieve an overall balance. Competition aspects are justified within TRIPS because the restrictions imposed by an intellectual property regime may often constitute an impediment for international trade.

Moreover, the main rule of the proposed Article 8c, paragraph 1, stipulates that Members are not only free, but also obliged, to take action by imposing either individual remedies in the form of compulsory licenses, or by enacting legislation. These obligations are imposed if the following conditions are met: (a) competition on the relevant market is completely blocked by an intellectual property right, unless the adaptation of remedies would lead to undesirable results; (b) the exercise of an intellectual property right constitutes an abuse [and/or misuse] of a dominant position on the relevant market. By making Article 8c mandatory, Members would be under an obligation to establish a functioning system that enables them to monitor the effects of intellectual property on competition and to provide for adequate remedies in case of distortions.

Consequently, IP rights lose their justification in a situation when there is no competition at all (i.e. when the right holder has full control over the relevant market, with no substitutable goods or services being available). However, even under an approach which favors total blocking competition, no administrative or legislative measures should be applied if this would be contrary to the overall aim to enhance innovative activities. These considerations are deemed to rest within the discretion and responsibility of the individual Members.

The proposed provision therefore goes no further than stating the general principle, without embarking on an effort to regulate any details. The general and abstract wording of the proposed provision does not make any distinction between the terms "abuse" and "misuse." This is noteworthy since these terms are currently used differently in the EU and US (in the US more broadly than in the EU). Also, the Proposal does not define a way of finding the "undesirable effects" on the competition process. Should it be an efficiency or fairness test? The proposal allows the Members to choose the appropriate test due to the differing legal systems that exist among developed and developing countries on this issue.

Moreover, the Proposal allows the Members to determine the appropriate sanctions for an anticompetitive abuse of IP rights case,



including compulsory licensing. This in turn could lead to a competition of systems and a "race to the bottom" that is unacceptable from a regulatory perspective. However, antitrust law is virtually in all jurisdictions, acting as the classic field of mandatory rules which triggers compulsive application in each case. In order for a proposal with specific remedies to work, it is necessary to give up the idea that some basic regulatory positions are an immanent part of every national legal order. This does not seem to be realistic at present.

However, the imposition of compulsory licensing as a potential remedy for IP rights abuse, allows for a wide range of discretion within the courts. This is especially true in developing countries and will depend on how broadly or narrowly they apply this possibility. One could say that such an option could become a backdoor for the "development test" to be applied by the courts of developing countries. In other words, they could incorrectly consider the issues of a countries development, instead of competition, in their decisions.

Finally, the inclusion of competition law within the TRIPS proposal means that future competition law may be considered to be a part of "WTO law." This means that the WTO Panels will be competent to decide intellectual property disputes with an antitrust dimension. This will ensure that they do not have to look outside TRIPS or run the risk of incompetence. This facilitates the adoption of competition policy arguments and considerations in the decisions of the WTO. The imminent endorsement of competition values in IP rights (such as fair use, merger doctrines or functionality issues in copyright), will have to be taken into consideration by WTO Panels.

#### *B. The Relation of the Proposed Article 8c to Art. 13 and 30 TRIPS*

Members are free to adopt competition policies based upon national or regional laws in order to check the use of IPRs. The only and important problem of the existing competition provisions in TRIPS is their voluntary character. Neither the preamble nor Article 8(2), 31 or 40 of the Agreement obliges the Members to limit the use of IP rights. The TRIPS Agreement creates an obligation on Members to implement IP rights standards under a process monitored by the WTO. Nevertheless, it is unlikely that many countries will implement sufficient and effective competition rules on their own. Therefore, many countries are likely to be left with an unbalanced system. The result is a preference for IP right protection, mainly for foreign right holders. This may potentially be to the detriment of competition within the respective countries home markets. Assessing different interests towards competition policies is as difficult as it is necessary to bring about a reasonable framework for potential global rules. We look at interests in industrialized and developed countries alike. It should be stated that Members of the WTO with elaborated competition policies at home do not

need global rules in the first place. There is no need to adopt international standards in order to keep a balance. Since this is true, the application of extraterritorial competition rules (effects doctrine) brings about a global reach in order to defend against the negative effects on their own markets.

What is new about the Stockholm-Proposal is that Art. 8c obliges the Member countries to introduce either individual remedies in the form of compulsory licenses, or by enacting legislation. The question that arises is whether Art. 8c applies independently from the exceptions of the already existing Art. 13 and 30 TRIPS. Art. 13 and 30 TRIPS refer to "limited exceptions from the exclusive rights of copyright and patent, which do not unreasonably conflict with a normal exploitation and do not unreasonably prejudice the legitimate interests of the IP owner and third parties."<sup>53</sup>

The concept of the abuse of law is elusive. It does not lend itself to clear and fast rules, but inherently depends on a case-by-case assessment. This case-by-case assessment would most frequently fulfill the requirements of Art. 13 and 30 TRIPS. This is especially in developed countries where antitrust law has a long history of judicial experience. On the other hand, the proposed Art. 8c could become leverage for developing countries, enabling them to circumvent IP rights and Art. 13 and 30 TRIPS. Future WTO Panels will have to consider these various issues. The substantive antitrust analysis (market definition, market power analysis, balancing of pro- and anti-competitive effects) will be made by the national courts and antitrust authorities. The WTO Panels will have to supervise and examine whether the national courts and authorities have violated the limited exemptions of Art. 13 and 30 TRIPS. Existing provisions will be considered a general framework, acting as a second step of examination by the WTO Panels with regard to the first step of the more specific proposed Art. 8c TRIPS. In other words, the WTO Panels will only make decisions on whether the right procedures have been followed, serving as a surveillance body similar to the Council for TRIPS. For the time being, there is still no realistic way of curtailing jurisdiction of Member countries and shifting competence from the national competition authorities to a new international authority.

## VI. CONCLUSION

However well and objectively reasoned it may be in terms of economic theory, every policy approach is chosen in accordance with political and economic interests. Such interests are either directly made by rulemakers and governments, or indirectly by administrative or judicial authorities as they implement what they consider those in-

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<sup>53</sup> *Id.*

terests to be. It is foreseeable that a typical globalization problem may arise. On one hand, multinational industry interests will center on operating and benefiting from transnational markets. However, this may conflict with the nation states' interests in protecting and promoting industry within their own domestic markets. Economic globalization and a country's desire to maintain interdependency within global, regional, and national markets creates a certain tension. If there is a desire to encourage an international harmonization of competition law, success will be unlikely if this attempt is based on either the interest-biased trade rationale of the TRIPS Agreement or on a policy approach to competition law. Many of the antitrust problems have an international dimension. The fact that a problem has an international dimension, however, does not mean that it should be solved by international rules. That which can be handled at the national level should be done so, to avoid unnecessary intrusion on nations' ability to choose.

The Stockholm-Proposal for the Amendment of TRIPS makes a very crucial step forward regarding the international balance between the protection of the IP rights and that of the competition process. The addition of even general and abstract competition values and rationales within the TRIPS provisions brings international attention to the competition process and the possible dangers that an overextension of IP rights could enhance. Furthermore, the Proposal gives the WTO Panels the competence to include competition values and thoughts in their decisions.

The proposed Amendment, which would oblige the Member countries to introduce competition values in their IP laws or to use competition law to prevent the overprotection of IP rights, will bring attention to a common misunderstanding. Countries will realize that while the TRIPS Agreement explicitly protects IP rights, IP rights are not sent by God. They require a constant economic justification in order to exist. They only exist since they foster innovation and enhance the competition process. The TRIPS Agreement of 1994, facing the international challenges and realities of that era, internationally imposed the existence of minimum protection of IP rights. Currently, IP rights are not only spread and recognized worldwide, but in some cases and countries, they are also overly expansive. It is high time to realize that the ultimate goal is not to protect the IP rights as such, but to protect the effective, efficient and innovative competition and market process at the national and international level.