



MAX-PLANCK-GESELLSCHAFT

IP, Competition and Innovation-related Agreements

Mark-Oliver Mackenrodt
LL.M. (NYU), Attorney at Law (NY)

Max Planck Institute
Munich

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

1

Overview

- I. Role of Innovation in ...
 - ... Competition Law
 - ... IP-Law
- II. Relationship btw. IP and Competition
- III. Application of Competition Law to Innovation Scenarios
 - Market power and patents
 - Mergers
 - R&D agreements
 - Technology licensing agreements
 - ...



MAX-PLANCK-GESELLSCHAFT

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

2

Innovation-related Agreements Examples

Case 1: Merger or R&D agreement

- Two companies work on different research strategies to find a cure for a particular disease.
 - The companies want to merge
 - The companies agree to cooperate in R&D

Case 2: Licensing agreement

- Company A agrees to licence a patent to company B. The agreement contains an obligation, not to challenge the validity of the patent and not to engage in R&D.

Case 3: Standardization agreement

- Enterprises come together to define an industry-wide technical standard.



MAX-PLANCK-GESELLSCHAFT

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

3

I. Innovation and Competition Law Welfare effects

1) Static competition:

- Lower prices, higher output
- Static efficiency
- neo-classical price theory

2) Dynamic competition: Treaty on Functioning of EU (TFEU)

Art. 101 (3): justification of restrictive agreement if it ...

"... contributes to improving the production or distribution of goods or **to promoting technical or economic progress** ..."

Art. 102: Abuse of Dominant Position prohibited

"Such abuse may, in particular, consist in ...

b) **limiting** production, markets or **technical development** to the prejudice of consumers"

Dynamic competition is protected by competition law



MAX-PLANCK-GESELLSCHAFT

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

4

I. Innovation and Competition Law Dynamic Competition

- Creation of superior products = innovation
- Dynamic efficiency

Competition drives innovation

- A monopolist has little incentive to improve a product.

Case 1: There is only one company doing research to find a cure for a particular disease.

Case 2: Two companies compete to invent a new product in order to be first on the market

Problem: perfect competition does not maximize dynamic efficiency

Reward mechanism required



MAX-PLANCK-GESSELLSCHAFT

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

5

I. Innovation and IP Law Welfare effects ...

Pro-competitive effects

Anti-competitive effects

... of patents

- Incentive to invest in R&D
- Publicity of patent register
- Ideas are made tradable

- Blocking patents
- Market foreclosure

... of licensing agreements

- Dissemination of knowledge
- Complementary technologies
- Better exploitation of IP

- Vehicle for cartels
- Foreclosure
- Leveraging

... of R&D agreements

- Join forces

- Indep. innovator disappears
- Vehicle for cartel

= balancing required



MAX-PLANCK-GESSELLSCHAFT

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

6

II. Relationship IP & Competition The theories

- Older view: inherent conflict
 - IP law works through exclusion
 - Competition works through rivalry
 - Formalistic approach
 - Inherency doctrine, immunity?
- Modern view: complementarity btw. IP and Competition
 - Common goal: fostering innovation
 - Diverging paths
 - Balancing of pro- and anti-competitive effects



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

7

II. Relationship IP & Competition The law

US:

- “Intellectual property rights do not confer a privilege to violate the antitrust laws”
In re Independent Service, 203 F.3d 1322 (Fed. Cir. 2000)
- “...to suggest that lawfully acquired IP rights cannot give rise to antitrust liability is “no more correct than the proposition that use of one’s personal property, such as a baseball bat, cannot give rise to tort liability.”
U.S. v. Microsoft Corp., 253 F.3d 34, 63 (D.C. Cir. 2001)

EU/Germany:

- More economic approach:
 - Look at effects on markets

No immunity of IP-rights from competition law

Complex balancing required



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

8

II. Relationship IP & Competition

TRIPS - Agreement

Art. 8 (2)

„Appropriate measures ... may be needed to prevent ... practices which unreasonably restrain trade or adversely affect ... transfer of technology.“

Art. 31 (k)

Alleviates requirements for compulsory license that serves to remedy an anti-competitive practice

Art. 40 „Control of Anti-competitive practices in contractual licenses“

WTO Members retain substantial freedom to apply competition law to IPRs



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

9

III. Application of competition law:

IP and Market Power

Case 1:

- There is only a single cure for a disease available. This medication is protected by a patent.

Case 2:

- There are two different cures available. Both are protected by patents.

IPRs create NO presumption for market power
Look at substitutability!



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

10

III. Application of competition law: Merger, R&D Agreements

Case 1: Merger

- There are only two companies doing research to find a cure for a particular disease. They are following different research paths. They own patents that are essential for doing this research. They want to merge.

Case 2: R&D Agreements

- Two companies cooperate in R&D.
- They agree not to carry out independent R&D in a field unconnected to the cooperation.
- EU Draft regulation on R&D (2010)

Do not only look at existing products.
Also look at technologies and innovation activity!



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

11

III. Application of competition law: IP Licensing

Case: Licensing agreement

- Company 1 licences a patent to company 2.
- Contains an obligation, not to challenge validity of the patent.
- EU: - Regulation on Technology Transfer (= Reg-TT)
- Guidelines on Technology Transfer
- US Antitrust Guidelines for the Licensing of IP

Common general principles:

1. Licensing has positive welfare effects
2. Balancing of pro- and anti-competitive effects
3. Look at product markets but also at technology markets and at innovation activities



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

12

III. Application of competition law: EU Regulation on Technology Transfer

- Provides analytical framework for assessing pro- & anti- competitive effects:
- If requirements are met, agreement is valid under Art. 101 (3) TFEU

Horizontal	Vertical
1. Market share	
<20%	<30%
2. No hard-core restriction	
<ul style="list-style-type: none"> • Price cartels • Output restrictions • Market allocation • Restrictions on R&D 	<ul style="list-style-type: none"> • Minimum resale price fixing • Certain territorial restrictions
3. No excluded clauses	
<ul style="list-style-type: none"> • Exclusive grant back cl. • No-challenge clauses 	<ul style="list-style-type: none"> • Exclusive grant back clauses



MAX-PLANCK-GESellschaft

IP, Competition & innovation-related Agreements

Nov. 2010, Kolkata

Mark-Oliver Mackenrodt

Max Planck Institute for Intellectual Property, Competition and Tax Law

13

Conclusions & Perspectives

Thank you for your kind attention!

Mark-Oliver Mackenrodt
LL.M. (NYU), Attorney at Law (NY)
Max Planck Institute, Munich



MAX-PLANCK-GESellschaft

IP, Competition & innovation-related Agreements

Nov. 2010, Kolkata

Mark-Oliver Mackenrodt

Max Planck Institute for Intellectual Property, Competition and Tax Law

14

Annex: Legal Documents

- EU Block Exemption Regulation for Technology Transfer (2004), No. 772/2004 OJ 2004/L 123/11
 - http://eur-lex.europa.eu/LexUriServ/site/en/oj/2004/l_123/l_12320040427en00110017.pdf
- EU Guidelines on Technology Transfer (2004), OJ 2004/C 101/02
 - http://eur-lex.europa.eu/LexUriServ/site/en/oj/2004/c_101/c_10120040427en00020042.pdf
- US Antitrust Guidelines for Licensing of Intellectual Property (1995)
 - <http://www.justice.gov/atr/public/guidelines/0558.htm>
- TRIPS Agreement
 - http://www.wto.org/english/docs_e/legal_e/27-trips.pdf
- Indian Competition Act (2007)
 - http://www.cci.gov.in/images/media/competition_act/act2002.pdf



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

15

Annex: Art. 101 (1) TFEU Restrictive Agreements

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:
 - (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
 - (b) limit or control production, markets, technical development, or investment;
 - (c) share markets or sources of supply;
 - (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
 - (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.



MAX-PLANCK-GESellschaft

IP, Competition
& innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

16

Annex: Art. 101 (2), (3) TFEU Restrictive Agreements

2. Any agreements or decisions prohibited pursuant to this article shall be automatically **void**.
3. The provisions of paragraph 1 may, however, be declared **inapplicable** in the case of:
 - any agreement or category of agreements between undertakings,
 - any decision or category of decisions by associations of undertakings,
 - any concerted practice or category of concerted practices,

which contributes 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, and which does **not**:

- (a) impose on the undertakings concerned restrictions which are **not indispensable** to the attainment of these objectives;
- (b) afford such undertakings the possibility of **eliminating competition** in respect of a substantial part of the products in question.



MAX-PLANCK-GESellschaft

IP, Competition
& Innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

17

Annex: Art. 102 TFEU Abuse of Dominance

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States.

Such abuse may, in particular, consist in:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.



MAX-PLANCK-GESellschaft

IP, Competition
& Innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

18

Annex: Indian Competition Act 2007

Section 3 (5)

"Nothing contained in this section shall restrict -

- (i) the right of any person to restrain any infringement of, or to impose *reasonable* conditions, as may be necessary for protecting any of his rights ... conferred upon him under" (... Copyright Act, Patent Act, etc. ...)



MAX-PLANCK-GESellschaft

IP, Competition
& Innovation-related
Agreements

Nov. 2010, Kolkata

Mark-Oliver
Mackenrodt

Max Planck Institute
for Intellectual Property,
Competition and Tax Law

19