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Negotiating Group on Trade-Related Aspects
of Intellectual Property Rights, including
Trade in Counterfeit Goods

NATIONAL LEGISLATION AND PRACTICES DEEMED RESTRICTIVE IN CONNECTION WITH INTELLECTUAL PROPERTY RIGHTS

Note by the Secretariat

1. At its meeting of 30 October-2 November 1989, the Negotiating Group agreed to a request that the secretariat should provide factual information illustrating the types of provisions present in national legislations which address specifically practices deemed by those legislations to be restrictive as conditions on the use, licensing or assignment of intellectual property rights. It was understood that the note would be confined to legislation directly related to intellectual property matters (NG11/16, paragraph 75). This note has been prepared in response to this request.

2. This note is organised under seven headings relating to: (I) the kinds of legislation which address these practices; (II) the scope of application of those legislation; (III) the criteria used in evaluating whether such practices are deemed to be restrictive; (IV) the approaches used in applying these criteria; (V) the evaluation of practices as being restrictive or not; (VI) the mechanisms for enforcement in regard to these practices; and (VII) a glossary describing the terms used in the note to refer to the different types of conditions on the use, licensing or assignment of IPRs.

I. Kinds of legislations

3. Countries address practices deemed to be restrictive as conditions on the use, licensing or assignment of intellectual property rights, essentially through one or more of the following kinds of legislation: intellectual property law, competition law and transfer of technology law1. In certain jurisdictions these practices are addressed primarily by

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1Certain other types of law such as contract law may also be relevant. These are not dealt with in this note since they are not comparable expressions of the application of public policy considerations to the use, licensing or assignment of IPRs.

competition law, usually in conjunction with legislation creating intellectual property rights. This conjunction derives from the fact that an evaluation of whether a given practice concerning the use, licensing or assignment of an IPR should be deemed restrictive under competition law is often done by reference to the scope of the right conferred by the intellectual property legislation. In other words, the mere existence of conditions on the use, licensing or assignment of intellectual property rights is not necessarily deemed to be restrictive; generally such conditions have to go "beyond" what is considered to be the scope of the intellectual property right in question or be the "unreasonable" exercise of it, this being a recognition in these jurisdictions that the scope of an intellectual

property right might allow the imposition of some conditions on the use, licensing or assignment of intellectual property rights.

4. In certain other jurisdictions, conditions on the use, licensing or assignment of IPRs are more commonly addressed by laws, regulations, decrees or guidelines dealing with the transfer of technology, especially when they involve foreign-owned technology, although certain provisions of intellectual property and competition law may also be applicable.

II. Scope of application of legislation

5. The scope of the application of the types of legislation noted above differs in terms of the parties to transactions and the types of intellectual property rights dealt with:

(i) Parties to transactions. Typically, transfer of technology legislation applies to transactions between foreign transferors (patentees or authorised licensees) and local parties (defined either in terms of domicile or nationality) in the acquiring country. They could also apply to transactions between two local parties, especially where such transactions involve the use of foreign technology; this would typically be a transaction between a locally established foreign-owned enterprise and a domestic company. The application of competition law is generally not based on the nationality of the parties to a transaction involving the use, licensing or assignment of an intellectual property right, but on whether such a transaction affects competitive conditions within the jurisdiction in question. Another aspect of the scope of application concerns transactions between parties under a common ownership (e.g. parent companies and their overseas subsidiaries). These transactions are usually excluded from the applicability of competition law on the rationale that such entities do not normally compete among themselves, but could be included where such transactions have an anti-competitive effect outside the entities' relationship. Parent-subsidiary transactions generally fall within the scope of transfer of technology legislation, and may be subject to special scrutiny on grounds that their non-arms length nature makes them susceptible to be used as a cover for achieving ends normally forbidden by law (e.g. excess repatriation of profits).

(ii) Types of IPR. Competition law can in principle deal with matters arising from the use, licensing and assignment of any IPR, whereas only technology-related IPRs are normally dealt with by transfer of technology legislation.

III. Criteria for evaluation

6. Typically, the evaluation of whether a given practice shall be deemed restrictive or not is based on certain criteria or standards that are either explicitly specified in the relevant legislation or can be inferred from jurisprudence. Under competition legislation, the basic criteria generally employed are whether a practice restricts, distorts or prevents competition or the free movement of goods in the market-place, or whether there is an abuse of a dominant market position. In relation to the use of IPRs, the first criterion is often used with reference to the scope of the right conferred by the legislation creating the intellectual property rights. Thus, in some jurisdictions, any restraint on competition might only be considered restrictive where it has in some way gone "beyond" the scope of the right conferred by the intellectual property legislation, thus accepting that an intellectual property right allows some legitimate restraint on competition. In relation to the second criterion, the abuse of a dominant position of market power, a key question is the extent to which the mere existence of an intellectual property right might be considered as creating a dominant market position. Jurisprudence in this regard varies from country to country, but often this is treated as a matter to be determined on a case-by-case basis, depending on the facts of the situation.

7. Under transfer of technology regulations, typically, the criteria employed seek to ascertain whether certain wider interests related to the economic and technological development of the technology-receiving country are being served, in particular whether technology is being transferred to the country on reasonable conditions. This type of legislation is typically employed by countries which view industrial property matters from the perspective of technology importers and for whom the role of industrial property legislation is seen substantially in terms of the contribution it can make to facilitating the transfer of technology. The key question in this perspective is whether

conditions on the use, licensing and assignment of IPRs serve wider developmental and technological objectives by maximising the transfer of desired technology at minimum costs, rather than whether a condition does or does not go beyond the scope of the IPR as defined by IPR legislation.

8. In those jurisdictions where patent law itself specifies certain criteria for evaluation, such criteria generally require an evaluation of whether the practice in question derive from the rights conferred by the relevant patent or are necessary for the safeguarding of that right.

9. In addition to these "basic" criteria, other criteria, adding to, qualifying, or waiving the "basic" criteria, are often also used in assessing the restrictiveness of practices. For example, in countries employing transfer of technology legislation, the administrative authority responsible for screening arrangements involving the licensing of intellectual property rights may have discretion in determining whether practices are restrictive in the light of, inter alia, one or more of the following additional criteria: national interest, substantial benefits relating to exports, labour intensity, regional dispersal, use of local raw materials, special interest and no harmful consequences.

10. In many jurisdictions employing primarily competition law, the criteria noted in paragraph 6 above can be qualified or waived by other criteria. For example, certain practices may be exempted from being deemed restrictive if they contribute to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, provided that they do not impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives and that they do not afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question. In some other jurisdictions, exemptions can be made if practices promote a project of substantial importance to the national economy, promote efficiency, are indispensable to achieve a project's goals, are not more restrictive than necessary and are in the national interest or if they create public benefits or do not operate against the common good.

IV. Approaches to the evaluation of practices

11. Broadly, three different approaches appear to be discernible in different jurisdictions in regard to the evaluation of particular practices in the light of the criteria noted in the preceding section. These might be characterized as: (i) prima facie illegal evaluations, (ii) prima facie legal evaluations, and (iii) case-by-case evaluations (sometimes referred to as a "rule-of-reason" approach). It will be noted that the more common terms "per se illegal" and "per se legal" have been avoided in describing these approaches as they appear to connote that a definitive legal status is being attributed to practices, which in reality is seldom the case, given the possibility that exists in many jurisdictions for the legal status of practices to be challenged, rebutted and reversed subsequently in the light of the particular facts of the case, for example on the basis of the "subsidiary" criteria referred to in paragraphs 9-10 above. The term "prima facie" should be understood in terms of creating a reasonable presumption in one direction or another; in other words, these categories should be understood as reflecting the relative certainty (as in (i) and (ii) above) or the lack of it (as in (iii) above) attached to the evaluation of practices. As will be seen below, these approaches do not necessarily correspond to particular kinds of legislation employed. For example, competition law and transfer of technology legislation of countries usually contain elements of some or all of these three approaches.

V. EVALUATION OF PRACTICES

12. In order to illustrate the types of approach in different jurisdictions, examples have been provided below of practices falling under each of the three categories noted above. It should be clearly understood that, given the illustrative intent of this note, the choice of examples has necessarily been selective, in particular, the failure to mention any particular practice under a category does not imply that the practice may not fall under the category in question at least in some jurisdictions.

(i) Prima facie illegal practices:

13. Examples of prima facie illegality are found in transfer of technology regulations and in competition and

patent laws. Under transfer of technology regulations, these generally include the following practices: post-expiration conditions, conditions on challenges to validity, several types of grantback conditions, tie-in conditions, non-competition conditions, conditions on price, conditions on export, conditions on research and development and adaptation, conditions on output, conditions on royalty payments, choice of foreign law governing agreement and choice of foreign jurisdiction in settlement of disputes.

14. In countries which primarily employ competition law, there are fewer instances of practices being prima facie illegal and there is a correspondingly greater rôle for case-by-case determinations. Among the practices that are deemed prima facie illegal in at least some such jurisdictions are resale price maintenance, exclusive grantback conditions, conditions preventing challenges to validity, patent pooling, certain conditions on royalty payments, certain conditions on package licences, and tie-in conditions.

15. In the patent laws that the secretariat has been able to examine prima facie illegal determinations have concerned tie-in and non-competition conditions.

(ii) Prima facie legal practices

16. In certain jurisdictions, exemptions from the basic competition law provisions are provided for certain practices in patent and know-how licensing arrangements, including territorial restrictions, field-of-use conditions, exclusivity conditions, minimum royalty conditions and output conditions. In certain other countries, examples of prima facie legal status in respect of practices such as certain tie-in conditions, territorial restrictions, export restrictions, and field-of-use provisions can be inferred from jurisprudence.

(iii)Case-by-case evaluation

17. This category encompasses a wide range of practices whose evaluation is contingent on the circumstances of the specific case in question and is dependant on a case-by-case evaluation by reference to the criteria laid down in the legislation being applied. Although in principle in countries employing transfer of technology regulations many conditions may be deemed prima facie illegal, in practice such conditions may often be subject to case-by-case evaluation to determine whether they can be justified in the light of the subsidiary criteria provided for in the legislation (see paragraph 9 above). Scope for case-by-case evaluation may also exist in respect of certain practices such as grantback conditions, tie-in conditions and export restrictions where certain requirements specific to those conditions have to be fulfilled before such practices are deemed legal (e.g. reciprocity of grantbacks).

18. In countries employing competition law, case-by-case evaluation is often required in respect of practices such as output conditions, territorial restraints, exclusivity conditions, certain types of grantback conditions and refusal to licence. In situations where the abuse of a dominant market position is in question, a case-by-case approach would be generally necessary where the mere existence of an intellectual property right is not considered to create a presumption of market power; demonstration of market power would then depend on the assessment of a number of factors, such as inter-brand competition (close substitutes), competing technologies, consumer mobility, etc.

V. Enforcement

19. The enforcement of provisions addressing restrictive practices, including the persons with the right to institute procedures and the nature of remedies presented, depends to some extent on whether ex ante procedures are provided for. In jurisdictions where practices are addressed under transfer of technology regulations, enforcement action is typically ex ante, that is to say the basic mechanism is a mandatory screening procedure under which a local administrative authority is required to apply the provision of the law regulating the terms of licensing agreements. Enforcement measures used to ensure compliance with transfer of technology legislation can take the form of declaring void unregistered contracts, disallowing provisions deemed to be violating the relevant statute, imposing fines for some special violations of registration procedures, causing forfeiture of tax and foreign exchange benefits, and restricting royalty payments.

20. In jurisdictions that address practices deemed restrictive under competition law, enforcement generally takes the form either of a mixture of ex ante and ex post mechanisms or of ex post mechanisms alone. Where ex ante mechanisms exist, prior notification and approval are required for some licensing arrangements, and at this stage the competent administrative or quasi-administrative authority may ensure compliance with the law by disallowing entire arrangements or offending provisions in particular. Nevertheless, ex post mechanisms may also be applicable, because of the possibility available to affected parties to have recourse to a higher authority where they consider their legitimate interests damaged. Where there has been a failure to notify and obtain approval for agreements, competent administrative authorities acting sua sponte or on the request of affected private parties, or private parties acting independently, can usually have recourse. Remedies prescribed under such ex post mechanisms can be civil and sometimes criminal in nature and can take the form of voiding or changing particular contracts, issuance of injunctions, compulsory licensing or revocation of the intellectual property right, and fines and imprisonment. In countries where prior notification of contracts is usually not required, enforcement is usually ex post in nature and the relevant enforcement procedures can be instituted by private parties or competent public parties.

VII. Glossary of terms

21. This section describes the terms used in the note to refer to the different types of conditions on the use, licensing or assignment of intellectual property rights which are liable to be deemed restrictive in at least some jurisdictions. The list has been compiled from the sources available to the secretariat and does not purport to have any authoritative or definitive status. It should be borne in mind that, as indicated in the note, some of these practices would not be deemed restrictive in some jurisdictions and in some other jurisdictions they may only be deemed restrictive in certain situations. The conditions described below are not always clearly distinguishable from each other; indeed there could be areas of overlap between some as indicated.

Conditions relating to the Applicable law and jurisdiction in dispute settlement: These relate to the applicable law governing the validity, interpretation and performance of a transfer of technology agreement that parties can agree upon; they also relate to the applicable jurisdiction and to the manner - judicial or arbitral - for settlement of disputes that parties to an agreement can decide.

Conditions on Challenges to validity: These occur in the form of clauses preventing the licensee from contesting the validity of the intellectual property rights involved in the licence or of other rights of the licensor.

Exclusivity conditions: These occur where the licensor agrees not to create additional licensees in the territory exclusively allotted to the acquiring party or to compete in that territory himself.

Field of use conditions: These usually occur when the use of a technology in an agreement is restricted to a specific sector of the possible technical fields of application or to the different forms in which an intellectual property right may be used, such as arrangements for production only or for distribution only.

Grantback conditions: These usually require the acquiring party to transfer improvements or to license or assign inventions made in the course of working the technology transferred. Exclusive grantback clauses are when the acquiring party is not permitted to license or transfer inventions to third parties. Reciprocal grantback clauses are when the acquiring party can have the same access to the information on technological developments made by the supplier or licensor as the supplier or licensor does by virtue of the grantback provision.

Non-competition conditions: These usually prohibit the licensee from entering into arrangements relating to the use or purchase of articles or technologies (whether patented or not) not furnished or designated by the supplier.

Output-related conditions: These usually take the form of minimum and/or maximum production quotas applicable to the good in question or to competing goods, of restrictions on production facilities or of prohibitions on the use of technology in other plants.

Package licensing: This occurs when several patents or subjects of know-how are licensed as part of an overall package and sometimes as a condition for obtaining further licences.

Pooling and cross-licensing: Pooling usually takes the form of agreements involving three or more parties each granting interest in an intellectual property right. Cross-licensing occurs when firms enter into arrangements to license technologies to each other.

Conditions relating to arrangements after expiration of licensing agreement or of the intellectual property right: Post-arrangement provisions could occur in the form of prohibitions on the continuing use of the technology transferred. In package licensing (see below), payment or other conditions are sometimes prolonged beyond the lifetime of the main patent by referring to the expiration of the last improvement patent or by relating payments or other conditions to patents not actually exploited by the licensee.

Pricing conditions: These usually occur in the form of requiring the acquiring party to sell its products, possibly including those produced without the help of the technology transferred, at prices (minimum and/or maximum) determined by the supplying party. These may also be extended to prices charged by those who buy from the acquirer (resale price maintenance).

Refusal to license: This occurs when an intellectual property right holder refuses to license that right to others.

Conditions on research and adaptation: These occur in the form of conditions being placed on the acquiring party in respect of research and development of the transferred technology and of its adaptation to local conditions.

Royalty conditions: These can occur in the form of requiring the acquiring party to pay for products not utilizing the licensed technology or which are not entirely or partially patented or manufactured by means of a patented process, or for the use of know-how which has entered into the public domain otherwise than by the fault of the licensee or an undertaking connected with him.

Territorial restraints including export restrictions: Territorial restraints usually occur to prevent the sale of products, licensed or unlicensed, in certain geographical areas. Export restrictions can occur in the form of global bans, bans to specified countries, bans on specific products, quotas, quality requirements, etc.

Tie-in conditions: Tie-in purchase conditions usually require the acquiring party to acquire, in addition to the technology in question, additional inputs such as raw materials, intermediate products, machines or additional technology from the supplier or a source designated by him. Other kinds of tie-in conditions might require the acquiring party to deal, in terms of, for example, sales and representation arrangements, exclusively with the licensor or other parties designated by the supplier.

Other conditions: These include conditions on advertising and publicity and on the use of personnel by the acquiring party.