



PATENTS AND COMPETITION LAW: IDENTIFYING JURISDICTIONAL METES AND BOUNDS IN THE INDIAN CONTEXT

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Abstract The primary object of this article is to understand the relationship between patent rights and competition law under the existing Indian legal framework. It has become imperative to elucidate the legal position on the interplay between the two, in light of growing antitrust concerns arising out of the exercise of patent rights. The author has employed conventional principles of statutory interpretation to the relevant provisions of the Patents Act, 1970 and the Competition Act, 2002 to arrive at his conclusions, with Expert Committee Reports playing a corroborative role.

I. INTRODUCTION

Intellectual Property Rights (IPRs) and Competition law are usually perceived as sharing an uneasy relationship given their seemingly contrasting goals. However, to pit one against the other without qualifications and riders may not do justice to the nuances of their respective natures, roles and goals. The system of IPRs is premised on the assumption that grant of exclusive rights for a limited term is desirable to promote dynamic competition, which pushes the envelope of innovation and thereby contributes to enlarging the basket of choices available to consumers. In other words, in theory, incentivising innovation through IPRs elevates the level of competition from static to dynamic, which is in contrast to the adversarial perception of IPRs and competition law. That being said, in practice, even the most stringently regulated right is susceptible to abuse at the hands of a determined and motivated right owner to the detriment of healthy competition. This necessitates the existence of a safety valve in the form of competition law.

Simply put, the goal of competition law with respect to IPRs is to ensure that the said species of rights are exercised within the limits prescribed by law and in a manner which is beneficial to consumers and which promotes competition.

Therefore, an IP owner runs into conflict with competition law only in the event of a transgression in his capacity as an IP owner if such transgression distorts competition. The validity of this general proposition in the Indian context will be examined and tested in specific relation to patent rights in the ensuing portions of this article. The aim is to ascertain if the Competition Act, 2002 (hereinafter referred to as “the Competition Act”) has indeed been vested with the power to check restrictive and abusive trade practices resorted to by a patentee, and if so, to what extent.

II. TREATMENT OF PATENT RIGHTS BY THE PATENTS ACT, 1970

The scope of a patent right is governed by Section 48 of the Patents Act whose language makes it clear that the right so granted under the statute is not absolute. In fact, the provision expressly states that the right granted by and under Section 48 is “subject to other provisions” of the Patents Act and the conditions specified in Section 47.¹ These “other provisions” include exceptions and defences to infringement of patents under Sections 107 and 107A,² and the right of the Central Government to use and acquire patented inventions under Section 100³. In addition to the said provisions, Section 140 enumerates those restrictive covenants which could render patent-related agreements unlawful.⁴ It is pertinent to note that Section 140 does not specify the authority/forum which has the power to invalidate such restrictive covenants or agreements containing any of the proscribed restrictive covenants. Importantly, it does not vest the Controller of Patents with the express power to invalidate such restrictive covenants.

Of particular interest to the instant discussion is Chapter XVI of the Patents Act which provides for grant of Compulsory Licenses (‘CLs’) under various circumstances, subject to conditions spelt out therein. The general principles applicable to the practice/working of patented inventions, as enumerated in Section 83, serve as guiding lights in understanding the purpose behind the grant of both patents and CLs, under the statute. Reproduced below is the said provision:

“83. General principles applicable to working of patented inventions.—Without prejudice to the other provisions contained in this Act, in exercising the powers conferred by this Chapter, regard shall be had to the following general considerations, namely:—

¹ Patents Act, S. 47 (1970).

² Patents Act, Ss. 107-107A (1970).

³ Patents Act, S. 100 (1970).

⁴ Patents Act, S. 140 (1970).

- (a) *that patents are granted to encourage inventions and to secure that the inventions are worked in India on a commercial scale and to the fullest extent that is reasonably practicable without undue delay;*
- (b) *that they are not granted merely to enable patentees to enjoy a monopoly for the importation of the patented article;*
- (c) *that the protection and enforcement of patent rights contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations;*
- (d) *that patents granted do not impede protection of public health and nutrition and should act as instrument to promote public interest specially in sectors of vital importance for socio-economic and technological development of India;*
- (e) *that patents granted do not in any way prohibit Central Government in taking measures to protect public health;*
- (f) *that the patent right is not abused by the patentee or person deriving title or interest on patent from the patentee, and the patentee or a person deriving title or interest on patent from the patentee does not resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology; and*
- (g) *that patents are granted to make the benefit of the patented invention available at reasonably affordable prices to the public.”⁵*

Based on a plain and literal reading of the Section, it is evident that not only does it set out the obligations of a patentee, but also the broad considerations that go into the grant of CLs by the Controller. Pertinently, abuse of patent rights and adoption of restrictive trade practices by the patentee are express considerations in the grant of CLs, as mentioned in sub-sections (6) and (7) of Section 84.⁶ Further, Section 83 imposes a positive obligation, requiring the patentee to make the patented invention available to the public at “reasonably affordable prices”.

That being said, it is important to note that the aforementioned provisions of Chapter XVI only go so far as to state that in granting a CL, the Controller shall have regard to anti-competitive practices resorted to by the patentee. In other words, a CL may be granted by the Controller to remedy an anti-competitive practice of the patentee. However, none of these provisions specify as to who has the power to adjudicate and conclude that a certain practice of a patentee is anti-competitive or amounts to abuse of the patentee’s position of dominance. The

⁵ Patents Act, S. 83 (1970).

⁶ Patents Act, S. 84 (1970).

provision that sheds a modicum of light on the jurisdictional aspect of this issue is Section 90(1)(ix) of the Patents Act which envisages the grant of a CL “to remedy a practice determined after judicial or administrative process to be anti-competitive”⁷. It is worth noting that this provision does not expressly speak of the Controller as having the power to adjudicate on the competitive or anti-competitive nature of the patentee’s conduct, as the case may be. In fact, it appears to refer to a forum or body other than the Controller of Patents. In other words, it could be argued that the reference to a “judicial or administrative process” in the provision is a reference to adjudication by the Competition Commission either under Section 3 or Section 4 of the Competition Act which deal with anti-competitive agreements and abuse of dominance respectively. Pertinently, such an interpretation would be consistent with the recommendations of Justice N. Rajagopala Ayyangar in the Report on the Revision of the Patents Law submitted in 1959 (popularly known as the Ayyangar Committee Report), which forms the basis of the Patents Act, 1970.

In Paragraphs 190-203 of the Report, Justice Ayyangar has identified three types of abuses, namely (a) abuse of patent rights through non-working and importation, (b) abuse of patent rights to extend monopoly through insertion of conditions for sale, lease or license of the patented processes/products, and (c) use of patents or a group of patents to form monopolistic cartels and combinations to control production and distribution. Grant of Compulsory Licenses has been identified as the measure to counter the first type of abuse. To deal with the second type of abuse, a provision on the lines of the current Section 140 was recommended. However, for the third type of abuse, which he rightly recognized as resulting from excessive concentration of economic power, Justice Ayyangar recommended the creation of a separate legislation and constitution of a separate commission. Extracted below are the relevant portions of the Report:

“200. I have set out these facts to emphasise that monopolistic combinations and restrictive trade practices are a universal feature of capitalistic economy and that special legislation is needed to protect the public from these practices. The rule enacted in Section 27 of the Indian Contract Act regarding contracts in restraint of trade is much too weak to touch even the fringe of the problem.

201. I am however, not dealing with this matter in any detail for two reasons; first, though patents might sometimes form a convenient nuclei on which monopolistic combinations (and restrictive practices which are the concomitant of combinations and to effectuate which the combination might come into existence) are based, the problem cannot be solved by any amendment of

⁷ Patents Act, S. 90 (1970).

the Patents law but only by dealing with it comprehensively so as to touch the manifold forms which these combinations might assume and in which they could operate. This has been the manner in which legislation in other countries has tackled the problem and with reason. There are no materials available on the basis of which this information could be gathered. It does not need any argument to establish, that without an evaluation of the evil, its nature and extent, the remedy to counter it cannot be devised.

...203. I would therefore recommend the appointment of a commission to enquire into its existence of monopolies in the country in the sense in which the term is understood in this field of the law and the prevalence of restrictive trade practices which are detrimental to the interests of the public generally and to suggest measures to remedy the evil if found to exist. In the context of large scale industrialisation of the country that is proceeding apace, I consider that such an enquiry would be found to yield fruitful results and constitute an assurance to the general public that the economic advantages resulting from the country's advance are being diverted to individual aggrandisement.”⁸

These observations and recommendations of Justice Ayyangar reveal that the Patents Act was never meant to deal with market distortion since the nature of the enquiry is beyond the pale of the Act. Importantly, Justice Ayyangar struck a distinction between abuse of patent rights by non-working and abuse of economic power accrued by virtue of holding of a patent or group of patents. While the former is dealt with by the CL mechanism, the latter was meant to be looked into by a separate commission having the necessary mandate and wherewithal to deal with anticompetitive behaviour, which clearly points to the Competition Commission. In light of this distinction, it becomes imperative to examine the treatment of patent rights and patent-related abuse under the Competition Act.

III. TREATMENT OF PATENT RIGHTS UNDER THE COMPETITION ACT, 2002

Section 3 of the Competition Act⁹ expressly forbids any enterprise or association of enterprises or person or association of persons from entering into any agreement in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which causes or is likely to cause an

⁸ MINISTRY OF COMMERCE AND INDUSTRY, GOVERNMENT OF INDIA, REPORT ON THE REVISION OF THE PATENTS LAW, 1959 (India).

⁹ Competition Act, S. 3 (2002).

appreciable adverse effect on competition within India. The two exceptions to this statutory injunction that have been carved out in the provision are:

- (a) *the Proviso to Section 3(3), which permits agreements entered into by way of joint ventures if they result in increasing efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services and;*
- (b) *Section 3(5), which permits action taken by an IP owner to restrain infringement of her/his right, or “reasonable conditions” imposed by the IP owner which are necessary for protection of any of her/his bundle of rights which comprise the IP right. It is this exception which is of relevance to the instant discussion.*

One school of thought believes that the exception carved out with respect to IP rights in Section 3(5) is absolute, and results in the complete ouster of the application of the Competition Act to the conduct of IP owners, including patentees. However, this position may not be correct since the limited window provided for by the provision is with respect to action taken or “reasonable conditions” imposed in connection with protection of IP rights. In other words, there must be a real and reasonable nexus between the condition imposed on a third party by an IP owner such as a patentee and the object of preventing infringement of the IP right. Therefore, should the condition fail to pass muster on the anvils of reasonableness with respect to the object of preventing infringement, it would run afoul of the proscription under Section 3, and would therefore fall under the jurisdiction of the Competition Commission. Support for this position may be drawn from the recommendations of the High Level Committee on Competition Policy and Law (also known as “the S.V.S. Raghavan Committee Report”) published in the year 2000. Extracted below is the relevant recommendation of the said Committee with respect to application of the Competition law to the conduct of IP owners:

“5.1.8 There is, in some cases, a dichotomy between Intellectual Property Rights and Competition Policy/Law. The former endangers competition while the latter engenders competition. There is a need to appreciate the distinction between the existence of a right and its exercise. During the exercise of a right, if any anti-competitive trade practice or conduct is visible to the detriment of consumer interest or public interest, it ought to be assailed under the Competition Policy/Law.”¹⁰

Evidently, Section 3(5) embodies this recommendation since it strikes a balance between protection of IP and prevention of anti-competitive practices

¹⁰ GOVERNMENT OF INDIA, REPORT OF THE HIGH LEVEL COMMITTEE ON COMPETITION POLICY AND LAW, 2000 (India).

employed under the garb of IP protection. This position was reiterated in the erstwhile Planning Commission's Report of the Working Group on Competition Policy published in the year 2007. Extracted below is the relevant observation of the Working Group on IP Policy:

*"4.1.13 IPR laws in India have provisions to take care of these potential IPR related competition abuses, including the provision for compulsory licensing. The Competition Act, 2002 does have a specific provision to deal with anticompetitive behaviour arising out of unreasonable restraint imposed by a holder of intellectual property beside being a factor to be considered while determining 'dominance of an enterprise' attained under a statute in the relevant market."*¹¹

The above extracted observation of the Working Group is consistent with the recommendations of the Expert Committee, the language of Section 3(5) and this author's interpretation of the provision. In other words, although CLs under the Patents Act may be granted to remedy an anti-competitive practice of a patentee, the Competition Act retains the power to adjudicate on the legality of the patentee's conduct. Pertinently, the observation of the Working Group also alludes to the application of the Competition Act to the conduct of an IP owner who enjoys a position of dominance in the relevant market. This is a clear reference to abuse of dominance by an IP owner within the meaning of Section 4 of the Competition Act.

This observation is supported by the phraseology of Section 4 and the framework of the Competition Act. Section 4 of the Competition Act mandates that no enterprise or group shall abuse its dominant position.¹² It is surprising that, unlike Section 3, there is no reference to a "*person*" in Section 4 since an individual right owner too could enjoy a position of dominance which is unaffected by market forces. That being said, what is pertinent to the instant discussion is Section 19(4), which lists the factors the Competition Commission shall have regard for in inquiring whether an enterprise enjoys a position of dominance for the purposes of Section 4. In particular, Clause (g) of Section 19(4) expressly speaks of monopoly or dominant position "*whether acquired as a result of any statute*" or by virtue of being a Government company or a public sector undertaking or "*otherwise*".¹³ Further, Clause (m) is an omnibus clause which speaks of "*any other factor which the Commission may consider relevant for the inquiry*".¹⁴

Based on the two aforementioned clauses, it would be fair to argue that the phrase monopolies "*acquired as a result of any statute*" encompasses within

¹¹ PLANNING COMMISSION, REPORT OF THE WORKING GROUP ON COMPETITION POLICY, 2007 (India).

¹² Competition Act, S. 4 (2002).

¹³ Competition Act, S. 19 (2002).

¹⁴ Competition Act, S. 19 (2002).

its broad ambit exclusive and exclusionary rights such as IPRs. Put simply, the conduct of a patentee who enjoys a dominant position by virtue of her/his ownership of a patent or a portfolio of patents falls squarely within the realm of inquiry by the Competition Commission. This is an unequivocal recognition of the potential for distortion of the market's competitive landscape by an abusive dominant patentee. This is made further evident by Section 4(2)(b) which deals with restriction of technical/scientific development by a dominant enterprise.¹⁵ It is clear from the above discussion that the Competition Act expressly deals with anti-competitive practices and abuse of dominance by a patentee. The issue that needs to be addressed next is the practical distribution of adjudication between the Competition Act and the Patents Act.

IV. ALLOCATION OF ROLES BETWEEN THE COMPETITION COMMISSION AND THE CONTROLLER OF PATENTS

It must be noted that in granting a CL under Section 84 of the Patents Act, the Controller of Patents regulates and tempers the exercise of patent rights.¹⁶ However, this enquiry does not take into account the distortion of competition in the market. That question is the exclusive preserve of the Competition Commission, as is evident from Section 18 of the Competition Act.¹⁷ In other words, the nature of inquiry in the two fora is fundamentally different. While the Controller of Patents is seized of an *inter partes* or *in personam* proceeding under Section 84 of the Patents Act which results in the grant of a license, the Competition Commission under Sections 3 and 4 of the Competition Act has a broader purview which addresses a patentee's market practices and the conduct of a dominant patentee with a view to preserve the market's competitive landscape. Clearly, the latter proceeding is not and cannot be treated as adversarial in the conventional sense since it is an *in rem* inquiry. This *in personam* nature of a CL proceeding is further demonstrated by the fact that only a "person interested" may apply for a CL under the Patents Act and under Section 93 of the Act a CL is deemed to be a licence deed executed by the parties.¹⁸ This contrasts starkly with the proceeding under the Competition Act which may be initiated by any person or even by the Commission *suo motu*.

In addition to the distinction in the nature of inquiry under the two legislations, the Competition Act contains express provisions which clarify its position in relation to other legislations. In two specific provisions, the Competition Act sets out its position with respect to (a) legislations which are not in conflict with it and (b) those that are at loggerheads with it. The first provision is Section 62,

¹⁵ Competition Act, S. 4 (2002).

¹⁶ Patents Act, S. 84 (1970).

¹⁷ Competition Act, S. 18 (2002).

¹⁸ Patents Act, S. 93 (1970).

which expressly states that the provisions of the Competition Act shall be in addition to and not in derogation of the provisions of any other law for the time being in force.¹⁹ Therefore, assuming that there is indeed an overlap between Sections 3 and 4 of the Competition Act on the one hand, and Section 84 of the Patents Act on the other, the former shall be available to an aggrieved party in addition to the remedies available under the latter. Simply stated, Section 62 is a departure from the conventional principle of the specific legislation prevailing over the general since it posits the Competition Act as an additional remedy available to an affected party without diluting the remedies the party may be entitled to invoke under the Patents Act.

The second provision is Section 60 of the Competition Act which states in no uncertain terms that the Act shall have overriding effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force.²⁰ In other words, if Section 84 of the Patents Act is interpreted as being in conflict with or inconsistent to the Competition Act, it is the latter that shall prevail by virtue of Section 60. Pertinently, there are no provisions in the Patents Act which are comparable to Sections 60 and 62 of the Competition Act. Therefore, arguably the Competition Act is the more specific and appropriate legislation in so far as a market-related inquiry into the conduct of a patentee is concerned.

Having said the above, it is important to understand the operational implications of the above interpretation. If the Competition Act is treated as prevailing over the Patents Act by virtue of Section 60, it follows that an inquiry into an anti-competitive practice of a patentee or abuse of dominance by the patentee is the sole preserve of the Competition Commission. If the Commission were to arrive at an adverse finding with respect to the patentee, such finding may be relied upon by an aggrieved party to either seek consequential reliefs under Sections 27 and 28 of the Competition Act, or to apply for a CL under Section 84 of the Patents Act based on the findings of the Commission. Should the aggrieved party opt for the latter, under Section 90(1)(ix) of the Patents Act, the Controller of Patents is required to have due regard to the findings of the Commission in prescribing the terms and conditions of the CL. In the alternative, subsequent to the Commission's finding of contravention of Sections 3 or 4 by the patentee, the aggrieved party or the Commission may invoke Section 21A of the Competition Act and refer the matter to the Controller of Patents for grant of a CL.²¹ Subsequent to the grant of the CL by the Controller, the Commission may pronounce a final decision based on the Controller's decision in the CL application.

Similarly, if an aggrieved party were to approach the Controller of Patents for a CL under Section 84 of the Patents Act, as opposed to informing the

¹⁹ Competition Act, S. 62 (2002).

²⁰ Competition Act, S. 60 (2002).

²¹ Competition Act, S. 21A (2002).

Commission of the alleged violation of Sections 3 or 4 of the Competition Act by the patentee, it is possible for the aggrieved party to seek a reference under Section 21 of the Competition Act or for the Controller of Patents to refer the matter to the Commission for a finding with respect to the patentee's conduct under Sections 3 or 4 of the Competition Act. Post the receipt of the Commission's findings, the Controller of Patents may grant a CL based on such findings. In other words, the Competition Act envisages and facilitates interactive regulation between the Competition Commission and other statutory authorities wherever necessary. Therefore, it would be simplistic to treat the Competition Commission and the Controller of Patents as mutually exclusive authorities/fora who operate in silos.

V. ALLOCATION OF ROLES BETWEEN A CIVIL COURT AND THE COMPETITION COMMISSION

The issue of allocation of roles between a civil court and the Competition Commission assumes importance since it poses a different practical concern altogether. The specific question that merits consideration is whether the initiation of a civil suit for infringement instituted by the patentee or a proceeding for revocation of a patent by the defendant may result in preclusion of the Competition Commission's jurisdiction on issues relating to the patentee's conduct. It is critical to understand that jurisdiction of a forum over a subject-matter is decided based on the provisions of the legislation that govern it and the *prima facie* satisfaction of jurisdictional facts in a given case which cloak the forum with jurisdiction over the subject-matter. Therefore, if the conduct of the patentee *prima facie* warrants the assumption of jurisdiction by the Competition Commission, the institution or pendency of a civil suit or any other proceeding cannot result in ouster of the Commission's jurisdiction.

Importantly, the nature of inquiry again differs significantly between a civil court seized of a suit for patent infringement under the Patents Act and the Competition Commission seized of an action under Sections 3 or 4 of the Competition Act. The Suit Court's primary mandate is to examine the validity of the asserted patent, test the patentee's claim of infringement and assess if the patentee is entitled to the reliefs available under the Patents Act. Except for the limited window available under Section 140(3) of the Patents Act, which permits the defendant to raise as a defence a restrictive covenant imposed on it by the patentee, the defences available to the defendant are limited to invalidity and non-infringement of the patent. Clearly, the Suit Court is not empowered to look into the effect of the conduct of the patentee on the competition in the market since the Patents Act does not provide for such an inquiry. As noted previously, such an inquiry is the exclusive domain of the Competition Commission. This is further corroborated by Section 61 of the Competition Act which excludes the jurisdiction of civil courts with respect to any matter which the Commission or the

Competition Appellate Tribunal are empowered by the Competition Act to look into.²² Therefore, initiation or pendency of suit proceedings cannot come in the way of initiation of proceedings against the patentee under the Competition Act by the defendant in the suit.

That being said, it is certainly possible to conceive of situations or circumstances where the Suit Court may have to await a finding by the Commission before adjudicating on issues before it. For instance, a patentee may sue a licensee for infringement of its patent based on a breach of a contractual obligation. In response, the defendant could invoke Section 140(3) of the Patents Act and allege that the obligation cast on it was unlawful within the meaning of the said provision and that therefore, violation of an unlawful obligation would not amount to infringement. It is pertinent to understand that the defendant may raise the said defence in the suit proceeding and simultaneously approach the Competition Commission for adjudication on the legality of the obligation under Sections 3 or 4 of the Competition Act. In such a situation, since Section 140(3) is unclear with respect to the Suit Court's power to adjudicate on the legality of the contractual obligation, the defendant could legitimately rely on Section 61 of the Competition Act and seek suspension of the suit proceedings pending an outcome from the Competition Commission under Sections 3 or 4. In the alternative, the defendant may request the Suit Court to proceed with adjudication of other outstanding issues and take up the issue of infringement subsequent to a finding by the Competition Commission.

This example serves to illustrate the point that even if there is an overlap in the issues before a civil court and the Competition Commission, the civil court cannot assume jurisdiction over such issues and must await the findings of the Commission on issues which the latter is exclusively empowered to deal with. Since neither the Patents Act nor the Competition Act formally recognizes a distinction between a "normal patent" and a patent claimed to be "Standard Essential", it would be reasonable to argue that even in the case of Standard Essential Patents (SEPs), the exclusive power of the Competition Commission to preside over market or competition-related inquiries cannot be usurped by any other forum. In fact, it could be argued that competition-related concerns arising of assertion of SEPs lend themselves better to the jurisdiction of the Competition Commission given the implications of enforcement of SEPs for other stakeholders, including end consumers, in the relevant market.

VI. CONCLUSION

IP statutes, without a doubt, provide for internal corrective mechanisms to address inequities arising out of non-use or abuse of IP rights. However, the scope of analysis undertaken under these mechanisms is limited to verification/

²² Competition Act, S. 61 (2002).

examination of achievement of the specific objectives of IP statutes. In other words, these mechanisms lack the sweep and catholicism of a market-based assessment of the actions of an IP owner under the Competition Act. No single IP regulator, be it the Controller of Patents or the Copyright Board, is charged with the duties of the Commission as reflected in Section 18 of the Competition Act, or is vested with the vast powers of the Commission to deal with market mischief. Therefore, given that the specific object of the Competition Act is to foster sustainable competition in the market, protect the interest of consumers and to ensure freedom of trade, the Competition Commission must be allowed to fulfil its mandate unhindered.