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MyCC Guidelines on Intellectual Property Rights and Competition Law

It has been nearly a decade since the Competition Act 2010 ("the Act") came into force in Malaysia and the tension between the protection of Intellectual Property Rights ("IPR") and Competition Law is ever increasing.

Recognising the need to address the tension and to inject more clarity into dealings and transactions relating to IPRs, the Malaysian Competition Commission ("MyCC") recently introduced the Guidelines on IPR and Competition Law ("the Guidelines") to give guidance on MyCC's approach on interaction between competition law and the various conduct and/or dealings relating to IPRs. The Guidelines can be accessed here.

The coming into force of the Guidelines on 6 April 2019 is timely as Malaysia seeks to create a stronger and more competitive business environment through the implementation of an effective IP regime.

At the outset, mere ownership of IPRs is not anti-competitive and does not necessarily confer market power. In the Guidelines, MyCC has set out illustrations to explain scenarios in the context of IPR related dealings / conduct which may be prohibited under:

- Section 4 of the Act in respect of anti-competitive agreements (horizontal and vertical); and
- Section 10 of the Act which addresses abuse of dominant position.

Defining relevant market where IPRs are involved

For conduct involving IPR, MyCC defines the relevant market as follows:

- Product market
- Technology market
- Innovation or R&D mark

However, in cases involving the licensing of IP, the determination of the relevant market is *irrelevant* as MyCC will focus on the legal rights granted to the licensee instead. It should be emphasised that generally, MyCC considers licensing of IPRs to be pro-competitive. Nevertheless, there are arrangements within the licensing scheme which may be considered anti-competitive.

Vertical and Horizontal IP Licensing Agreements

Vertical agreements

The relationships between (i) a licensor and licensee or (ii) a manufacturer and retailers in the downstream market are regarded as vertical agreements as they are enterprises which operate at a different level in the production and distribution chain. In determining if the agreement is anti-competitive, MyCC will ascertain if the agreement has the object or effect of significantly preventing, restricting or distorting competition.

Some vertical agreements may be considered to be anti-competitive, for example, where a patent owner fixes price at both wholesale and retail levels where its patent would have been exhausted when it releases the patented product at the wholesale level, or where tying occurs where a patent owner refuses to sell a patented product unless the buyer also buys other products from the patent owner.

The Guidelines also set out that exclusive licensing and imposing territorial and field-of-use restrictions are not generally considered to be anti-competitive. However, such arrangements may be of concern if they involve the following:

i. Foreclosing access to competing technology;
ii. Preventing licensee from developing their own technology;
iii. Facilitating market allocation;
iv. Fixing price for any products or service supplied by the licensee; or
v. Restricting resale subsequent to the first authorised sale of the patented products.

It is pertinent that competition law prevents restrictions on parallel importation. MyCC takes the view that such agreements that divide the market and preclude all cross-border trade are anti-competitive. Therefore, any attempt to restrict parallel importation by using absolute territorial licensing to control or prevent parallel importation may be viewed as anti-competitive.

In technology licences, it is typical to find grant back clauses which provide for assignment or license back to the licensor of any improvements, patented or non-patented, by the licensee. The Guidelines acknowledge that grant-back clauses can be pro-competition in principle. However, they may be considered to be anti-competitive if the compensation is inadequate or if there are circumstances which inhibit the licensee from improving the licensed technology.

Horizontal agreements

Horizontal agreements are agreements between undertakings operating at the same level of the production or distribution chain. Under section 4(2) of the Act, certain kinds of horizontal agreements are deemed to be anti-competitive and MyCC does not need to determine their anti-competitive effect. Market share is also not relevant. The Guidelines set out some of the possible anti-competitive horizontal agreements.

In a scenario where two IP owners license their respective IPRs and impose an obligation on their licensees to obtain supplies from a particular source at a fixed price which is higher than the market price for such supplies, such an agreement could be regarded as horizontal price fixing and could be anti-competitive.

Market sharing is another form of horizontal agreement which is deemed anti-competitive. It occurs when IP owners of competing technologies or products agree to divide or allocate customers, suppliers or geographic areas amongst themselves rather than making independent decisions as to where to operate, who to source from and which customers to pursue.

The Guidelines illustrate the situation of two collecting societies which divide the market by agreeing not to take each other's members by imposing, inter alia, common distribution rate and administrative charge and set difficult conditions for members to leave. Such practice tantamount to anti-competitive conduct because it restricts new entrants into the market by making it costly for members to leave and join a new collecting society.

Horizontal agreements between competitors to limit or control production are also deemed to be anti-competitive. Therefore, if a patent owner pays its competitors to delay the production and release of their products, such "pay for delay" agreements are deemed to be anti-competitive as it would deprive consumers of alternative supplies.

Another major area which the Guidelines addresses is cross-licensing and patent pooling, which allows companies to share access and contribute to patented technology. Patent pooling and cross-licensing occur when technologies are complementary or where essential patents are involved.

Such activities are pro-competitive as they allow for new products to be brought more quickly into the market without expensive litigation. However, cross-licensing or patent pooling may be used to control market access. MyCC will look out for horizontal agreements that give licensor the power to foreclose market access to the IP protected technology or product to others.

A potential new entrant may require access to an IP protected product to compete in the market and the agreement between IP owners not to license a potential new entrant to the use of the IP will foreclose competition as well as limit technical development, and hence, could be anti-competitive.

Abuse of dominant position

Ownership of IPRs does not necessarily confer market power on the IP owner and market share alone is not conclusive of the dominance of the IP owner. A dominant position can be held singly or collectively. In the context of IPR, a collective dominance can occur through patent pooling or cross-licensing which allows the two or more undertakings to act as a collective entity.

An undertaking that is dominant in the market due to its IP is not in itself prohibited. It is the acts of abusing its dominant position that may draw anti-competitive concerns. Abuse of dominant position happens in one of the two following ways:

i. Exploitative conduct
ii. Exclusionary conduct

The Guidelines define exploitative conduct as attempts by a dominant enterprise to use the opportunities provided by its market strength to harm customers whilst exclusionary conduct is conduct that seeks to exclude competitors from the market.

In assessing the effect of exclusionary conduct, MyCC will take into consideration both the short and long term effect on competition, and not its impact on competitors. MyCC recognises that effective competition will drive out inefficient competitors. For example, where an owner of a patented innovation prices just above cost due to lower production costs and this may drive out inefficient competitors who do not have access to the patented technology, MyCC does not view such conduct to be anti-competitive but as a legitimate use of the IPR. Therefore, where the legitimate use of IPRs can restrict competition in the short term, MyCC's focus will not only be on the short term impact (e.g. price and output) of the conduct complained of but also the impact of the conduct on competition in the long run.

Excessive pricing, predatory pricing, obligation to pay royalty post-expiration, non-compete clauses that limit or control production or technical developments, tying and bundling are some of the examples of abuse of dominant position covered under the Guidelines.

Loyalty rebates and discounts where buyers are required to purchase minimum volumes in order to receive the rebate or discount, though generally pro-competitive, may be considered as anti-competitive if used by a dominant entity to foreclose the market from rivals.

In the case of Standard Essential Patents (SEPs), MyCC is of the view that owners of SEPs should not be allowed to prevent the use of their patented technologies if competitors are willing to accept a license and pay reasonable royalty. In determining royalty payment for the SEPs, MyCC referred to licensing on FRAND (fair, reasonable and non-discriminatory) terms for SEPs, as per the standard in the US and EU.

Conclusion

With the Guidelines now in place, there may be more incentive on the part of MyCC to look into transactions involving IPRs and the conduct of dominant IP owners.

If you have any queries on the Guidelines or if you have any concerns on how the Guidelines may impact your business, please feel free to contact Ong Boo Seng, Demi Liew or the ZICO IP partner you usually deal with.

This alert is for general information only and is not a substitute for legal advice.