

Intellectual property rights litigation and competition law violations in South Africa

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Introduction

The interplay between competition law and intellectual property is not a novel topic. On the one hand, intellectual property seeks to protect and reward intellectual property rights holders for their innovation, whilst competition law strives to achieve and maintain an open and competitive market. Both competition and intellectual property law share similar objectives, namely improving consumer welfare and encouraging innovation across markets.¹

Competition law and intellectual property rights regimes, however, are typically governed by separate legislative instruments; separate adjudicative bodies and have differing applicable policy considerations. A recent case in South Africa squarely raised the jurisdictional overlap and provided key guidance in relation to the application of competition law to intellectual property right disputes in the jurisdiction.

In addition to a discussion on this recent case, our paper provides a broad overview of the interplay between competition law and intellectual property before various developed competition authorities across the globe, before concluding on whether the position adopted by South Africa's competition authorities accords with international best practice.

Historical overview of competition and intellectual property in South Africa

Broadly, there is no overarching framework which regulates the relationship between competition and intellectual property law in South Africa. South Africa's Department of Trade, Industry and Commerce ("**DTIC**") has, however, previously published the draft National Policy on Intellectual Property ("**draft Policy**") which, *inter alia*, confirms the jurisdiction of South Africa's competition authorities to pronounce on matters involving the enforcement of intellectual property rights.² Notably, the draft Policy had never been promulgated.

In light of a lack of formal regulatory guidance, the position gleaned from previous decisions by the South Africa's competition authorities, namely the Competition Tribunal ("**Tribunal**") and Competition Appeal Court ("**CAC**"), confirmed that a party who wishes to allege that the enforcement of an intellectual property right contravenes the provisions of the Competition Act, 89 of 1998 ("**Competition Act**") must firstly establish that there is, in fact, a competition law infringement.³ In this respect, where it can be established that there has been an infringement of the Competition Act, the competition authorities considered themselves as having the requisite jurisdiction to impose an appropriate remedy. This position was finally

¹ US Dep't of Justice & Fed. Trade Comm'n, 'Antitrust enforcement and intellectual property rights: Promoting innovation and competition' 2007. See also Commission Notice, 'Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements' OJ C 101 of 27 April 2004 at 2-42; *Atari Games Corp. v Nintendo of Am. Inc.* 897 F.2d 1572, 1576 (Fed. Cir. 1990); *Corp. v Intel Corp.* 195 F.3d 1346, 1362 (Fed. Cir. 1999).

² Available at: https://www.gov.za/sites/default/files/gcis_document/201808/ippolicy2018-phase1.pdf.

³ *Nqobion Arts Business Enterprise v The Business Place and Another*, 80/IR/Aug05; and *DW Integrators CC v SAS Institute (Pty) Ltd* (14/IR/Nov99) [2000] ZACT 16 (1 May 2000).

settled in the Tribunal's recent decision of *Makarengwe Electrical Industries (Pty) Ltd t/a Wilec v Allbro (Pty) Ltd and Competition Commission of South Africa*.⁴

Makarengwe Electrical Industries (Pty) Ltd t/a Wilec v Allbro (Pty) Ltd and Competition Commission of South Africa

The Competition Tribunal granted interim relief (injunction) in favour of the applicant against the respondent which the applicant alleged amounted to an abuse of the respondent's dominance in the South African market for the supply of transformer bushings (an electrical component of transformers). The alleged abuse of dominance related to an inducement by the respondent of the applicant's customers not to deal with competitors in contravention of section 8(1)(d)(i) of the Competition Act.

The facts were briefly as follows:

The applicant is a supplier of transformer bushings – a component used to transmit electrical power into or out of a transformer. The applicant competes, *inter alia*, with the respondent, which is overwhelmingly dominant in the market for the supply of transformer bushings. The applicant and respondent supply bushings to transformer manufacturers who, in turn, sell products to end users.

The applicant complained that the respondent had, *inter alia*, induced customers not to purchase bushings from competitors in contravention of section 8(1)(d)(i) of the Competition Act in particular, by threatening customers that if they deal with the respondent's competitors, they (the customer) will be at risk of civil and criminal liability.

The respondent's threats were premised on an ostensible copyright infringement surrounding the specific bushings which the applicant (and another competitor, Ukusa) were selling in the market. At the time of the Tribunal hearing, the respondent's copyright claims had not yet been established and were still pending before the High Court. The respondent's copyright claims were also seriously disputed, both by the Applicant and by Ukusa.

The respondent sought to argue that the Tribunal lacked jurisdiction to pronounce on the matter since its conduct of threatening the applicant's customers was merely an enforcement of its copyright. In this respect, the respondent argued that the effect of the granting of interim relief would suspend the respondent's intellectual property rights, which rights the Tribunal may not pronounce on.

⁴ *Makarengwe Electrical Industries (Pty) Ltd t/a Wilec v Allbro (Pty) Ltd and Competition Commission of South Africa* IR095Oct21 ("**Makarengwe**").

Regardless of whether the respondent had established its copyright over the bushings, the applicant argued that the respondent was not entitled to engage in behaviour which would amount to an abuse of dominance in terms of the Competition Act, such as the inducement of its customers by a dominant firm.

The Tribunals Findings

Jurisdiction

In deciding on whether it had the necessary jurisdiction, the Tribunal primarily relied on two provisions of the Competition Act, sections 3(1) and 10(4). In this regard, the Tribunal placed particular emphasis on the fact that section 3(1) of the Competition Act provides that:

This Act applies to all economic activity within, or having an effect within, the Republic, except:

(a) collective bargaining within the meaning of section 23 of the Constitution, and the Labour Relations Act, 1995 (Act No. 66 of 1995);

(b) a collective agreement, as defined in section 213 of the Labour Relations Act, 1995;

...

(e) concerted conduct designed to achieve a non-commercial socio-economic objective or similar purpose.

Notably, section 3(1) provides for a closed list of exclusions from the ambit of the Competition Act. Intellectual property rights do not form part of this exclusion.

Moreover, section 10(4) of the Competition Act provides that a firm may apply to the South African Competition Commission (“**SACC**”) to have an agreement or practice exempted from Chapter 2 of the Competition Act (which regulates prohibited practices) if such agreement or practice “*relates to the exercise of intellectual property rights*”. Upon a joint reading of sections 3(1) and 10(4), the Tribunal concluded that it was clear that the Competition Act applies to the exercise of intellectual property rights unless an exemption allowing such exercise of the intellectual property rights has been granted.⁵

The Tribunal also stated that a claim of intellectual property is “*not a trump card against the regulation of competition in the public interest*”. In this regard, the Tribunal further referred to the observation made by the CAC that the protection of private rights, as asserted by the

⁵ Makarengwe, at [39].

respondent, are secondary to the regulatory function of protecting competitive markets which is in the public interest: “the evidence of a prohibited practice is not concerned with the rights of the applicant but the competitive position of competitors in the market, judged against the regulatory criteria of the prohibited practices defined in chapter 2 of the Act”.⁶ Further, the Tribunal expressed that it is its statutory duty under section 49C of the Competition Act to determine whether an alleged prohibited practice has occurred and not to pronounce on the validity of intellectual property.

The Tribunal held, therefore, that it had the requisite jurisdiction to pronounce on whether a prohibited practice has occurred, irrespective of whether the defence by a respondent involves a right afforded to it by separate legislation.

Evidence of engaging in a prohibited practice

An abuse of dominance finding requires that respondent meet the thresholds for a “dominant firm” as contemplated by the Competition Act.⁷ In this instance, it was common cause that the respondent was overwhelmingly dominant in the market for the supply for transformer bushings.⁸

Secondly, as the complaint was grounded in section 8(1)(d)(i), the applicant had to establish whether the respondent’s conduct amounted to a “*requiring or inducing a supplier or customer not to deal with a competitor*”. Contextually, the respondent had instituted copyright infringement proceedings against the applicant in 2020. While the copyright infringement proceedings (and the alleged subsistence of the copyright itself) was heavily contested, the respondent had threatened customers that if they purchased the transformer bushings of its competitors, they will be faced with civil and criminal consequences. This ultimately led to customers refusing to purchase transformer bushings from the applicant until such time as the copyright infringement proceedings had been resolved.⁹ Notably, the Tribunal found that the reason why customers elected not to purchase transformer bushings from the applicant was due to the fear of civil and criminal litigation by the respondent.¹⁰ Consequently, the Tribunal concluded that the applicant had *prima facie* established that its customers were induced by the respondent not to purchase from other competitors.

⁶ *Business Connexion (Pty) Ltd v Vexall (Pty) Ltd and Another* (182/CAC/Mar20) [2020] ZACAC 4 (15 July 2020) at [20].

⁷ Section 7 of the Competition Act provides that a firm is dominant in a market where:

(a) it has at least 45% of that market;

(b) it has at least 35%, but less than 45%, of that market, unless it can show that it does not have market power; or

(c) it has less than 35% of that market, but has market power.

⁸ *Makareng* at [70].

⁹ *Makareng* at [80].

¹⁰ *Makareng* at [85].

Thirdly, the applicant had to establish whether the exclusionary conduct of the respondent had any foreclosure effects on the transformer bushing market. Importantly, the Tribunal confirmed that it is not necessary to establish that exclusionary conduct completely forecloses competitors from entering into a market and that it is sufficient to establish that the conduct prevents or prejudices a firm's ability from expanding in a market.¹¹ In this respect, the Tribunal held that the respondent has a near monopoly position in the transformer bushing market which results in there being an increased likelihood that its exclusionary conduct may result in anti-competitive foreclosure.¹² In coming to its decision regarding foreclosure effects, the Tribunal also assessed numerous factors, including: the respondent's near monopoly position; the nature of the transformer bushing market itself; the proportion of the transformer bushing market that was covered by the respondent's conduct; the market position of the respondent in comparison to its competitors; and the possible evidence of actual foreclosure. Considering all of the evidence before it, the Tribunal concluded that the applicant had established a *prima facie* case of substantial foreclosure.¹³

Fourthly, the Tribunal assessed whether the respondent's conduct resulted in consumer harm. Simply put, the Tribunal concluded the respondent's transformer bushings are more expensive than those of the applicant's and that this was likely as a result of reduced competition within the market.¹⁴ Consequently, the Tribunal found that *prima facie* evidence had been put before it in support of the contention that the applicant would be able to provide lower prices to customers and that, as a result, there was an adverse impact on consumer welfare.

Subsequent to the above, the Tribunal additionally found that the respondent's conduct could not be justified on grounds of efficiencies or pro-competitive gains. There was no evidence placed before the Tribunal to demonstrate that the interim relief order would undermine innovation.

The Tribunal concluded that the applicant had, at least on a *prima facie* basis, established that the respondent's conduct had anti-competitive effects, of which could not be justified, in contravention of section 8(1)(d)(i) of the Competition Act and granted the interim order.

Effect of the Makarengé decision

The Tribunal held that intellectual property and competition law share the common purpose of innovation and enhancing consumer welfare quoting a previous decision from the CAC:¹⁵

¹¹ *Makarengé* at [89].

¹² *Makarengé* at [95].

¹³ *Makarengé* at [107].

¹⁴ *Makarengé* at [109].

¹⁵ *Makarengé*, at [47].

“The modern view holds that both intellectual property policy and merger policy seek to promote consumer welfare by creating an economic environment in which innovative activities are stimulated by both competition and the promise of returns to successful innovation.”

This largely affirms the position adopted by many of the leading competition and intellectual property law jurisdictions that intellectual property is not wholly immune from competition law scrutiny.

In this regard, it is important for intellectual property rights holders to be recognised that the approach adopted by the Tribunal in *Makareng* does not undermine enforcement of intellectual property rights. Rather, the Tribunal itself confirms that matters involving intellectual property rights must be assessed on a case-by-case basis, stating that “[*intellectual property is*] *neither particularly free from scrutiny under competition law, nor particularly suspect under competition law*”.¹⁶ Further, the exercise of intellectual property rights in question must amount to a prohibited practice for purposes of the Competition Act to attract competition law scrutiny. Each of the requirements to establish a prohibited practice must be satisfied.¹⁷

A holder of intellectual property rights must, therefore, be able to establish that the exercising of their intellectual property rights does not amount to anti-competitive harm. In this respect, the CAC has previously stated that exclusionary conduct is anti-competitive where:¹⁸

“there is (i) evidence of actual harm to consumer welfare or (ii) if the exclusionary act is substantial or significant in terms of its effect in foreclosing the market to rivals. This latter conclusion is partly factual and partly based on reasonable inferences drawn from proven facts. If the answer to that question is yes, we conclude that the conduct will have an anti-competitive effect.”

Hence, where the holder of intellectual property rights seeks to enforce those rights, they must have due consideration as to whether such enforcement would result in anti-competitive effects and if so, whether those effects can be outweighed by way of a rule of reason analysis.¹⁹ Notably, in *Makareng*, the respondent sought to justify its conduct on the basis that it was protecting its intellectual property rights but failed to provide any evidence in support of how such enforcement of its alleged intellectual property rights might be pro-competitive from a

¹⁶ *Makareng*, at [50].

¹⁷ *Nqobion Arts Business Enterprise v The Business Place and Another*, 80/IR/Aug05.

¹⁸ *Computicket (Pty) Ltd v Competition Commission of South Africa* (170/CAC/Feb19) [2019] ZACAC 4 at [18].

¹⁹ *Makareng* at [111].

competition law perspective.²⁰ Consequently, it is not a valid defence to a competition law complaint to argue that a party was merely enforcing its respective intellectual property rights without providing any evidence of any counterbalancing pro-competitive effects. While such evidence may take numerous forms, it may often include evidence relating to the nature and magnitude of the investment sought to be protected and how such investment is likely to be prejudiced but-for being able to enforce the intellectual property rights. Where an intellectual property rights holder conducts the above risk assessment and concludes that the enforcement of its intellectual property right is likely to result in anticompetitive effects in contravention of the Competition Act, it may approach the SACC for an exemption of the respective conduct as a prohibited practice.²¹

The interplay between competition and intellectual property law: An international perspective

South Africa's position in respect of the interplay between competition law and intellectual property rights is not unique and is, instead, shared across numerous jurisdictions. Whilst we do not aim to provide a thorough exposé of the interplay between the two, globally, we do outline a number of notable developments that support the stance taken by the Tribunal.

Firstly, on 13 September 2022, the Swiss Competition Commission initiated an investigation against Novartis, a pharmaceuticals manufacturer, for abusing its dominance by having initiated litigation based on its intellectual property rights.²² The litigation by Novartis is said to be aimed at “*reducing competitive pressure*”, and therefore an abuse of dominance.

Secondly, the Supreme Court of the United States has previously held that anti-competitive effects emanating from conduct exercised in terms of a patent holder's patent does not immunise such conduct from competition law scrutiny. In this respect, the US Supreme Court held:²³

“Solvay's patent, if valid and infringed, might have permitted it to charge drug prices sufficient to recoup the reverse settlement payments it agreed to make to its potential generic competitors. And we are willing to take this fact as evidence that the agreement's “*anticompetitive effects fall within the scope of the exclusionary potential of the patent.*”677 F. 3d, at 1312. *But we do not agree that that fact, or characterization, can immunize the agreement from antitrust attack.*”

²⁰ Makarengé at [113].

²¹ Competition Act, section 10(4).

²² The announcement by the agency is available here: <https://www.weko.admin.ch/weko/en/home/medien/press-releases/nsb-news.msg-id-90320.html>

²³ FTC v. Actavis, Inc., 570 U.S. 136 (2013) at page 8.

Similarly in India, the Competition Commission of India (“**CCI**”) found that Monsanto had abused its dominance by having exercised rights under the Patents Act of India. Monsanto appealed the order to the High Court of Delhi,²⁴ “essentially on the ground that the CCI does not have any jurisdiction to examine issues raised before it as they relate to the exercise of rights granted under the Patents Act.”²⁵ “According to [Monsanto], the remedies against alleged abuse of any rights by the patentee would fall exclusively within the remedies as provided under the Patents Act and, therefore, the jurisdiction of the CCI to entertain such disputes is impliedly excluded.” The Court dismissed Monsanto’s arguments, holding that:

“This Court did not accept that the jurisdiction of the CCI to examine matters relating to certain rights granted under the Patents Act or to examine any alleged anticompetitive conduct of any enterprise including abuse of its dominant position, is excluded.”

The Court’s ultimate conclusion was that:

“... the jurisdiction of the CCI to entertain complaints regarding abuse of dominance in respect to patent rights could not be excluded.”²⁶

Conclusion

The Tribunal in *Makareng* confirmed that it has the exclusive jurisdiction to pronounce on matters that involve the exercise of intellectual property rights where there is an infringement of the Competition Act.

As the enforcement of intellectual property rights will often be pursued by dominant firms, care should be taken in the manner, the extent, the effect and justifications for any such enforcement. The Tribunal, while being fully cognisant of the importance of granting and protecting intellectual property, has no reservation in assessing whether such enforcement results in a violation of the Competition Act.

Parties who seek to enforce intellectual property rights will be better served by initially establishing the respective right as opposed to asserting these where the existence of those rights are being contested (i.e. patent holder may be in a better position than a party seeking to prove a copyright). The Tribunal’s approach in *Makareng* makes it clear, however, that sham litigation in South Africa (to protect or assert intellectual property) is unlikely to prove a successful strategy as the Tribunal refused to engage the merits of the alleged copyright

²⁴ High Court of Delhi, *Monsanto*, W.P.(C) 1776/2016 and CM Nos. 7606/2016, 12396/2016 & 16685/2016, 20 May 2020. (“**Monsanto**”). The judgment is available here: <https://indiankanoon.org/doc/158839264/>

²⁵ *Monsanto* at [28].

²⁶ *Monsanto* at [44].

claims in this case. The Tribunal simply adopts a systematic assessment of whether a violation of the Competition Act has occurred and if so, is obliged to make a finding. Consequently, intellectual property rights holders ought to be mindful of the impact and consequences of precluding competitors or customers to compete on the ostensible premise that doing so violates an intellectual property right.