

# **ANSWERS OF THE BRAZILIAN GROUP**

## **Question A**

### **Compulsory Licensing to Intellectual Property and Network Facilities**

#### *The Essential Facilities Doctrine as Applied to IP Rights and Physical Monopolies*

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To what extent and by what means should Intellectual Property Rights (IPRs) be subject to compulsory licensing by reason of competition law?

**Brazilian Group:** According to Art. 24, Item IV of the Antitrust Law (Law 8,884 of June 11, 1994), the grant of compulsory licensing is regarded as a penalty when there is an infringement of the antitrust laws. This means that the Federal Administration Council of Economic Defense (CADE) may use the intangible assets of an infringing company, especially patented inventions to punish the actual violation.

Among the penalties set out by Article 24, compulsory licensing of patents is one of the most important but less used by the antitrust division, since it will be applicable solely in case the economic power of the alleged infringer derives directly from the exploitation of its patents patent and the incurred violation seriously harms the public interest.

The Patent Law (Law 9,279/96) further provides the events and the rules for granting compulsory licenses (patented inventions and utility models). Accordingly, the events of compulsory licensing are as follows: (a) the exercise of property rights by a patentee in an abusive manner or the abusive exercise of its economic power in a market; (b) the non-exploitation of the patented product/process in the Brazilian territory by lack of manufacture or incomplete manufacture of the product or by the lack of complete use of a patent process; (c) when commercialization does not meet the market needs; (d) when there is a situation of dependency of one patent or another, the subject matter of the dependent patent is a substantial technical advance in relation to the earlier patent and the patent does not come to an agreement with the patentee of the dependent patent for the exploitation of the earlier patent and (e) in case of national emergency and public interest.

These are the only events permitted by law for the grant of compulsory licensing to third parties.

(1) should this ever be required? If yes:

**Brazilian Group:** Yes. The enlisted events in the Antitrust Law and the Patent Law are exhaustive and both laws specify the technical requirements for the grant. Therefore, their fulfillment is indispensable for the use of the compulsory licensing.

(2) should the answer differ:

(a) according to the type of IPR at issue?

**Brazilian Group**: Yes, the answer differs from the type of IPR at issue since the rules of compulsory licensing are effective solely to patented inventions and utility models. There are no provisions in the Patent Law and in the Antitrust Law dealing with the limitation of industrial designs. Moreover, the Copyright Law (Law 9,610/98) does not stipulate the compulsory licensing.

Notwithstanding the aforementioned, one may find out rules addressing compulsory licensing to plant variety, as Brazil provides a specific protection by means of Law 9,455 of April 25, 1997. Accordingly, the protected plant variety may be subject to compulsory licensing when the market of the protected variety is not being supplied adequately by its owner (without any justified reason) or when the price of the variety is increased due to the irregular disposal of the variety in the market.

The sole paragraph of Article 28 of Law 9,455/97 stipulates that the governmental authority in charge of examining the existence of restrictions to competition by the titleholder will take into consideration the list (non-exhaustive one) of commercial acts classified as anti-competitive. The requirements for the grant of compulsory licensing should take into account the following: (i) the party requesting the compulsory licensing should evidence to the authorities that it took all adequate measures to obtain from the variety titleholder a license to exploit its protection and (ii) the party requesting the compulsory licensing should evidence its financing and technical capability to exploit the variety.

The compulsory licensing will only be granted after three (3) years from the grant of the Provisional Certificate of Protection, except in case of abuse of economic power, national emergency and public interest.

The petition for the compulsory licensing of plant variety should be addressed to the Ministry of Agriculture, but the decision will be issued by CADE.

(b) Where the IPR has no statutory protection (e.g. know-how)?

**Brazilian Group**: Compulsory licensing will not apply in case IPR has no statutory protection, such as know-how.

(3) should monopolies conferred by (IP) law be treated differently from physical monopolies (e.g. ports and infrastructure networks)?

**Brazilian Group**: No, IP rights should not be treated differently from physical monopolies as both monopolies impact negatively in the competition of a specific market.

Nevertheless, there are monopolies that are secured by the Federal Constitution, such as the exploitation of gas and oil. We highlight that only the Federal Constitution has the effective power to create state monopolies, being recognized that laws hierarchically inferior to the Constitution may not create monopolies. For example, the monopoly for exploiting the mines fields is absolute, but in the case of petroleum, the state may grant to private companies for exploitation (Paragraph 1 of Art. 177 of the Federal Constitution).

In regard to the monopolies created by the state, IP should be treated differently.

The obtainment of an intellectual property right does not mean that the titleholder will have a monopoly of the market, since the rights granted by the Brazilian National Institute of Industrial Property (INPI) limits the exclusive rights to the manufacture of the products comprising the patented product/process. Moreover, it is indispensable the examination of the market, the size of the competitors, and the market power of the titleholder of the IP right to confirm the monopoly and the abusive exercise of a dominant position.

Therefore, IP right is not a monopoly *per se*.

Further to that, the substantive laws in the field of the exclusive intellectual property rights are grounded primarily by the Brazilian Federal Constitution, which classifies them as a true “property right”. Article 170 of the Federal Constitution establishes that the economic order is based in the free enterprise and the appreciation of the value of the human work. For this purpose, the Constitution guarantees economic freedom and property rights for those who want to venture in commercial activities and create new technologies.

An additional aspect should be added to the characteristics of the Brazilian economic order, as the same Article 170 further provides three (3) comprehensive principles – the social function of property, the free competition and the consumer rights protection – to support the proposed constitutional objectives to free enterprise and a compromise to achieve economic development and social justice.

(4) should it make a difference if;

- a. there has been a history of previous course of licensing, access, or other relationship between the parties concerned.

**BRAZILIAN GROUP:** Yes, if there is a history of previous course of licensing, access or other cooperation in the relationship between the titleholder of the IP right and third parties, allegations of anti-competitive practices may be substantially reduced.

Further to that, the simple refusal to sell products comprising intellectual property rights or price increases due to patent ownership, for example, is not regarded *per se* as an infringement of competition. According to Article 20 of the Antitrust Law, anti-competitive measures are those commercial acts that have the potential to change negatively the market structure thereby eliminating competition and increasing profits on a discretionary and unfairly basis.

- b. the development of a new product is involved by the party seeking access, and, if so, what constitutes a “new product”?

**BRAZILIAN GROUP:** Yes, the development of a new product may constitute justifying reasons for a practice that limits the use of an IP right insofar as the measure is for a limited period of time and it does not change negatively the market structure of the product comprising the IP right.

“New product” may mean any product or process that comes directly from the development of a work protected by an intellectual property right.

- c. the right/facility represents a substantial investment of money, research, or other effort by the holder of the right?

**BRAZILIAN GROUP:** No, the substantial investment made by the holder of the IP right is not considered in principle as a good justifying reason to prevent the applicability of the Antitrust Law.

For constituting antitrust infringement, it is indispensable that the practice of the IP holder produces or is able to produce one of the following effects: (i) limitation, false attitude or damage, under any form to, open competition or free enterprise; (ii) control of a relevant market of a certain product or service; (iii) increase of profits on a discretionary basis and (iv) abusive exercise of dominant position. It is understood for this purpose that a violation of competition needs to be effectively verified, including the analysis of market structure, among others.

- d. the right essentially represents a by-product of a normal business operation by the holder of the right?

**BRAZILIAN GROUP:** No, the fact that the essential right represents a by-product of a normal business operation of the holder does not interfere in principle to the examination of an antitrust practice. The unreasonable justification to prevent an access to an IP right by a third party with a clear negative impact to the competition in a specific market suffices for the practice to be classified as antitrust laws violation.

- e. the party denying access is not a vertically-integrated competitor in the market(s) where the right would be used?

**BRAZILIAN GROUP:** Yes, the fact that the titleholder of the IP right and the party requesting access to the IP right does not hold a vertical relationship may influence the antitrust authorities in framing the refusal to access of an IP right as antitrust violation.

It is commonly recognized that vertical restrictions are in principle more harmful to competition since they may create barrier to rivals and potential competitors, such as increasing the costs of companies to participate in the market.

- f. The party denying access is an IPR pool rather than a single firm?

**BRAZILIAN GROUP:** Yes, the fact that the party denying access is an IPR pool rather than a single firm should make the difference, since one of the essential requirement of the Essential Facilities Doctrine is the limitation of access of the product to other companies, especially to other competitors. In this perspective, if the IPR is owned by a pool of companies, especially direct competitors, it will mean that other companies will have access to the essential product and therefore the access to the product or IPR will not be entirely denied to outsiders.

- g. the party denying access enjoyed the resources of the State in creating its current market or IPR position?

**BRAZILIAN GROUP:** Yes, this fact may make a difference in the sense that the exclusivity or monopoly will be secured by means of a specific law and therefore there is always the interest of the state to secure the position of the IPR titleholder and the granted monopoly

- h. the party seeking access had an earlier opportunity to invest in the right/facility before it proved successful?

**BRAZILIAN GROUP:** Yes, the fact that the outsider had an earlier opportunity to invest in the essential facility before it proved successful may prevent a demand to access of the essential facility (product or IP right) by a third party.

In this regard, the Federal Administration Council of Economic Defense (CADE) issued a decision on February 11, 1998 in the examination of the Concentration Act 54/95 requested by Cia. Petroquímica do Sul – COPESUL; OPP Petroquímica S.A.; OPP Polietilenos S.A. e Ipiranga Petroquímica S.A. During the proceedings, it was examined a request of Petroquímica Triunfo S.A. to have access of an essential facility, which was the participation in the expansion of production/distribution of ethylene and propane.

The CADE understood that Petroquímica Triunfo adopted an opportunistic behaviour since this company was offered to participate in the expansion but did not give guarantees to the other pool of companies that it would not use its bargaining power to obtain better conditions after the companies invested a great deal of money in the expansion of the exploitation and distribution of ethylene and propane.

The CADE recognized the expansion plan as essential facility but it did not grant to Petroquímica Triunfo the right to participate in such expansion due to opportunistic behavior.

- i. the party seeking access has a workable alternative available but it is more costly and/or technologically inferior and hence would be significantly less profitable?

**BRAZILIAN GROUP:** Yes, if the restrictions to the implementation of the workable alternative to the essential facility impose stringent hindrances to the entry of new players and to competition. This may happen when the workable alternative to the essential facility creates an excessive cost and the technology is substantially inferior to the existing one of the essential facility.

- j. it may give time and investment be possible for the party seeking access to create its own alternative, but this is risky and the time period would be lengthy?

**BRAZILIAN GROUP:** As aforementioned, if the alternatives to the essential facility are extremely difficult to be implemented by the party seeking access due to several economic reasons, these hindrances may make a difference in permitting or not the access of third parties to the essential product or IP right.

- k. the party denying access is not otherwise abusing (in the established sense) its doming position?

**BRAZILIAN GROUP:** No. If the party denying access is not violating the antitrust laws, it may make a difference in granting the access to an essential facility. However, according to the Essential Facility Doctrine, the obligation to dispose the essential facility to a third party is not subject to the prior abusive practice of the holder of the right. In fact, the following requirements should be complied with in order to have the applicability of the Doctrine: (a) the essentiality of the involved product or rights; (b) the refusal of the holder of the essential facility to dispose to a third party/ (c) the refusal will lead to the

restriction of competition and (d) the refusal to dispose the essential facility by its holder to a third party is economically unreasonable and unjustified.

(5) if the conditions for compulsory licensing are met, how should the terms of access be determined? Is it part of the role of a competition authority or court to do so? Should all applicants be licensed, or a limited number? If limited, according to what principles?

**BRAZILIAN GROUP:** It is important to highlight that the grant of compulsory licensing does not take into consideration necessarily the existence of an essential facility and its exclusive exploitation in a peculiar market by the IP holder. The conditions for granting a compulsory licensing is provided by the Patent Law (Law 9,279/96) and are the following: (a) the non-exploitation of the patented product/process in the Brazilian territory by lack of manufacture or incomplete manufacture of the product or by the lack of complete use of a patent process; (b) when commercialization does not meet the market needs; (c) when there is a situation of dependency of one patent on another, the subject matter of the dependent patent is a substantial technical advance in relation to the earlier patent and the patent does not come to an agreement with the patentee of the dependent patent for the exploitation of the earlier patent; (d) the patentee exercise its property rights in an abusive manner or exercises abusively its economic power in a market and (e) in case of national emergency and the public interest declared by act of the Federal executive Authorities insofar as the patent owner or his licensee does not meet such need, and provided that the rights of the patent owner are not prejudiced.

Compulsory licensing could be granted when the patent rights are ineffectively exploited within three (3) years from the date of grant or in case exploitation was interrupted for a period over one (1) year. The importation into Brazil of the product comprised by the patent was not regarded as a fulfillment of the patent work requirement, as the Brazilian National Institute of Industrial Property (INPI) demands evidence about the local production.

As to the terms of compulsory licensing, one should consider the following: (a) compulsory licensing is granted on a non-exclusive basis; (b) it may only be requested by a party with legitimate interest and with the technical and economic capability to carry out efficiently the exploitation of the subject matter of the patent; (c) product should be reserved predominantly for the internal market; (d) the patent holder should receive royalties from the exploitation of the patent right by third parties.

The compulsory licensing may be granted by means of an administrative proceedings led by CADE and processed by the INPI or by the rendering of a judicial decision confirming the practice of abusive rights.

As aforementioned, solely those applicants that evidence the existence of an industrial and technological infrastructure may obtain the right the exploit additionally the patent rights by means of compulsory licensing. This rule is based on the principle that the government's interest is to provide adequately the fulfillment of a specific demand for a product produced or comprising a patented technological invention.

It would assist if National Reporters would in answering the questions outline the main areas of differences between the treatment of physical monopolies (including network facilities) and IPR's