

# Intellectual property rights litigation and competition law violations in South Africa



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# (I) Introduction

- ▶ Intellectual property seeks to protect and reward innovation
- ▶ Competition law - strives to achieve and maintain an open and competitive market.
- ▶ Similar objectives - namely improving consumer welfare and encouraging innovation across markets.
- ▶ In this presentation I will:
  - Discuss a recent case emanating from South Africa which squarely addressed issues relating the jurisdiction of competition authorities to hear matters relating to the enforcement of intellectual property and which provided key guidance in relation to the application of competition law to intellectual property right disputes.
  - Provide a broad overview of the interplay between competition law and intellectual property before various developed competition authorities across the globe.
  - Conclude on whether the position adopted by South Africa's competition authorities accords with international best practice.

## (II) Historical overview of competition and intellectual property in South Africa

- ▶ 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**") draft National Policy on Intellectual Property ("**draft Policy**") confirms the jurisdiction of South Africa's competition authorities to pronounce on matters involving the enforcement of intellectual property rights. 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 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 an infringement of the Competition Act
- ▶ Competition authorities then considered themselves as having the requisite jurisdiction to impose an appropriate remedy.
- ▶ This position was finally settled in the Tribunal's recent decision of Makareng Electrical Industries (Pty) Ltd t/a Wilec v Allbro (Pty) Ltd and Competition Commission of South Africa.

## **CASE STUDY: Margene Electrical Industries (Pty) Ltd t/a Wilec v Allbro (Pty) Ltd and Competition Commission of South Africa**

South African Competition Tribunal granted interim relief (an injunction) against the respondent's conduct which the applicant alleged amounted to an abuse of their dominance i.e., 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.

# (I) Background

- ▶ Applicant competes with respondent for the supply of transformer bushings;
- ▶ Applicant complained that the respondent had, *inter alia*, induced customers not to purchase bushings from competitors by threatening customers with civil and criminal liability in that they alleged that the customers would be infringing the respondent's copyright;
- ▶ Respondent's copyright claims had not yet been established and were still pending before the High Court;
- ▶ Respondent argued that the Tribunal lacked jurisdiction and 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.



## (II) The Tribunal's Findings: Jurisdiction

- ▶ The Tribunal placed particular emphasis on sections 3(1) and 10(4) of the Competition Act. In this regard, the Tribunal emphasized 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.*
- ▶ The exercise of intellectual property rights do not form part of this exclusion.
- ▶ Section 10(4) provides that a firm may apply to the SACC to have an agreement or prohibited practice exempted from Chapter 2 of the Act (which regulates prohibited practices) if such agreement or practice “relates to the exercise of intellectual property rights”.
- ▶ Tribunal concluded 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 in terms of section 10(4).
- ▶ Claim of intellectual property is “not a trump card against the regulation of competition in the public interest”

## (III) The Tribunals Findings: Jurisdiction (cont.)

- ▶ The protection of private rights, as asserted by the respondent, are secondary to the regulatory function of protecting competitive markets which is in the public interest
- ▶ 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.
- ▶ It has 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.

## (IV) Evidence of engaging in a prohibited practice

1. Respondent must be dominant - common cause respondent was overwhelmingly dominant
2. Respondent's conduct amounted to a "requiring or inducing a supplier or customer not to deal with a competitor". Tribunal found that the applicant had *prima facie* established that its customers were induced by the respondent not to purchase from other competitors.
  - respondent had instituted copyright infringement proceedings against the applicant in 2020.
  - respondent had threatened customers that if they purchased the transformer bushings of its competitors, they will be faced with civil and criminal consequences.
  - customers refusing to purchase transformer bushings from the applicant
  - 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.



## (V) Effect of the Makarengé decision

- ▶ 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
- ▶ affirms position that intellectual property is not wholly immune from competition law scrutiny
- ▶ “[intellectual property is] neither particularly free from scrutiny under competition law, not particularly suspect under competition law”
- ▶ exercise of intellectual property right must amount to a prohibited practice
- ▶ holder of intellectual property rights must consider whether such enforcement would result anti-competitive effects and if so, whether those effects can be outweighed by way of a rule of reason analysis
- ▶ not a valid defence to a competition law complaint to argue that a party was merely enforcing its intellectual property rights without providing any evidence of any counterbalancing pro-competitive effects
- ▶ If that’s the case may approach the SACC for an exemption of the

# (VI) The interplay between competition and intellectual property law: An international perspective

- ▶ South Africa's position is shared across numerous jurisdictions.
- ▶ Notable developments that support the stance taken by the Tribunal.
- ▶ Sept 2022 - Swiss Competition Commission initiated an investigation against Novartis, for abusing its dominance by having initiated litigation based on its intellectual property rights.
- ▶ 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: "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."

# OECD: Recommendation of the Council on Intellectual Property Rights and Competition

- ▶ On 07 June 2023, the OECD adopted recommendations of intellectual property and competition.
- ▶ The Recommendation broadly recommends that:
  1. Members (and non-Members) effectively enforce competition law against anti-competitive IP-related business practices
    - ▶ Apply the same competition principles to IP rights as to other forms of property, while accounting for the unique characteristics of IP rights.
    - ▶ Apply the same competition principles across different IP rights, while accounting for relevant differences between types of IP rights
    - ▶ Apply a case-by-case approach and an actual or likely effects-based analysis
    - ▶ Take the existence of IP rights into account when defining relevant markets without automatically equating the scope of the IP right with the scope of the relevant market
    - ▶ Treat the existence of the IP right as one of the relevant factors for assessing market power, without presuming that it inherently confers market power on the right holder.
    - ▶ Apply, when relevant, exceptions from national competition law for IP rights narrowly, having regard to the importance of preserving effective competition
  2. Adherents to the Recommendation weigh the actual or likely anti-competitive effects against the pro-competitive effects when assessing IP licensing arrangements under competition law (except for *per se* contravention cases)
  3. Adherents develop and promote public guidance on the assessment of IP-related business practices under their jurisdiction's competition law with a view to foster transparency and legal certainty for effective competition enforcement
  4. Adherents design effective and appropriate competition law remedies in IP-related competition cases
  5. Adherents foster effective co-operation nationally and internationally.

## (VII) Conclusion

- ▶ The Tribunal in Makarengé 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 Makarengé 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