Intellectual Property and Competition Policy in Chile: Taking Stock, Looking Ahead

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February, 2011

The patent system is a "huge mistake" as inventions arises mainly "from a philosophical instinct of contrivance and creativity"

F.W. Taussig, *Investors and Moneymakers* (1930)

"By offering the prospect of reward for certain types of invention [IPRs] do not, indeed, appreciably stimulate inventive activity, which is for the most part, spontaneous, but they do direct it into channel of general usefulness"

A.C. Pigou, *The Economics of Welfare* (1960)

IPRs are a "trivial cost" to society as "an exclusive privilege is absolutely necessary in order that what is sown may be repeated", because an inventor "who has no hope that he shall reap will not take the trouble to sow"

J. Bentham, *The Works of Jeremy Bentham* (Bowring, ed.) (1843)

The Roadmap

1. IPR's: A brief overview
2. Competition policy: A brief overview
3. IP and Competition law: the issues
4. Relevant cases
5. Concluding remarks

IPRs: A brief overview

IP's Definitions

➲ ***Intellectual Property (IP)***

Creations of the human mind

- literacy, artistic and scientific works
- performances of performing artists, phonograms and broadcasts
- inventions in all fields of human endeavor
- scientific discoveries
- industrial designs
- trademarks, service marks and commercial names and designations
- all other rights resulting from intellectual activity in the industrial, scientific, literacy or artistic fields

Convention Establishing the World Intellectual Property Organization (WIPO) , 1967

IP's Definitions

➲ *Two branches:*

- **Industrial Property:** ideas or signs transmitting information.

  - It includes patents and utility models to protect inventions, industrial designs, trademarks, know-how agreements, trade secrets, layout-designs of integrated circuits, commercial names, designations, geographical indications and protection against unfair competition

  - Protection is granted by the provision of a monopoly right to exploit an idea, which must be disclosed publicly, during a relatively short period of time (10 / 20 years)

- **Author's rights or copyright:** artistic creations

  - Protects the form of expression of ideas (not the ideas themselves)

  - Protection recognizes that copies of artistic creations can be made just by its author or someone else with his authorization. Also considers the author's right to prevent a distorted reproduction which only he can exercise

  - Protection is longer than in industrial property. As the idea was already expressed, public register of copyright protected works is not necessary

IP protection

- ***Intellectual Property Rights (IPR)***

  Protect the interests of creators by giving them moral and economic property rights over their creations

- ***Why?***

  - *Natural Law approach*: moral rights intrinsically attached to the personality of the inventor

  - *Utilitarian approach*: (technological) progress is achieved by means of private rewards

    1) Reward theory: inventors should be rewarded for the risks and the investment of time and effort they have made to develop a useful society invention
    2) Incentive theory: goes beyond compensation to give a "spectacular price" in order to boost invention
    3) IPR as market instruments: IPS (especially patents) are instruments to attract private investment, so they should be granted irrespective of the value of the invention itself

Not any type of innovation should be protected by IPRs, only that which value to the consumers is higher than the costs of the IPRs' protection mechanism

How do we regulate IPRs?

IPR

More Details

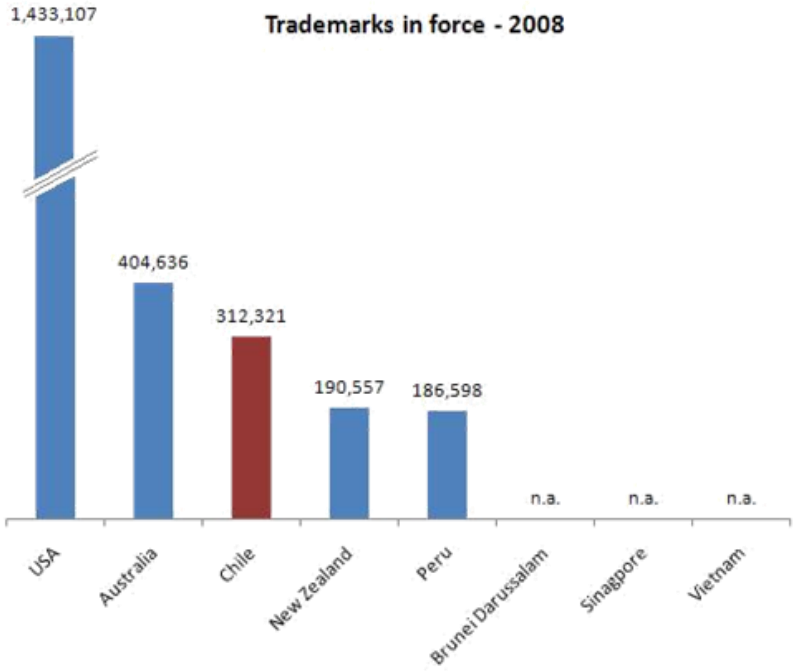
Law No 19039 Industrial Property Act

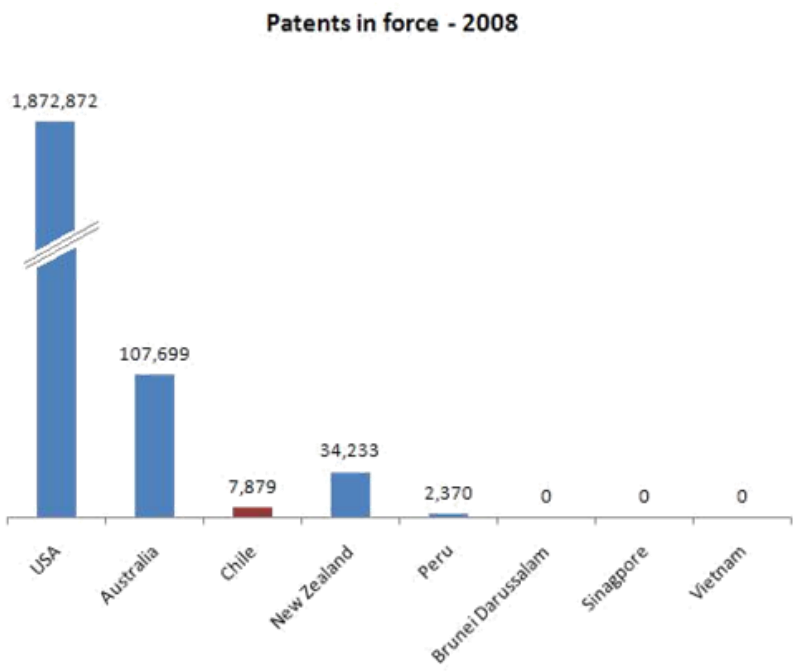
- Patents of inventions; Trademarks; Utility models; Industrial desings and drawings; Layout-designs Geographical indications and appellations of origin, among others
- Since 2008, enforced by the ***National Institute of Industrial Property,*** **INAPI** (previously, by the Department of Industrial Property of the Ministry of Economic Affairs)
- INAPI's decisions could be reviewed in a appeal instance, by the ***Industrial Property Tribunal***, a special tribunal created by the Industrial Property Act

Law No 17336 Copyright Act

- Scope: Moral and property rights
- Copyright of several intellectual creations as any writings material and literary work; dramatic, dramatic-musical and theater in general; music; any audio-visual work; photographs; and software, among others
- Where: ***Copyright Registry***, at the Intellectual Rights Department - Directorate of Libraries, Archives and Museums DIBAM
- Enforced by **civil judges**

IPRs in numbers

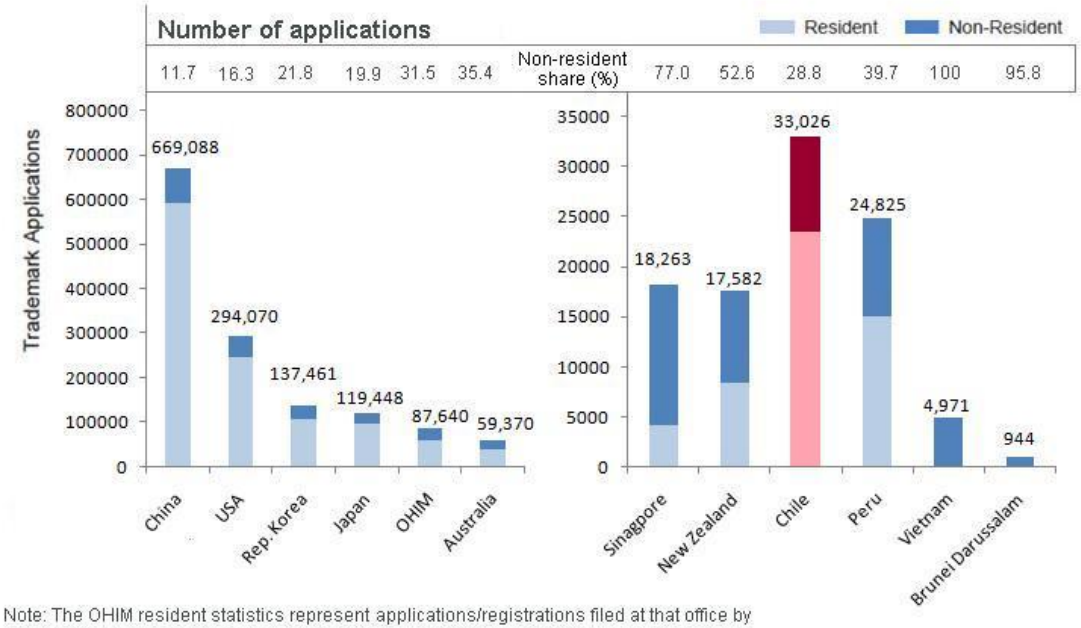




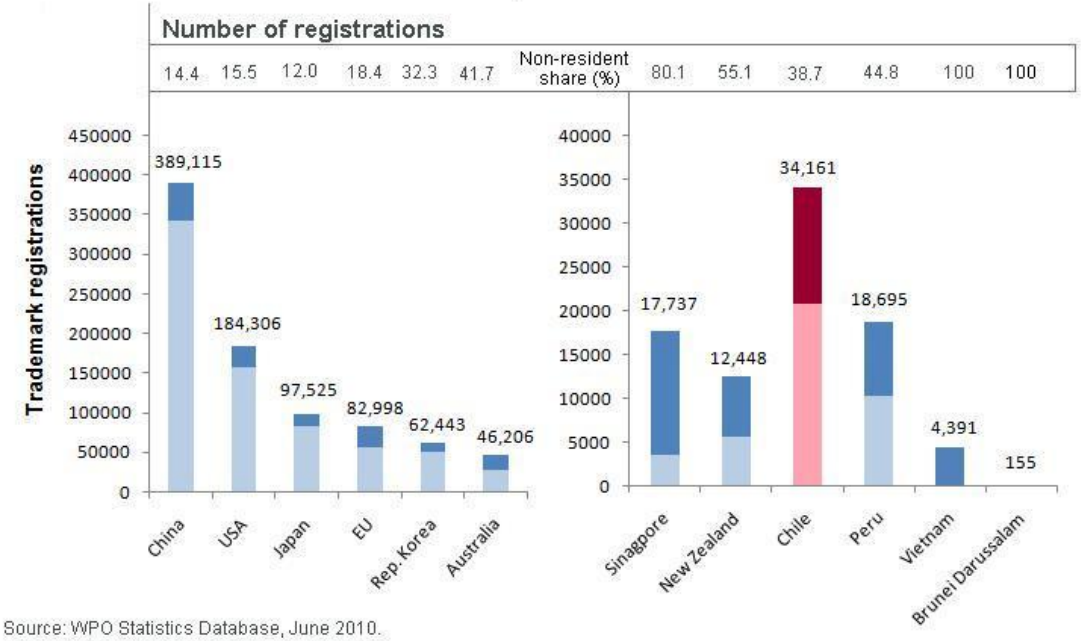
Source: WIPO, Statistics Database 2010

In Chile, there is no statistical information about number of copyrights in force and its evolution over the time

Trademark applications and granted in selected economies by IP office, 2008

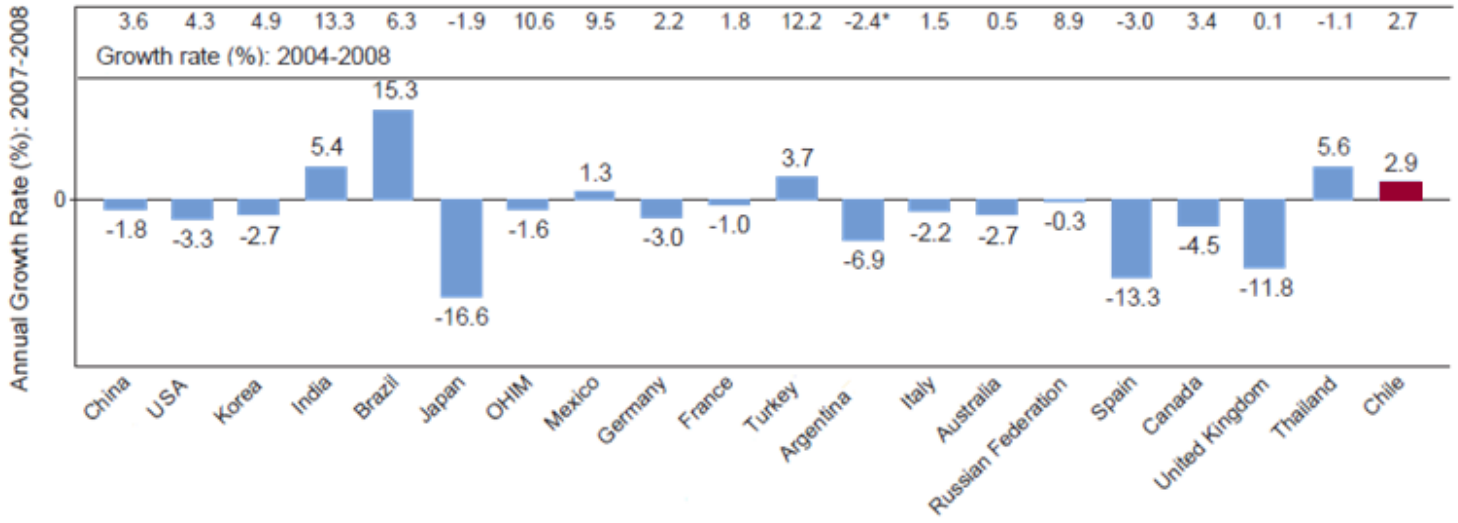


Note: The OHIM resident statistics represent applications/registrations filed at that office by residents of all EU countries

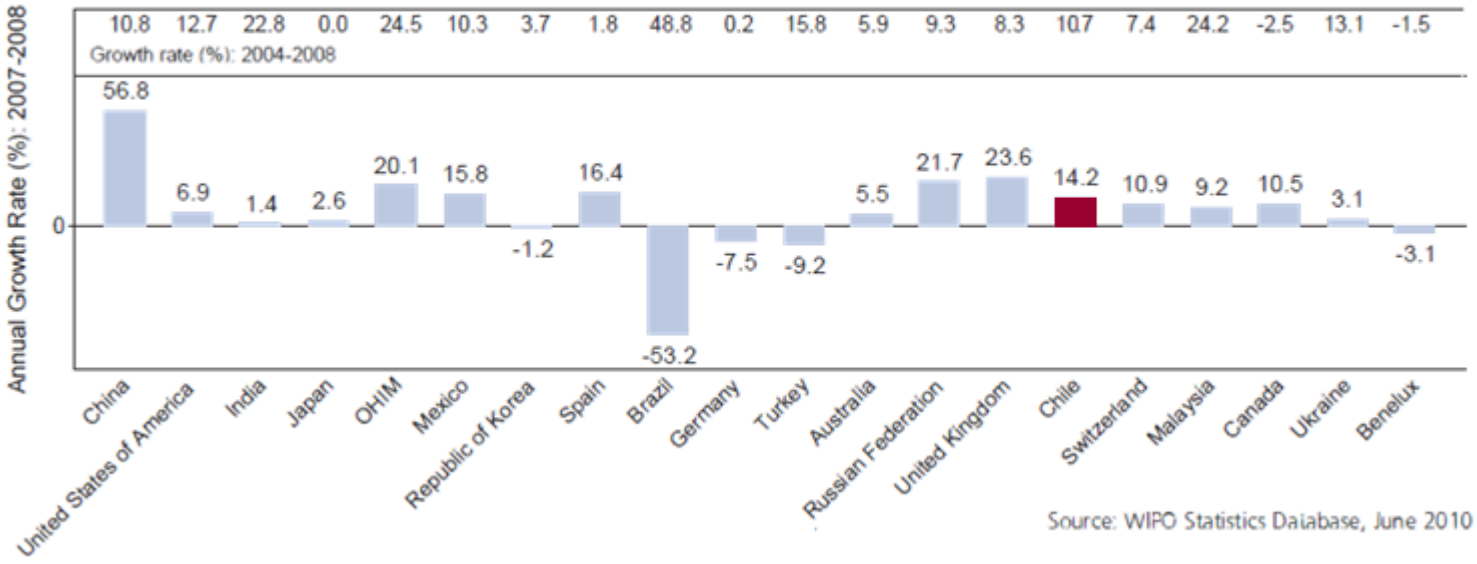


Source: WPO Statistics Database, June 2010.

Trademark application growth rate by IP office: top 20 offices

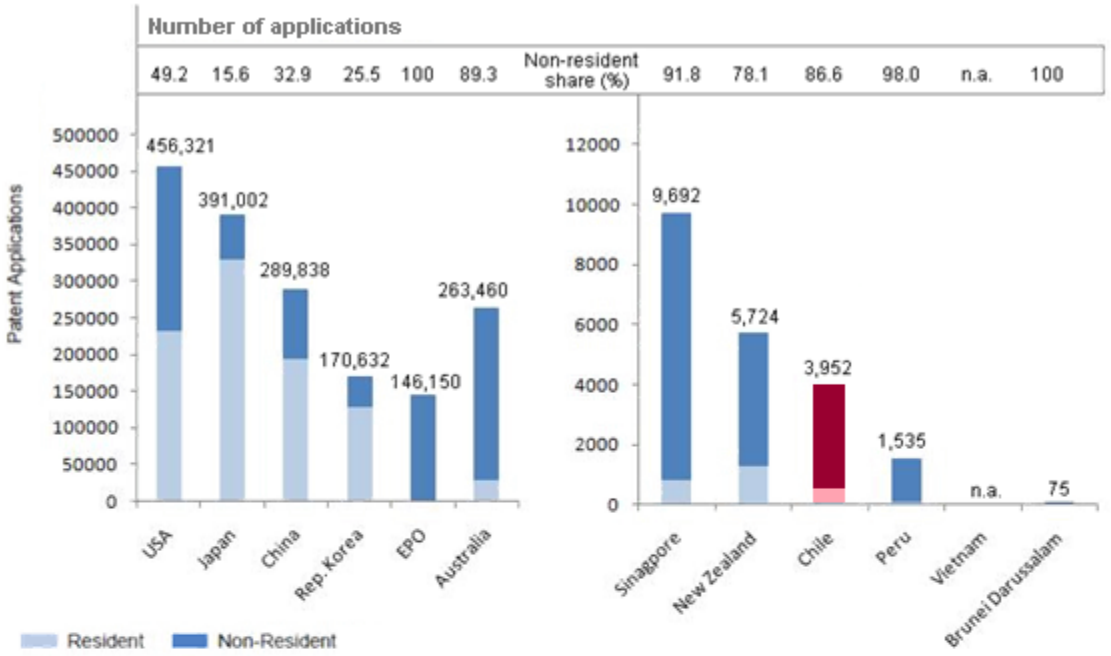


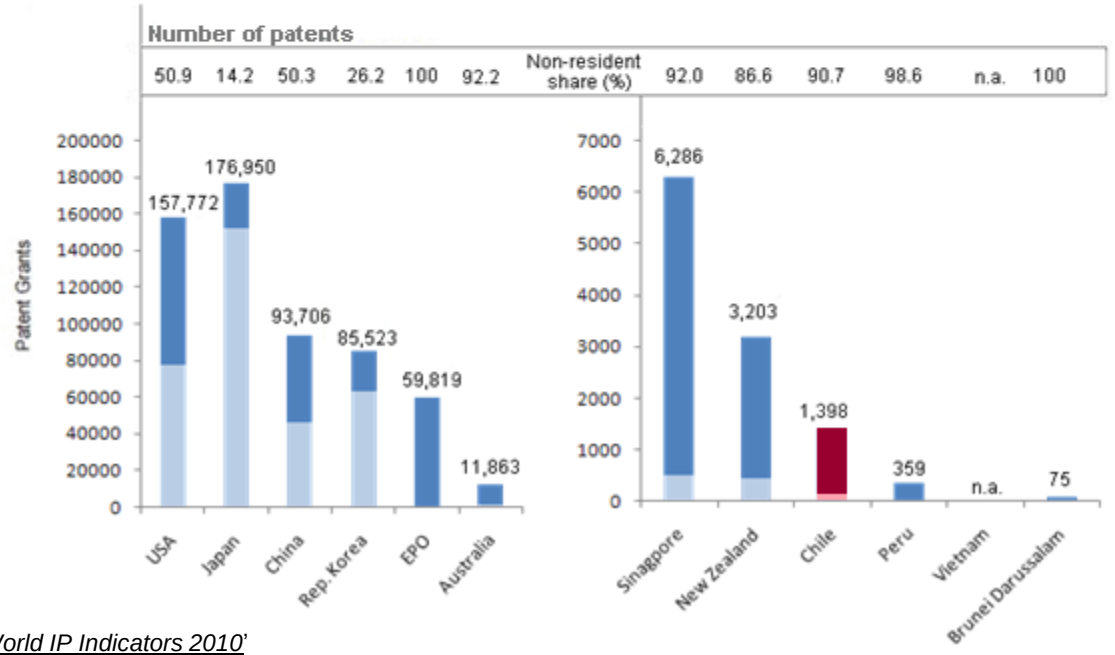
Trademark registration growth rate by IP office: top 20 offices



Source: WIPO Statistics Database, June 2010

Patent applications and patents granted in selected economies by patent office, 2008





Source: WIPO (2010), '*World IP Indicators 2010*'

Competition Policy – A brief overview

Chilean Competition System

Dual system:

- **The Competition Agency – FNE**
  - Prosecution office
  - Carry out investigations to enforce the law
  - Provides expert reports to TDLC
  - Also in charge of competition advocacy and promotion

- **The Competition Tribunal – TDLC**
  - Judicial body
  - Its decisions may be punitive, restrictive or corrective
  - Resolves on adversarial and non-adversarial competition cases, and consultations submitted by the FNE or any private or public entity
  - Can recommend the executive amendments or abrogation of laws and regulations, and the enactment of regulations to promote competition

What we are talking when we talk about…?

Competition issues

DL No 211
Competition Act

- Aimed to *"promote and defend the **free competition**"* . Protect competition at all stages of the economic activity
- Scope "*… any act, agreement or convention, either individually or collectively, which hinders, restricts or impedes free competition, or which tends to produce such effects…"* (Art.3)
- Enforced by the **FNE**. Decisions are made by the **TDLC** and can be appealed to the Supreme Court.

Unfair practices

Law No 20169
Unfair Competition Act

- Scope: *"any conduct contrary to the **good faith** or to the good customs that, by illegitimate means, pursues to deviate the clientele for a market agent"*
- Penalizes acts of unfair trading practices.

  It contains a non exhaustive list of acts and conducts (some of them also can constitute an anticompetitive practice according the Competition Act).

  It applies to industrial and intellectual property rights regulated under Laws 17336 and 19039.
- Enforced by **civil judges** (private damages)

IP and Competition Law – The issues

The crucial dilemma

- The system should find an appropriate balance between *creating* and *disseminating* IP
  - Allow market based incentives for creation
  - Minimise costs of innovative activity
  - Provide for timely disclosure of innovation or creation
  - Provide for fair use with economic and social goals in mind

- ***Creation***
  - Need of investors to control exploitation of their new information
  - IPRs emphasise creation
- ***Dissemination***
  - Need of users, including consumers and potential competitors working on follow on inventions and innovations
  - Antitrust emphasises dissemination

The common goal: protection of innovation

- ***IP creates incentives for innovation***
  - IP laws encourage innovation by granting exclusive rights
  - IP protection focuses on long-term effects
- ***Competition also stimulates innovation***
  - Traditionally, competition protection focuses on short-term effects
  - *But*: Competition among firms spurs the invention of new or better products or more efficient processes

➲ Competition and IP laws are *complementary tools* to promote innovation for the benefit of consumers

Innovation benefits consumers through a wider and deeper choice space and new or improved good, services and processes

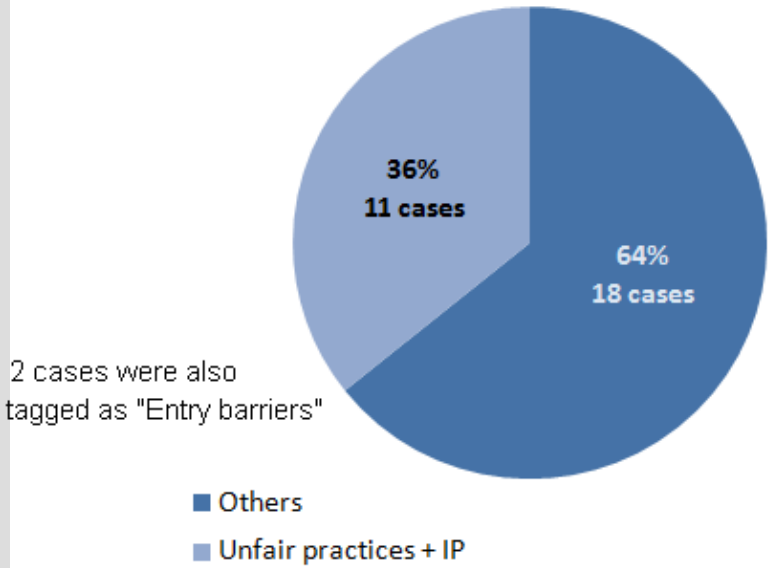
Problematic practices

- ***Questionable patents***
  - *Overbroad patent*
  - *Defensive patents*
  - *Patents on obvious invents*
- ***Protection's characteristics***
  - *Excessive duration for protection*
  - *Unjustified protections*
- ***Others***
  - *Legal uncertainty*
  - *Excessive costs (application / litigation)*

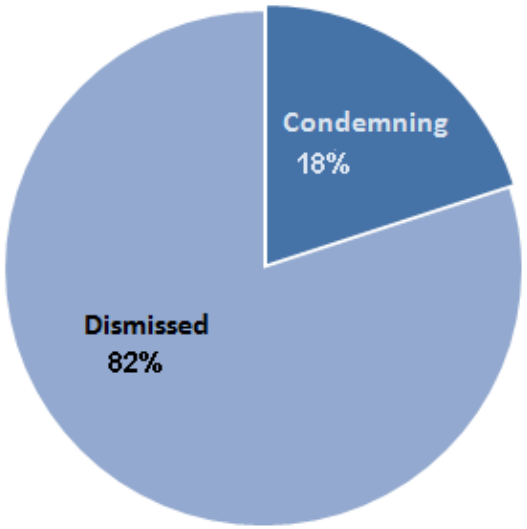
Some practices may deter innovation and negatively impact social welfare. Competition authorities aim to deter some of those practices and eventually punish wrongdoers

Competition Law and IP

Cases on unfair competition practices ruled by the TDLC (2004-2010)



Decisions on IP + Unfair competition practices (2004 - 2010)

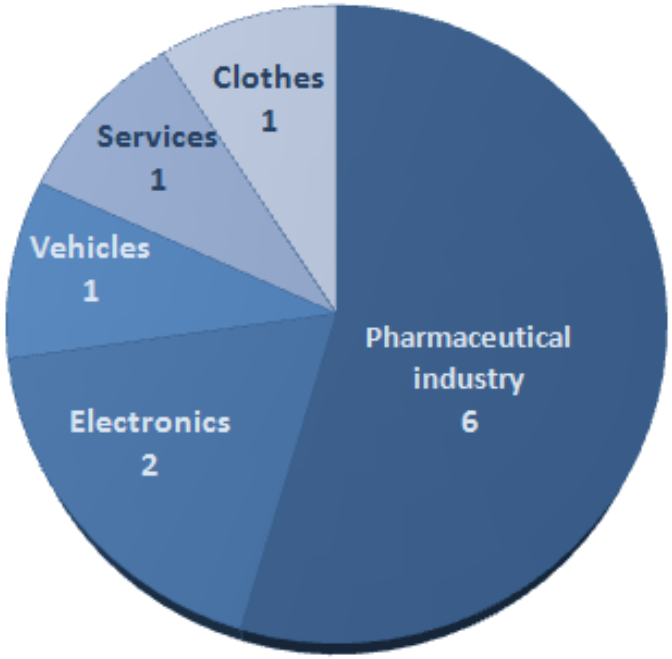


2 cases (initiated in 2010) were not included in these pie charts because are still pending before the TDLC

Rulings issued by the Industrial Property Tribunal just in 2010 (on trademarks and patents): 1050

Competition Law and IP (cont.)

Cases on unfair competition practices ruled by the TDLC by sector / industry (2004-2010)



IPRs as “monopoly”

- Monopoly and property
  - Traditional approach: IPRs confer holders monopoly “privileges” (Doctrine of restraint of trade, e.g. *Darcy v. Allein*, 1603)
  - Later: IP as “property”
  - Both concepts refers to the *right to exclude*, so by definition an IP holder is a monopolist (!)
  - Problem: if there are substitutes, IPRs do not produce social loss

- Currently: more economic approach
  - Market power
  - IPR does not confer monopoly power: the mere possession of IPR does not amount to dominant position (e.g. EU: *Deutsche Grammophon* [1971]; US: *Illinois Tool Works v. Independent Ink* [2006])

Monopoly power granted by means of IPR is not by itself an anticompetitive violation

Is IP comparable to other forms of property?

- ***Common answer: "yes"***
  - E.g. US Antitrust Guidelines for IP
  - Constitutional protection (e.g. US: 14th and 15th amendments; EU: 1st additional protocol of the ECHR)
  - Consequence: Legal framework favourable to IPRs
- ***EU: "social function" of property***
  - Property can be restricted for reasons of public interest
  - Competition law constitutes a "general interest" (E.g. Commission, *Frankfurt Airport*)
- ***Chile?***
  - No answer yet
  - But "social function" of the property is recognised
- ***Growing literature saying "no"***
  - Property does not provide immunity to IP
  - It does not provide useful information on the level of reward/incentive, nor a standard of dissemination
  - Leverage on IP is not an abuse: requires "new product" (protection of innovation)

To refuse or not to refuse

Two types of innovation: *stand alone* innovation and *cumulative* innovation. Focus on the latter (more social value)

"If I have seen further it is by standing on the shoulders of Giants" (Newton)

Cumulative innovation: successive innovations build upon earlier innovations

- Second innovation cannot be invented without the first
- First innovation reduces the cost of achieving the second
- First innovation accelerates the development of the second

Strategic choice for IP holders: to foster cumulative innovation or to block it by refusing to grant licenses

- Incentives to refuse only if IP holder can compete in the market of the second-generation product

Anti-competitive effects can only be produced if the IP holder has market power in the market covered by the IPRs

Antitrust doctrines

- Leverage doctrine
  - Monopolist seeks to extend its monopoly power to a downstream market
  - Behavioural theory
  - But single monopoly profit?
- Essential facilities doctrine
  - Monopolist controls a bottleneck
  - Structural theory
- Raising rivals' costs
  - Behavioural theory
  - E.g. "submarines patents", "patent flooding"
- Maintain monopoly
  - By sequential innovation

The Legal Standard

- ***What is the most suitable standard applicable to refusal to grant access to IP for the Chilean practice?***

  - The "new product" rule (EU: *Magill / IMS*)
    - "Exceptional circumstances" test: (i) access is indispensable; (ii) refusal prevents the appear of a new product"; (iii) no justification; (iv) refusal excludes "any" / "all" competition in a secondary market
    - "Leveraging" is not an abuse in itself. There must be a "new product"

  - The "balance of incentives to innovation" test (*Microsoft*)
    - Broader than the "new product" rule
    - (EU Commission) Takes into account (i) incentives of competitors to innovate and (ii) incentives of the monopolist to innovate
    - General Court's approach does not require the existence of dominant position or the likelihood of the emergence of such position on the secondary market (!)
    - Unlike to be accepted in Chile: against legal text; overbroad; vague

Competition may be harmed when IP owners with market power engage anticompetitive practices to extend or maintain their market power

Relevant cases

Pharmaceutical industry – Sham litigation?

- ***Recalcine v/s Novartis – "Novartis' drug patent "*** (Decision No. 46/2006)

Facts: *Recalcine* filed a complaint against *Novartis*, claiming *Novartis* had abuse of its dominant position by exercising legal actions based on its IPR over the "*imatinib melisate*" (an active ingredient for the treatment of malignant tumours), in order to deter the entrance of an imported drug (*Zeite*) and maintain its monopolistic position

Decision: TDLC dismissed the plaintiff's claim. The Supreme Court confirmed

- While Novartis had reasonable doubts about the composition of the drug imported by the plantiff, it was not possible to infer that the former's actions were intended solely to prevent or delay the entry of a competitor, despite its effects. Therefore, they were not anticompetitive, because such actions were lawfully taken to protect its IPR

Pharmaceutical Industry

- ***Knop v/s FASA – "Paltomiel I"*** (Decision No. 24/2005)

Facts**:** *KNOP Laboratories* filed a complaint against FASA (the dominant pharmacy retail undertaking), claiming the latter's refusal to buy its product *"Paltomiel"* (a natural cough linctus made of honey and avocado) and selling instead its private label brand's expectorant linctus *"Palto con Miel",* imitating its trademark and the appearance of its cough syrup bottle.

Decision**:** The TDLC's ruled against FASA, imposing a USD$ 40,000 fines

- The refusal to buy made ***by a dominant firm***, with the aim to exclude a competitor in the provision of an specific product, and replacing this product it by its own imitation, is considered an anticompetitive conduct aimed to mislead customers by means of the graphics and linguistic similarities between the trademarked product and its own brand's product.

Pharmaceutical Industry

- ***Knop v/s Maver – "Paltomiel II"*** (Decision No. 59/2007)

Facts**:** *KNOP* filed a complaint against *Maver*, accusing it of engaging in unfair anticompetitive practices. According to Knop, Maver was producing a cough medicine that imitated its trademarked "*Paltomiel*" (imitating both its pharmacological active principles as its appearance), misleading the consumers

Decision**:** TDLC dismissed the claim. The SCJ confirmed the judgment

- Although the defendant has imitated a prestigious product by emulating its denomination and characteristics, ***there is no dominant position*** in any of the relevant markets assessed. Therefore, the conduct cannot be an anticompetitive infringement

➲ The difference between *Paltomiel I* and Paltomiel *II* was the presence of a firm with dominant position, which allowed it to harm competition at the retail level

Pharmaceutical industry

- ***Bayer v/s Maver – "TABCIN – TAPSIN I"*** (Decisions No. 60/2007 & 84/2009)

Facts: *Bayer* filed a complaint against *Maver,* accusing it of imitating its product's denomination name (TABCIN) and use its internationally prestige by acquiring the trademark rights in Chile for *TAPSIN*, thus restricting the possibility of *TABCIN* to entering to the Chilean market

Decision No 60/2007: TDLC's rejected the plaintiff's claim grounded in an exception of prescription which was confirmed by the SCJ. In addition, the TDLC dismissed the existence of an antitrust violation

- Disputes on trademark registrations are outside the TDLC's jurisdiction and must be assessed under IP laws
- Although reprehensible, imitative behaviours were not suitable to divert plaintiff's customers to the defendant: no unfair competition
- Even if an unfair practice were identified, it was not intended to achieve, maintain or enhance a dominant position in the relevant market: no antitrust violation

Decision N°84/2009: TDLC rejected the lawsuit filed by Bayer against Maver, with costs, for alleged acts of unfair competition that would have been made by a possible abuse of rights and legal actions aimed at prevent the entry of Bayer's TABCIN products to domestic market. TDLC held that the facts could not alter the conclusions reached at its Ruling No. 60/2007, which resolved a previous trial followed the same parties, and were not eligible to set an anticompetitive infringement

Parallel imports

- The TDLC (and also former Antitrust Commissions) have concluded that the registration of a trademark, while protecting its owner of any unlawful use thereof by third parties, does not entitling it to exclude others from importing and marketing legitimate products from the same brand, without prejudice to its right to exercise appropriate legal proceedings to defend its IPR and interests

- *Examples*

  - Decision No. 68/2008 , "*Audiomusica – Eminence speakers case*"
  - Resolution No. 21/2007, "*Coral Chinesse tires case*"
  - Resolution No. 26 /2008, "*Duracell Batteries case*"
  - Resolution No. 5/2005, "*Chevron motor oil case*"

Generic names

- The identification of a firm's product by its generic name to prevent competitors from using the name implies the creation of entry barriers in the relevant market. Such actions are intended to achieve, maintain and enhance a dominant position, hindering free competition

- IPR owners should not use their trademark as an abusive exercise to prevent competition in the markets

- *Examples*

  - Decision No. 50/2007 , *"Hemisferio Izquierdo vs. Executive Search"*
  - Decision No. 30/2005 , *"Kanikama case"*
  - Decision No. 54/2007 , *"Phantom Chinnesse motorcycles"*

Others

- It is outside the remit of the TDLC to rule on the existence of possible violations of the IP protection rules resulting from third parties' use of brands registered in Chile or abroad

  Examples

  - Decision No. 40/2006 , *"Mekse & Beck, sound equipment case"*
  - Decision No. 23/2005 , *"Dakota shoes"*

- **Pharmaceutical industry:** International controversy on drugs' patents and "copies" from national laboratories are out of the scope of competition policy and should be solved by the ITP / civil judges

Concluding remarks

- ***CP and IP are not contradictory***, their relation is not antagonistic but complementary

- **IPR owners may affect free competition in markets**, deviating from the legitimate purpose of the IP system

- There is a **need to clarify the standard** to assess refusals to license

- ***Harmonizing efforts:*** IP's institutions (INAPI, DIBAM) and civil judges enforcing IP laws should take care that their IP's decisions should not result in the illegal acquisition of market power or its unlawful exercise

Muchas Gracias

Creating a Competition Culture

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