



Advancing Industry's View On Intellectual Property Since 1920

## **MERGER REMEDIES: COMPETITION COMMISSION GUIDELINES CONSULTATION DRAFT - MAY 2008**

### **Federation comments**

#### **Introduction**

1. This Federation<sup>1</sup> acts to advance the views of its member companies on intellectual property (IP) matters. The Federation is affiliated to the CBI. The members include many of the most innovative companies in the United Kingdom and are crucial to the life and prosperity of the country. They hold a large proportion of the patents held by UK companies in the UK, many UK trade marks and registered designs and much copyright material. They also hold IP rights in many other countries. Not only are they users of the IP systems because they own and license IP rights, they are also users in the sense that they must take into account the IP rights of competitors when planning their activities. Over the years, the Federation has submitted position papers on many IP policy issues to the UK, European and international authorities.

2. The references to intellectual property remedies in the consultation draft of the Competition Commission (CC) guidelines on merger remedies are therefore of considerable interest to the Federation. Our comments particularly concern paragraphs 2.7 and 3.28 - 3.33 of the draft guidelines.

3. We consider that the CC should be very slow to resort to merger remedies that involve the divestiture or licensing of an IP right alone. IP rights exist to encourage innovation by preventing competitors from marketing directly copied inventions, designs, literary and artistic works and trade marks (brands). These rights, other than trade marks, can subsist for only a time limited period. As the draft guidelines appear to recognise in paragraph 3.32, great care should be taken not to deprive innovative companies of their due rights. IP rights should in general stay with the business. Thus, for somewhat different reasons than those given in the draft guidelines, we endorse the conclusion in paragraph 3.30.

#### **The nature of IP**

4. The draft guidelines appear to treat all IP rights as much the same (and moreover, rights are lumped together with licences). We emphasise that, while any IP right permits the owner to prevent others using the subject of the right (invention, trade mark, design, copyright work - e.g., literature, software or artistic work), these subjects differ significantly in character. A patent protects an invention. A competitor cannot market products, even products that appear very different from the right owner's, that contain the same invention as that in the right owner's products, unless he has the right owner's permission, e.g., under a license agreement. He must compete by offering products that are inventively different. Design and copyright protection protect the particular appearance of commercial articles and literary and artistic works (including computer programmes), respectively and can be exercised to prevent others not having permission from marketing substantially identical products.

5. By contrast, a trade mark (usually a brand name) serves to identify the source of the marked products or services and thus helps to indicate quality and to secure reputation. A

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<sup>1</sup> List of member companies annexed

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competitor can supply identical products, provided that they are not sold under the right owner's mark (and provided that there is no passing off).

6. Thus the effects of the different rights on competition are significantly different. The transfer of a patent to a competitor would enable him to make products that he previously could not, while the original patent owner would no longer be able to make these products. The competitive positions of the original right owner and others making products in the same area of commercial activity would be reversed. On the other hand, the transfer (or licensing) of a trade mark does not change the competitor's ability to make the products covered. It could well of course improve his trading position, but only at the great risk of confusing the public who might buy the products involved under the impression that they originate from, and have the quality expected from, the original trade mark owner.

7. Both the nature of the competition that is being encouraged by divestiture, and the need to avoid public confusion, should be made clear in the guidelines.

### **Divestiture or licensing of patents**

8. The guidelines appear to treat "divestiture or licensing" as a single concept - throughout the guidelines, the two topics are almost invariably referred to together. There is however a very significant difference between the two. Divestiture of a patent will mean that the original owner will no longer be able to use it - he will be excluded from the market in the relevant inventive product. Non-exclusive licensing on the other hand means that a competitor will be able to market the same inventive product as the right owner. We submit that if it is necessary to remedy a substantial lessening of competition (SLC) by measures involving an IP right, then non-exclusive licensing should be considered first. The licence terms and duration will need careful consideration - they should fit the circumstances and be acceptable to the CC.

9. Except as part of the divestiture of a business, we cannot imagine a plausible situation where the divestiture of a patent or other IP right is appropriate. Theoretically, a situation where a merger would bring together under single ownership all the main patents in a given field might be envisaged, so that competition in the market between all rival, differently inventive, products would be eliminated, but this seems highly unlikely in practice. Moreover, even in such an unlikely situation, competitors would often be able to produce non-inventive versions of the products concerned.

10. Furthermore, we have difficulty in understanding the suggestion made in the last sentence of paragraph 3.31(a). If there is uncertainty about the scope of a licence under the IP right concerned, presumably offered by the right owner under the supervision of the CC, it will be equally difficult to establish the scope of a licence back after divesting the underlying right.

### **Conclusions**

11.1. Only in rare circumstances should an SLC be remedied by a measure involving an IP right independently of the transfer of the business to which it relates.

11.2. It should be recognised that the simple divestiture of a patent would reverse competition by excluding the original right owner from the market that he created. Divestiture with a back licence would be a pointlessly complicated way of achieving what could be achieved by a straight licence from the original right owner

11.3. Divestiture or licensing of a trade mark (except as part of the divestiture of a business) is likely to confuse the public who rely on the mark as an indicator of quality and origin.

11.4. If a remedial measure involving an IP right must be used, independently of the transfer of the business to which it relates, then non-exclusive licensing rather than divestiture should be the expected remedy.

NOTE: TMPDF represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. This paper represents the views of the innovative and influential companies which are members of this well-established trade association; see list of members below.

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