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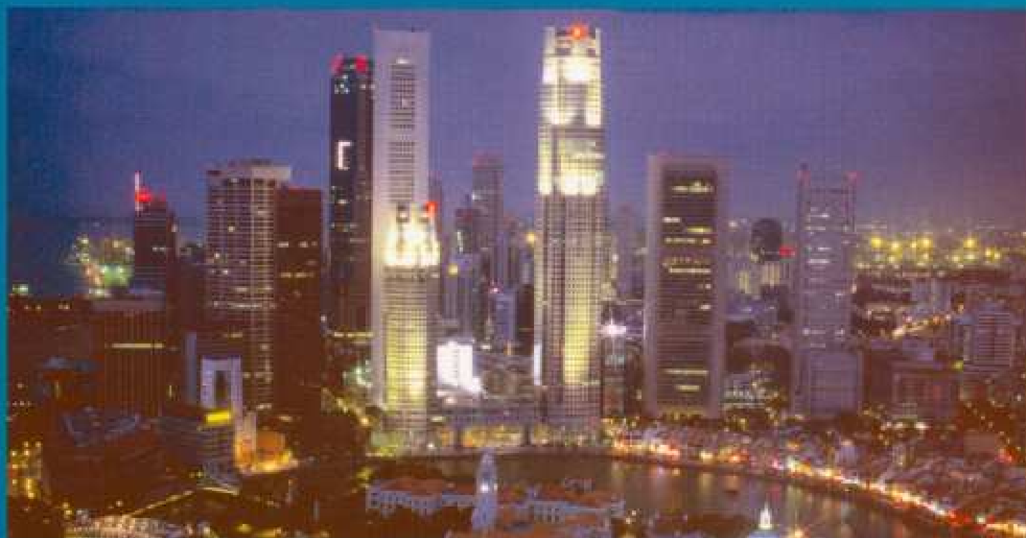

An article exclusively by Joyce A Tan & Partners

ABOUT THE FIRM

Joyce A. Tan & Partners

The Firm was established in 1988 as and today remains a boutique legal practice dedicated to supporting and servicing companies and firms in their business endeavours, particularly in relation to their corporate and commercial transactions and their protection and exploitation of their intangible assets.

Our Clients

The Firm represents enterprises who do business in both the local and international marketplace. They include local and foreign conglomerates as well as medium-sized and smaller companies with a wide range of interests from numerous industries, such as healthcare, hospitality, entertainment, education, manufacturing, fashion, media, publishing, advertising, admiralty, retail, technology, telecommunications and real estate and property management, just to name a few.

Our Service Philosophy

Many leading businesses have and continue to turn to the Firm for advice and support in a rapidly changing business environment. The Firm strives to be on the cutting edge of significant trends and developments in commerce, and has pioneered many forms of legal transactions, particularly those involving technology, information technology, telecommunications and intellectual property.

The Firm believes in providing customised legal service that is tailored to the specific needs of each client and within the context of the client's business environment. In taking instructions from our clients, we therefore appreciate going beyond the immediate and learning about their aspirations and business philosophy and psyche so as to obtain a perspective which facilitates a much more holistic approach to our service provision.

Our clients' views are important to us and we therefore strive to work alongside our clients as partners and colleagues with shared goals in the projects that we undertake for them.

We believe in seeking creative solutions to our clients' problems and challenges and, where required and appropriate to do so, in going beyond the bounds of the tried and tested.

Our Worldwide Professional Network

We work with a strong and well-established network of like-minded professional associates with corresponding practices around the world, on matters where we require their assistance and support in relation to foreign law issues as well as *vice versa* where they require our assistance and support on the Singapore law aspects of those matters.

We value this network which enables us to seamlessly cover and service our clients on cross-border transactions and matters in a manner which gives our clients direct legal representation in numerous countries across the globe.

Joyce A Tan & Partners in Singapore look at the proposed changes to Singapore's competition regime, and the effect they will have on IP licensing agreements

Balancing IP rights and competition

In land and resource scarce Singapore, intellectual property sometimes seems to be regarded as the panacea in the strife for the knowledge-based economy that has been heralded as the way forward. The multi-faceted legal and commercial framework – which has been painstakingly constructed over many years to support the creation, development, protection and exploitation of IP – looks set to form Singapore into the IP hub she set out to be.

Besides having acceded to and passed the requisite laws to comply with major (and not so major) international treaties and conventions on IP, Singapore has in place numerous government-backed programmes to encourage the entire spectrum of IP activities including financial assistance and tax and accounting incentive schemes, IP education programmes, IP professional regulation, physical facilities and infrastructure and even programmes to aid the commercial exploitation and management of IP.

So, did Singapore sacrifice the Holy Grail of her aspired knowledge-based economy when she agreed, under the United States-Singapore Free Trade Agreement, to enact competition law by January 2005? After all, would monopoly rights afforded under IP laws not be anathema to the anti-monopoly philosophy underpinning competition laws? Or is the proposed competition law driven in any event by Singapore's pro-business economic policies to promote competition and therefore still consistent with Singapore's existing pro-IP policies?

The dawn of competition law

Whatever it may be, Singapore has indeed released the Competition Bill, which is widely expected to be tabled before Parliament for passing into law (with or without further amendment) in the fourth quarter of this year. In developing this Bill, Singapore had the benefit of studying the examples of others who were ahead in the competition trail (including the US, UK and Australia). How Singapore's competition law will pan out remains to be seen, both in terms of the exact Competition Act that is eventually promulgated as well as the interpretation of the Act after it comes into force, particularly since it is intended to have extra-territorial effect and could apply to activities outside Singapore that have anti-competitive implications on Singapore markets.

Competition Commission

As it stands, the Competition Bill contemplates the establishment of a regulatory authority, the Competition Commission, which will be charged with the responsibility for enforcing the competition law and in particular, will have the power to recommend to the minister the granting of block exemptions for anti-competitive agreements and to investigate and impose sanctions if the competition law has been infringed.

It is proposed that when passed into law, the provisions establishing the Competition Commission will first be brought into force and the Commission will then be formally constituted ahead of the operation of the other substantive provisions of the new law.

Prohibited activities

The Competition Bill is characterized by its three-prong identification of prohibited activities considered to be anti-competitive as follows.

First, Section 34 prohibits and deems as void, agreements, decisions or concerted practices "which have as their object or effect the prevention, restriction or distortion of competition within Singapore" which may include those which:

- directly or indirectly fix purchase or selling prices or any other trading conditions;
- limit or control production, markets, technical development or investment;
- share markets or sources of supply;

- apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; or
- make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The apparent tension between these laws will no doubt be rationalised so that they may work towards a common consistent goal

Secondly, Section 47 prohibits any conduct "which amounts to the abuse of a dominant position in any market in Singapore" including

- predatory behaviour towards competitors;
- limiting production, markets or technical development to the prejudice of consumers;
- applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; or
- making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of the contracts.

Thirdly, any merger that has resulted or may be expected to result in "a substantial lessening of competition within any market in Singapore for goods or services" is also prohibited under Section 54.

Exemptions and exclusions

Besides the block exemptions that the Competition Commission may recommend be granted by the minister to allow certain anti-competitive agreements on the basis that *inter alia* they contribute to improving production or distribution or to promoting technical or economic progress, the Competition Bill provides for the exclusion of certain agreements, conduct and mergers altogether from the above prohibitions otherwise applicable. The safe haven of such exclusions would clearly limit the effect of the prohibitions and clarify, for example, that any "vertical agreement" whereby the contracting parties operate at different levels of the production or distribution chain would be excluded from the prohibition.

Licensing IP in the face of competition law

The concern that prohibitions under the proposed competition law may operate to fetter the freedom of an IP owner to exploit or license his IP on terms he deems fit is easily discernable. To the extent that competition law thwarts the absolute freedom to contract by imposing restrictions on types of agreement, conduct and activities, an IP owner can no longer (if ever he could) assume to be master of his IP to do with it as he pleases in all circumstances.

Tension between IP and competition laws

While IP laws seek largely to reward innovation by conveying a certain degree of market power to the IP creator or owner, competition law is intended to constrain the use of market power. This tension was keenly appreciated in the development of the Competition Bill and pre-emptively addressed by the Ministry of Trade and Industry in its Competition Bill Consultation Paper as follows: "...situations can arise where an undertaking abuses its IP rights by acting anti-competitively for either inefficient or unfair commercial advantage. Long-term economic welfare may be diminished as a result. Where the exercise of IP rights is anti-competitive, it would be subject to the provisions of the competition law."

However the devil in the detail may eventually manifest itself, the message seems clear that in the final battle, IP rights give way to competition law. The question is how much latitude will an IP owner have in cutting deals on the use and sharing of his IP right and in developing creative business models to reap the economic benefits of that IP right. What will happen to licensing agreements with provisions on tie-in and bundling of IP, grant-back of licensee inventions, price-fixing, market-sharing and market-allocation and restrictions on research and development? If trends in other jurisdictions are anything to go by, such provisions may now be subject to a new-found scrutiny, even if they are believed to be in the legitimate exercise of one's IP rights.

Existing IP laws

On the other hand, the notion of imposing restrictions on the otherwise unbridled exercise of IP rights is probably not completely alien to IP laws even before the debut of competition law in Singapore. Within the regime of the IP laws as they stand, there are already existing safeguards against certain anti-competitive effects arising from the purported exercise of IP rights. For example, provisions that prohibit certain restrictive licensing conditions such as tie-in arrangements or which mandate compulsory licensing in certain circumstances may be found in the Patents Act or the Copyright Act.

Some restraint on the exercise of IP rights to prevent their abuse is also wholly consistent with Article 8 of Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) that recognizes the possible need for appropriate measures to prevent such abuse or to prevent the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

At present, one can only guess whether life for IP owners seeking to exploit and license their IP rights will in fact change significantly after the competition law takes effect.

The balance in practice

Bearing in mind that the proposed competition law is intended to reap the economic benefits of a more effective

competition law regime, and that IP laws have long been fostered as a bastion of economic development in Singapore, the apparent tension between these laws will no doubt be rationalised so that they may work towards a common consistent goal.

Indeed, contrary to the concerns expressed in this discussion, underlying this rationalisation is the acknowledgement by the Ministry of Trade and Industry in its Competition Bill Consultation Paper that both competition and IP laws are "designed to promote long-term economic welfare and greater market efficiency" and are "not necessarily inconsistent; rather they can work together to help develop Singapore into a knowledge economy. Competition law, by helping to promote efficient markets, ensures that undertakings innovate to the extent dictated by consumers and other market pressures. The rewards to innovation provided by IP rights should thus be maintained. The specific rights provided by IP laws, and the business advantages these confer, would thus not in any way be circumscribed by competition law".

Likely approach

A sneak preview of the approach likely to be adopted in the application of the new competition law may be gathered from the expressed intentions of the Ministry of Trade and Industry that businesses "should not face undue regulation" and that instead of "attempting to catch all forms of anti-competitive agreements or conduct in all markets, focus will be placed on anti-competitive agreements or conduct that will have an appreciable adverse effect on markets in Singapore". Even if this is consistent with the approach in other jurisdictions, its practical translation in Singapore may well bring about a unique blend reflective of Singapore's "small open economy", a fact that will be taken into account in the application of the competition law.

Transition and phased implementation

Looking ahead, following the establishment of the Competition Commission, a transition period of at least 12 months will be provided before certain prohibitions and other provisions of the competition law come into force (on the basis that the merger provisions will kick in at an even later phase of the implementation, given the relative complexity of mergers and acquisitions in light of competition law).

Such a phased approach is meant to allow the Competition Commission and potentially affected businesses to prepare for the implementation of the new competition law. Specifically, administrative guidelines on the implementation and enforcement of the competition law are expected to be fleshed out to provide clarity on the application of the competition law. The extent to which such guidelines will adhere to the stated intentions of bridging IP rights and the regulation of competition or indeed will be explicit with reference to practical scenarios, will certainly be worth watching in the months ahead.

Licensing

What is Licensing?

Licensing takes place when the owner of certain intangible property rights, such as patent, know-how, copyright or trade mark rights ("grantor"), grants to another ("grantee"), the permission to use or exploit those rights. Such a business relationship splits up the ownership from the use or exploitation of the rights in question and assumes a degree of monopoly attached to the property rights.

Examples of licensing include franchising, software licensing, technology and know-how licensing, trade mark or brand licensing and licensing of musical works.

Benefits

There are many benefits to a licensing relationship, the most significant being the generation of revenue for both the grantor and the grantee in consequence of the same activities, without either of them having to duplicate the responsibilities of the other.

The grantor will in most circumstances have achieved some form of commercial success or advantage or developed commercially viable ideas, products or services which are desirable to the grantee. Accordingly, a licence relationship allows the grantee to exploit the success of the grantor, without having to reinvent the grantor's creations all over again.

A licence allows the grantee to use or exploit the licensed property as if it were itself the owner of such property or rights but without in fact being such an owner. On the grantor's part, it is able to work its property without itself having to undertake the activities entailed in working such property.

Protection of Licensed Rights

If the integrity of any licensing relationship is to be preserved, protection of the licensed property is important to prevent attack against the property by third parties, either by its appropriation or challenge against the grantor's entitlement to it. Legal as well as non-legal (commercial) coverage is equally significant in any meaningful protection programme.

On the legal front, the typical forms of protection include obtaining and maintaining legally available registered rights for the property under the applicable law, the proper formulation of contractual obligations on users of the property and the appropriate enforcement of legal rights attached to the property.

How We Can Help

We have extensive experience in all aspects and forms and manner of licensing, including the protection of the property rights which are the subject matter of the licensing, as well as the management of disputes arising from licensing transactions.

We have assisted with the formulation of licensing structures for businesses across various industry sectors and in both local and cross-border transactions, according to the unique requirements in each exercise. We have participated alongside commercial trends and developments in licensing for many years.

The licensing transactions that we handle and advise on often constitute strategic components in larger M&A or other corporate re-structuring projects, which we are equally comfortable with and frequently undertake.

Joyce A. Tan & Partners

Advocates & Solicitors,
Patent, Design & Trade Mark Agents
Notary Public, Commissioner for Oaths

The Firm is a dedicated corporate and commercial practice with particular strengths in the fields of intellectual property, technology and info-communications as well as related corporate investment projects. It has advised on and acted in numerous transactions relating to the exploitation of intellectual property and technology and is often consulted on the structuring of such transactions across various industries.

The achievements of the Firm and its practitioners in the stated areas have been acknowledged in numerous circles over the years. More recently, the Firm was voted among the top in Singapore for Information Technology in The Asia Pacific Legal 500 (2003/2004), for Trade Marks in The World's Leading IP Survey Practices 2003 by Managing Intellectual Property and for Communications, IT and E-Commerce in Global Communications 2002. The recognition of the Firm's practitioners has also been featured in Legal Who's Who Singapore 2003 for the intellectual property, corporate commercial and information technology categories, The International Who's Who of Regulatory Communications 2003, An International Who's Who of Telecoms Lawyers, AsiaLaw Leading Lawyers 2001-2004 and Euromoney Guide to The World's Leading Information Technology Advisers.

Core Practice Areas

Corporate & Commercial, Intellectual Property, Information Technology, Telecommunications & Broadcasting, Entertainment & Media, Publishing, Franchising and Merchandising

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