

## Client Alert

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## Malaysian Competition Commission issues Guidelines on Intellectual Property Rights and Competition Law

On 5 April 2019, the Malaysian Competition Commission ("**MyCC**") issued the Guidelines on Intellectual Property Rights and Competition Law ("**Guidelines**"). The Guidelines are intended to provide guidance on MyCC's approach in respect of competition issues arising from matters relating to intellectual property ("**IP**"). The Guidelines must be read together with other guidelines issued by MyCC.

MyCC had previously issued a public consultation paper on the Guidelines on 9 April 2018 ("**Paper**"). We have not noted any significant differences between the Paper and the Guidelines.

### **Guidelines**

#### **Interface between IP and Competition Law**

There is an inherent tension between IP and competition law. The former seeks to grant exclusive rights for creations of the mind while the latter emphasises the lack of exclusivity.

Under the Guidelines, the MyCC recognises the existence of this tension. IP law confers certain exclusive rights on marketing and manufacturing. In contrast, competition law aims to prohibit or restrain anti-competitive activities which potentially distort the market.

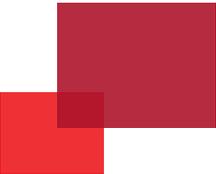
Under the Guidelines, the MyCC recognises that the exclusivity granted by IP rights incentivises enterprises to be more innovative and to improve the quality of their products and services. This will in turn benefit consumers as they have wider choices at more competitive prices.

These rights of exclusivity, however, are not without restraints. The Guidelines provide that where the conduct of IP owners is such that rival enterprises would encounter difficulties selling substitute products and technology in the market, or IP owners in a dominant position are able to dictate unfair terms and conditions on other market players or consumers, the ability to exercise such rights will be restricted by competition law. This is further to the existing mechanisms within the IP regime to control the abuse of IP rights by the owner.

#### **Key Prohibitions under the Malaysian Competition Act 2010**

Any dealing involving IP rights may be subject to the Act, which centers around two key prohibitions:



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- (a) anti-competitive agreements which have the object or effect of significantly preventing, restricting or distorting competition ("**Chapter 1 Prohibition**"); and
  - (b) abuse of a dominant position, whether independently or collectively ("**Chapter 2 Prohibition**"),

in any market for goods or services in Malaysia.

### **Market Definition**

In addition to the MyCC's Guidelines on Market Definition (a separate guideline dealing with market definition), MyCC clarifies that, for conduct involving IP, it would normally define the relevant market based on one of the following:

- (a) *product market*: this refers to the final or intermediate products incorporating the IP;
- (b) *technology market*: this refers to the processes or technology incorporating the IP and consists of the IP that is licensed and its close substitutes; and
- (c) *innovation or R&D market*: this refers to the intangible knowledge or know-how that constitutes the IP. For example, an innovation or R&D market consists of the assets (technologies, laboratory equipment, etc.) comprising R&D related to the identification of products for commercialisation or directed to particular new or improved goods or processes, and the close substitutes for that research and development.

MyCC also specifically highlights that restrictions in the innovation or R&D market may affect competition in the other two markets (i.e., product market and technology market). MyCC will take into account the markets for the relevant goods/product and technology which depend specifically on the knowledge or know-how, process, or intermediate or final products towards which the innovation effort is directed.

### **Specific IP-related anti-competitive restrictions**

The Guidelines provide an extensive list and illustrates conduct involving IP rights which may potentially infringe either Chapter 1 or Chapter 2 Prohibitions of the Act.

#### **(A) Chapter 1 Prohibition**

The Guidelines provide some clarity on the potential competition law issues which may arise from certain arrangements which are frequently encountered in dealings with IP. In this regard, the Guidelines address potential issues arising out of the Section 4(1) prohibition and Section 4(2) prohibition.

Section 4(1) of the Competition Act 2010 ("**CA**") prohibits horizontal or vertical agreements which have the object or effect of significantly preventing, restricting or distorting competition in any market for goods or services. These include issues arising from:



- (a) **vertical IP licensing agreements.** The issues potentially arising from vertical IP licensing agreements include vertical price fixing, territorial and field-of-use restrictions, exclusive licensing, exclusive dealing, tying and grant-backs; and
- (b) **vertical arrangements with horizontal dimensions.** The Guidelines clarified that vertical arrangements can also have a horizontal dimension. For example, a resale price maintenance obligation can be used by an IP owner to create a cartel at the downstream level by subjecting all its licensees to the same RPM condition.

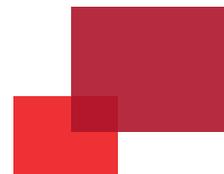
Section 4(2) of the CA provides that agreements which have the object to: (i) fix, directly or indirectly, a purchase or selling price or other trading conditions; (ii) share market or sources of supply; (iii) limit or control: (a) production; (b) market outlets or market access; (c) technical or technological development; or (d) investment; or (iv) perform an act of bid rigging, are all deemed to have the object of significantly preventing, restricting or distorting competition in any market for goods or services.

In particular, the Guidelines clarify when issues such as price fixing and sharing market or sources of supply, limiting or controlling certain activities or markets may pose issues in IP arrangements. The Guidelines also discuss the prohibition typically imposed by IP owners on parallel imports, clarifying that there is a need to differentiate between active and passive sales. While IP owners may restrain active sales, passive sales should, generally, be allowed.

## **(B) Chapter 2 Prohibition**

The Guidelines also clarifies potential issues arising from common practices relating to IP which may be a breach of the Chapter 2 Prohibition. In particular, the Guidelines recognise that issues may arise from:

- (a) **imposing an unfair purchase price or other unfair conditions.** These include practices that may amount to excessive pricing and the imposition of payment of royalty (post-expiration royalty) after the expiration of patent rights;
- (b) **limiting or controlling production, market outlets or market access, technical or technological development or investment.** An example of such behaviour is where a patent owner attempts to increase the scope of the monopoly provided by his patent, including through non-compete clauses, product hopping and pay-for-delay arrangements;
- (c) **refusing to supply to particular enterprises or group or category of enterprises.** These include refusing to license the right to use IP on fair and reasonable terms;
- (d) **discriminatory conditions.** These include discriminating by applying different conditions to equivalent transactions that, among others, discourages new entrants or force an enterprise to exit the market. An example provided is where an IP owner licenses its technology to a



subsidiary at a lower rate than to other competing enterprises at the downstream level, which results in an inability for the other enterprises to compete with the subsidiary as they are forced to sell products at a higher price;

- (e) **forcing conditions in a contract which have no connection with the subject matter of the contract.** These include practices such as tying or bundling. An example of bundling is where a patent owner refuses to grant a licence under one or more of his patents unless the licensee accepts and pays for additional patents which are not required by him;
- (f) **predatory behaviour.** Examples include predatory pricing, refusal to license patents which are essential for products to be manufactured in accordance with prescribed standards ("**SEPs**"), refusal to allow access to SEPs on fair, reasonable and non-discriminatory (FRAND) terms, and royalty stacking;
- (g) **buying up scarce supply with no reasonable commercial justification.** For example, where a dominant enterprise buys up all the supplies of essential raw materials needed for the manufacture of a drug to treat a particular disease; and
- (h) **other abusive conduct.** These include margin squeezing and loyalty rebates and discounts.

### Conclusion

The Guidelines offers clarification and guidance on the relationship between IP rights and competition law with the latter acting as the safeguard to prevent IP owners from abusing their rights to the detriment of other market players as well as consumers. IP owners can also use the Guidelines to ascertain the parameters within which they can exercise their IP rights, thus maximising the return on their investment in the relevant IP within the confines of competition law.

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