THE RELATION BETWEEN PATENT PROTECTION AND COMPETITION IN KENYA AND THE IMPACT OF THE TRIPs AGREEMENT.

BY

ELIJAH OLUOCH ASHER'S

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF MASTER OF LAWS DEGREE AT THE UNIVERSITY OF NAIROBI.

This Thesis is my original work and has not been presented for a degree in any other university.

Elijah Oluoch Asher's

This Thesis has been submitted for examination with our approval as university supervisors.

Dr. James Otieno Odek

Mr. Yash Vyas

31/03/04

TABLE OF CONTENTS

TABLE OF CASES

ACKNOWLEDGEMENT

This work is the culmination of several years of study in a programme which should otherwise have taken two years.

I wish to express my most sincere appreciation to the University of Nairobi for extending to me the sponsorship to undertake this programme. I am forever indebted to the institution and I am proud to be associated with it.

I am grateful to my supervisors, Dr. James Otieno Odek and Mr. Yash Vyas who exemplified patience, encouragement and direction both as I embarked on writing about the murky waters that are the relation between patent and competition but also throughout the course of the study on the subject. I am also grateful to Dr. Migai Aketchwho supervised the correction of this work.

It is my hope that this work will stimulate further research into the subject of the study and a rethinking of the society's basic conceptions about patents and competition in a world which is increasingly becoming more complex and competitive.

Elijah Oluoch Asher's

THE RELATION BETWEEN PATENT PROTECTION AND COMPETITION IN KENYA AND THE IMPACT OF THE TRIPs AGREEMENT. .

ABSTRACT

The grant of a patent entails the conferment upon the owner of the patent of exclusive rights of exploitation of the invention. It is in essence a grant of a monopoly. On the other hand the concern of competition is, to the extent possible, to level the playing field in commercial endeavour as between the various actors. There is therefore an apparent conflict between these two areas of law to the extent that on the one hand the law creates a monopoly while on the other it seeks to control monopolization in the market.

The situation is complicated further by reason of the fact that international trade law now imposes upon states parties to the Agreement on Trade Related Aspects of Intellectual Property Rights (hereinafter otherwise referred to as "the TRIPs Agreement") the duty to legislate and conform their domestic legal regimes to the prescriptions of the said Agreement with regard to the protection of patents. That Agreement not only sets minimum

standards for the protection of patent rights but also recognizes that the exercise of patent rights can be inimical to competition. The problem however is that the Agreement does not establish any comprehensive standards by which patent and competition issues can be addressed. In essence therefore matters relating to patents and competition remain within the residual jurisdiction of member states.

This work considers whether Kenya's legal regime recognizes and addresses the peculiar conflicts that arise from the exercise or purported exercise of patent rights in a competitive economic environment and whether therefore the same sets out any standards or principles by which such conflicts can be resolved. The work also investigates whether the TRIPs Agreement contains any or any sufficient standards and principles at all which would be applied in resolving the conflicts with due regard being accorded to the circumstances of Kenya and other developing countries.

It is averred in the work, first, that the applicable legislation in Kenya are structured in a manner which presupposes that either one or the other of the two areas, whether competition or patents, does not exist and therefore no conflicts peculiar to their interaction would arise. The legislation therefore fail to set out standards which recognize and specifically address the uniqueness of the conflicts involving patents and competition. Furthermore, the legislation are not only deficient but create uncertainty to the extent that their exact ambit with reference to competition and patent issues are unclear.

The second averment is that the TRIPs Agreement makes minimal contribution with respect to identifying the areas of conflict arising from the exercise of patent rights and competition. In this respect the TRIPs Agreement while recognizing that the exercise or purported exercise of patent rights can be inimical to competition, fails to set out any standards and principles through which the conflict between such exercise and the need for competition can be resolved. This omission in the TRIPs Agreement is reflected in the Industrial Property Act, 2001 whose intendment was to conform Kenya's legislative framework to the TRIPs Agreement.

The third averment is that for Kenya to develop a set of dynamic principles which would satisfactorily address the unique problems posed by competition and patent issues there is a need to move away from reliance on administrative remedies and to confer on the courts the responsibility of resolving disputes, whether the disputes are between the state and individuals or between individuals *inter se*. In this way courts will be able to develop dynamic principles which can be applied in resolving conflicts arising from the exercise of patent rights and the implementation of competition policy within the purview of the philosophy adopted by the legislature.

A three-step methodology has been adopted in articulating the issues identified in the assignment. The first step involves a broad outline of the nature and aims of both the protection of patents and competition and the manner in which conflicts ensue. In this connection various approaches which have informed the resolution of conflicts involving patent rights and competition are set out.

The second step is a consideration of the provisions of the TRIPs Agreement which address patent and competition issues either directly or indirectly. A critique of these provisions from the perspective of developing countries, of which Kenya is a part, is also set out. This analysis of the provisions of the TRIPs Agreement enables a more wholistic appreciation of the shortcomings of the Agreement.

The third and final step is an account of Kenya's legislative *corpus* on patents and competition and a consideration of whether the same is adequate in serving the needs of the society in this vital area.

The third step also sets out various proposals for reforms. As a preliminary matter, there is a clear need to clarify the exact scope of the Restrictive Trade Practices, Monopolies and Price Control Act, Chapter 504 of the Laws of Kenya; but in addition there is also a need to develop dynamic principles of competition law to address the peculiar demands of this area of law.

More specifically it is proposed, first, that deliberate steps be taken in law reform to reduce reliance on administrative remedies and instead empower courts to adjudicate disputes between the state and individuals and individual competitors *inter se*. In this regard national competition philosophy needs to foster a greater role for courts in the interpretation of the law and dispute settlement. Second, there is a need to adopt the rule of reason in the assessment of the impact of trade practices on the market. Only in this way will the intricacies which attend the interaction between patent rights and competition be sufficiently addressed.

Elijah Oluoch Asher's.

INTRODUCTION

THE PATENT- ANTITRUST INTERFACE

A patent is property in an invention. In classical Hohfeldian terms, property entails the vesting on a person of the greatest bundle of rights with respect to certain prescribed situations, objects or things.[1] A patent therefore entails the greatest possible interest recognized by the system of law which a person can have in an invention.[2]

Setai states that a patent is a title granted by public authority and it gives the holder of the patent the sole right to exploit an invention within a fixed area and for a given period.[3]

A patent has a legal and technical aspect. The legal aspect requires that it should be created by a public authority, protected in a defined territorial area, be valid for a limited duration and be recognised as the private property

1. See H.W.O. Okoth- Ogendo, *Teaching Manual on Property Law*, vol. 1, available at the Faculty of Law Library at the University of Nairobi.
2. Honore defines ownership of property as "...the greatest possible interest in a thing which a system of law recognizes" : See Honore's works in *Oxford Essays in Jurisprudence*, 108, quoted in H.W.O. Okoth- Ogendo, *ibid.*
3. Setai, B.P. "The role of patents in economic development" (1988) *Lesotho L.J.* 27.

of the owner of the patent. The technical aspect requires that the invention should be new and novel, inventive, industrially applicable and useful. [4]

The granting of a patent is a grant of a monopoly. Patents are granted on the assumption that they are an incentive for inventive activity or a compensation for such activity. It is generally expected that such incentives will result in the commercialization of the patent.

Generally, the grant of a patent entails the grant of the exclusive right of making, using, offering for sale, selling or importing a product or process to the patent-holder.[5] The exclusive right of a patent holder accordingly constitutes a monopoly and invites a relationship with competition law.

Competition law on the other hand seeks to enhance competition within an economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and unbridled control over prices.[6] Within a wider social, economic and political context, firms having economic power either singularly or jointly have power as a consequence over allocation and

---

4. De Laet F. and Adoteri, "Patents, a source of technological information", *ESARIPO*, Harare (Undated), 1.

5. The Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organisation, Annex IC *LEGAL INSTRUMENTS-RESULTS OF THE URUGUAY ROUND*, Vol. 31; 33 I.L.M. 81 (1994).

6. See the preamble to the Restrictive Trade Practices, Monopolies and Price control Act, Chapter 504 of

use of means of production, over prices, quantity and nature of products entering the market, over the distribution of goods, over the labour force, competing businesses and consumers and ultimately over the political process both nationally and internationally. It was observed in *United States v. Aluminum Co. of America* :

> "It can be an industrial menace because it creates gross inequalities. It can be a social menace because of its control of prices for all power tends to develop into a government unto itself."[7]

A fundamental concern of competition law therefore is the control of economic power which is usually manifested in monopolies and related situations. In the United States for example, the principal legislation which deals with competition, the Sherman Act, prohibits in section 1 every contract, combination or conspiracy in restraint of trade or commerce among the several states in the United States or with foreign nations.

Section 2 of the Sherman Act provides that it is unlawful for a person or firm to monopolize or attempt to monopolize any part of the trade or commerce among several states or with foreign countries. The Act therefore not only

---

the Laws of Kenya.

7. *United States v Aluminum Co. of America*, United States Circuit Court of Appeals, Second Circuit, 1945,148F.2d 416 (Per L. Hand J.).

seeks to curtail monopolization but also inchoate designs to monopolize and other activities conducted in collusion with others with the aim of restraining trade. The exact ambit and range of activities concerned has been the subject of judicial interpretation over years.

Generally, the difference between sections 1 and 2 of the Sherman Act is that section 2 extends to unilateral action by one monopolist, including a patent holder, but does not require collusive conduct as does section 1.

In Kenya the Restrictive Trade Practices, Monopolies and Price Control Act provides in the preamble that it is an Act which seeks to encourage competition by *inter alia* controlling monopolies and concentration of economic power.

More specifically and with regard to competition, monopolies restrict the entry into a market by rivals and curb opportunities that are relevant and would otherwise be available to individuals wishing to engage in business. The Supreme Court in the United States has observed in *United States v. Aluminum Co. of America*:

> "...[the] possession of unchallenged economic power deadens initiative, discourages thrift and depresses energy."[8]

---

8. *Ibid.*

The above observations would apply to all monopolies, including patents without exception and underlie the necessity for competition.

How is the apparent conflict between competition and the exercise of patent rights to be resolved? When, if at all, is a patentee to be held to go beyond his legitimate rights in the practice of the patent so as to be accused of engaging in practices inimical to trade? Does the Agreement on Trade Related Aspects of Intellectual Property Rights (hereinafter referred to as the TRIPs Agreement) set out the limits of and the principles to be applied in determining whether a given practice is within the legitimate exercise of patent rights? Does Kenyan law reflect, sufficiently or at all, these principles?

The above are some of the issues which will be addressed in this work. In Chapter 1, the various approaches to the conflict between competition and patents will be considered. Chapter 2 will consider whether the TRIPs Agreement imposes any obligations on the part of states parties with regard to the matter of conflict between the exercise of patent rights and competition and whether it sets out any standards for the resolution of conflicts between the exercise of patent rights and the requirements of competition. Chapter 3 will look at the situation in Kenya. Essentially the issue is whether Kenya's legislative regime sets out any dynamic instrumentalities for the resolution of the apparent conflict between patent rights and competition. Chapter 4 will consider whether the Industrial Property Act, 2001 has enacted any dynamic principles and mechanisms for the resolution of the conflict. The last part of the work is devoted to conclusions and proposals for reform.

CHAPTER 1

CONFLICT BETWEEN PATENT RIGHTS AND COMPETITION AND THE PROBLEM OF APPROACH

1.1 INTRODUCTION

There are generally three approaches to the patent competition conflict. The first approach simply assumes that either patent rights from a competition view point or competition issues in relation to the exercise of patent rights does not exist and therefore there is no conflict. The second approach makes formalistic constructions in addressing conflicts between the exercise of patent rights and the requirements of competition. The third approach on the other hand attempts to analyze the conflict on the basis of the relationship between the reward a patentee receives and the value of the patent.

1.2 THE SCHOOL OF COMMON CONFUSION

The first category sidesteps the conflict by pretending in one way or another that the other half does not exist. For example, in a case where a patentee intends to employ a particular restriction, practice or strategy in exploiting its patent, one might initially conclude that the practice should be permissible only if it does not violate the antitrust laws. In fact courts have realized that this approach is too facile. In *Bement v National Harrow Co.*, Mr. Justice Peckham stated:

> " The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the patented article, upon the condition that the assignee shall charge a certain amount for the article."[9]

Accordingly a practice is typically deemed to violate the antitrust laws because it is anticompetitive. But the very purpose of a patent grant is to reward the patentee by limiting competition; in full recognition that monopolistic evils are the price society will pay. Generalizing from this principle one could reverse the initial conclusion, arguing that any action by a patentee in violation of antitrust laws is privileged under the patent statute.[10]

---

9. 186 U.S.70 (1902), quoted in A.D. Neale, *The Antitrust Laws of the United States of America*, Cambridge, Cambridge U.P., 1962, 263.

10. Kaplow, L. "The patent-antitrust intersection: A reappraisal" *Harvard L. Rev.* (1984) 97(No.8), 1817.

Courts subsequently recognised that the foregoing conclusion was also too simplistic because the patent statute was plainly not intended to bestow upon each patentee *carte blanche* in all its endeavours. For example a patentee who negotiates a favourable royalty by holding a prospective licensee at gunpoint clearly will not be relieved from the prescriptions of criminal or contract law. The question is whether one should view antitrust law differently.

It is fruitless to attempt to resolve the patent antitrust conflict by examining the general purposes behind the statutes in the hope of establishing a simple hierarchy that would indicate which policy should always prevail. First, one could argue that patent policy naturally governs in the event of conflict with other laws setting competition policy such as antitrust law. One could conclude that the patent statute is not intended to displace all fields of law upon which it implicitly relies; for example patent exploitation requires the enforcement of a wide variety of contracts even if no licensing is involved. In the realm of competition policy, however, the patent statute presumably is intended to govern because it is specifically designed to change the ordinary competitive environment.

Conversely one could argue that patent law should naturally give way to other laws setting competition policy. One might contend that the argument for the supremacy of patent policy is stronger in fields of law outside competition policy and that the patent statute should govern in cases of direct conflict. For example a seller's right to dispose of goods as it wishes should be overridden if production of the goods infringes on the patent of another. But antitrust law is specifically designed to regulate the competitive environment and one therefore cannot simply assume that its policies were meant to give way in cases of direct conflict. This argument appears particularly strong when one considers that none of the antitrust statutes contain exceptions for patent exploitation.

At a minimum, it seems clear that a firm having one otherwise insignificant patent may not freely engage in price fixing, mergers, predatory pricing, or anything else it wishes on that account.

An example of the first approach to the patent antitrust conflict is the case of *United States v. General Electric Co.*[11] in which the Supreme Court of the United States, upholding the patentee's right to issue price restricted licenses, cited as a sufficient argument the contention that the patentee's

---

11. 272 U.S. 476 (1926).

reward was enhanced. The Court stated that a license which has a price restriction was permissible "provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly".[12] This formulation ignores antitrust policy altogether, unless one gives a broad reading to "normally and reasonably adapted". Such a reading renders the court's test question begging.

1.3 THE FORMALISTIC CONSTRUCTION APPROACH

The second approach resolves the conflict by invoking formalistic constructions that are indeterminate and only superficially address the issues at stake. On various occasions the Supreme Court of the United States has made several attempts to formulate a rule to indicate which practices are permissible. In *Bement v. National Harrow Co.* the Court referred to "conditions which are not in their very nature illegal".[13] Next the Court expressed the view in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.* that the "scope of every patent is limited to the invention described in the claims contained in it".[14] And in *Zenith Radio Corp. v.*

---

12. *Ibid*, 490.

13. 186 U.S.70, 91(1902).

14. 243 U.S. 502, 510; see also *Ethyl Gasoline Corp. v United States* where the Court stated that "the extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and claims of the patent". (309 U.S. 436,456(1940). In *SCM Corp v Xerox Corp.* it was stated that "the exercise of (the) prerogative (of unilaterally refusing to license a patent) is a corollary

Hazeltine Research Inc. the Court stated that "the patentee [may not] extend the monopoly of his patent to derive a benefit not attributable to use of the patent's teachings".[15]

Commentators have similarly invoked formalistic conceptions which are no more informative than those employed by courts. Baxbaum for example has discussed the use by the European Economic Community of a test upholding practices "inherent in the patent monopoly".[16] In the same vein Stedman uses a typology that relies upon such tests as "full monopoly power of the patentee" and "scope of his patent".[17]

1.4 THE RELATIONSHIP BETWEEN REWARD AND VALUE OF PATENT

This approach focuses on the relationship between the reward a patentee receives and the value of the patent. In this regard Bowman states that his test "assumes the propriety of allowing a patentee to use any method of

---

of the explicit statutory grant of the right to exclude others from making, using or selling the patented invention" (463 F. Supp. 983,11014 CD. Com 1978), aff'd 645 F.2d 1195 (2d Cir. 1981), Cert. Denied, 455 U.S. 1016 (1982).

15. 395 U.S.100,136 (1969).

16. Buxbaum, "Restrictions inherent in the patent monopoly: A comparative critique"(1965) 113 *U. PA L. Rev.* 633, 641-645.

17. Stedman, "Patents and antitrust- The impact of varying legal doctrines" (1973) *Utah L. Rev.* 588 at 595. See also, "An economic analysis of royalty terms in patent licences" (1983) 67 *Minn. L. Rev.*

charging what the traffic will bear if, but only if, the reward to the patentee arising from the conditional use measures the patented product's superiority over substitutes".[18] Accordingly in the first chapter of his writing he reasons that "evaluating whether certain patent licensing practices should be sanctioned will involve the proper scope of the legal monopoly. In other words, is more being monopolised than what the patent grants, or is the practice merely maximizing the reward attributable to the competitive advantage afforded by a patent?[19]

It will be seen that under Bowman's test, pure horizontal cartelisation is virtually the only prohibition he would prohibit otherwise Bowman rarely finds anything worthy of concern from the antitrust side of the conflict. Similarly Baxter sets out his test thus:

> "a patentee is entitled to extract monopoly income by restricting utilization of his invention, notwithstanding that utilization of other goods and services are consequently restricted, provided that in each case he confines the restriction to his invention as narrowly and

---

1198 where he states at p.1221 that "(a) patentee 'simply...extracts the full monopoly return to which he is entitled' ".

18. Bowman W. *Patent and Antitrust Law*, 1973, 118.

19. *Ibid*, 8-9.

specifically as the technology of his situation and practicalities of administration permit"[20]

While this test seems remarkably similar to the formalistic tests that inquire into the scope of the patent, it is concerned primarily with limiting the reward to the patentee.

In fact, Baxter states that his formulation is desirable because it provides "a stream of benefits to the patentee ... roughly comparable to the ultimate value of the invention".[21] Baxter does not permit the patentee all that the traffic will bear, but rather requires that restrictions be confined as narrowly as possible, reflecting a bias towards minimizing the infringement upon antitrust policy.

Both Bowman and Baxter, at best, offer a test regulating the maximum reward without offering any analysis that bears on whether the level selected

20. Baxter, "Legal restrictions on exploitation of the patent monopoly: An economic analysis" (1966) 76 *Yale L.J.* 267, 313.

21. *Ibid.*

is anywhere near the appropriate reward or whether the reward is achieved in the least costly manner possible."[22]

Competition law by itself remains controversial and cumbersome even as applied in most developed jurisdictions and these theoretical and practical difficulties are compounded when the body of law is invoked to limit the exercise of intellectual property rights. Because intellectual property rights constitute short term restraints on competition that states grant with a view to enhancing the level of competition later on, the corrective role of competition law, if any, becomes objectively difficult to assess with national innovation systems.

In an international context, where the harmonization of intellectual property rights can mask the erection of legal and economic barriers to entry that may retard the developing country's efforts to improve their own technical capabilities, the corrective role of competition law becomes even more problematic. On the one hand the developing countries may legitimately seek to correct anticompetitive practices stemming from any abuse of market power that the grant of exclusive intellectual property rights seem to

22. Kaplow, *supra* note 9, 1853- 1854.

aggravate.[23] On the other hand, overzealous resort to the rules of competition law in this area, as in others, breeds uncertainty and can reduce incentives for firms to invest in a reforming economy.

Typically a conflict between intellectual property law and competition law arises when states suspect that rights holders have used their market power either to extend intellectual property rights beyond explicit or implicit statutory limits or to achieve other anticompetitive objectives not associated with the normal exercise of such rights. In these cases, the right holders may have abused or misused the intellectual property right even if no formal violation of competition law otherwise exists. Such a judicial or administrative finding may in turn trigger a variety of remedies, including compulsory licenses and even forfeiture of an exclusive right.

Vital lessons can be learnt from the manner in which the advanced jurisdictions in the west have grappled with and developed principles which would inform any inquiry into the relationship between patent rights and competition. For our purposes the jurisdictions of the United States and the European Union have been chosen, the United States because it has the most dynamic development of principles in this area and the European Union

23. Article 40(2) of the TRIPs Agreement.

because it represents the largest advanced market where the interplay between the two opposing forces would most probably have the greatest impact.

The two jurisdictions have different basic concerns in addressing the issues involved but the fundamental principles, it will be discovered upon study, are similar. It is proposed in the next chapter to consider the manner in which the jurisdiction of the United States has dealt with the interaction between the monopoly rights granted to a patentee and the demands of competition.

CHAPTER 2

THE TRIPs AGREEMENT AND COMPETITION

2.1 INTRODUCTION

The most comprehensive international harmonisation of intellectual property law of which patent law is a part occurred during the Uruguay Round of the General Agreement on Tariffs and Trade and resulted in the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPs Agreement").

Through the TRIPs Agreement all member countries agreed to provide a mechanism for protecting intellectual property rights and for enforcing those rights in their countries. The underlying theory for bringing intellectual property issues into the GATT is that the national web of intellectual property laws has effectively created non-tariff barriers that interfere with international trade and technology transfers.[24]

---

24. Sabatelli A.D. & Rasser J.C. " Impediments to global patent law harmonization" (1995) 22 *N. Ky. L. Rev.* 579, 611.

2.2 PATENTS AND COMPETITION UNDER TRIPS

Section 8, Part II of the TRIPs Agreement addresses the issue of control of anticompetitive practices in contractual licenses.

Article 40(1) provides that members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

Article 40(2) provides that members may specify in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. Members may in those circumstances adopt appropriate measures to prevent or control such practices in the light of the relevant laws and regulations of that member. Such practices may include for example exclusive grant back conditions, conditions preventing challenges to validity and coercive package licensing.

2.3 TRANSFER AND DISSEMINATION OF TECHNOLOGY

Technology is not only limited to the designation of improved production processes or high technology products. On the contrary it refers to all the knowledge and information resulting from research and development efforts and protected by intellectual property rights.[25] As such it refers to protected processes, products or services which can relate either to high technology or to technology based consumer products according to the degree of development of the market concerned.

The reason for protection is that when knowledge is transferred without being legally protected against unauthorized use by third parties it falls into the public domain and hence loses its market value to the developer of the technology. Accordingly, those who exert more pressure for regulation are obviously those who have information worth protecting.

In a global context, while technology initially was considered a strategic factor for national development, today it has become a strategic element for

25 Govaere, I. " The impact of intellectual property protection on technology transfer between the E.C. and the Central and Eastern European Countries" (1991) 25 No.5 *Journal of World Trade*, 57, 58.

achieving control of international markets.[26] This practice of using technology to obtain market control abroad has inevitably led to a conflict of interests between the home and host countries' policies on intellectual property.

The home country policy in negotiating agreements is to try and obtain the best intellectual property protection for their industries while giving as little as possible in return. The host country policy on the other hand will usually be aimed at offering the legal protection needed to attract technology transfer while trying to safeguard the interests and competitivity of its domestic enterprises. [27]

This conflict is the ongoing point of divergence between the developed countries, on the one hand, who emphasize the need for a high level of intellectual property protection worldwide and the less developed countries on the other hand, who want to define the level of protection in accordance

---

26. Paolo, B. "Intellectual property rights and international trade" in *Uruguay Round: Papers on Selected Issues*, United Nations, 1989, 129-183 at 132.

27. Govaere, *supra* note 25 at 58-59.

with their domestic needs particularly the acquisition of technology and the development of local innovative capacity. This conflict was evident in the negotiations leading to the TRIPs Agreement.[28]

Developing countries which are net recipients of technology perceive transfer of technology as the process through which technological capacity can be acquired. The process consists of three stages: First, transfer of existing technologies to product specific goods and services; second, the assimilation and diffusion of these technologies in the host country; and third, the development of indigenous capacities for innovation.[29]

The view is supported by the United Nations' Centre for Transnational Corporations which articulates that transfer of technology should include as a component the fact that the recipients of technology transfer are eventually able to acquire the technical knowledge itself and that it underlies formulae, designs and whole production systems.[30]

---

28. Yusuf A. " Developing Countries and the trade related aspects of intellectual property rights" in *Uruguay Round: Papers on Selected Issues*, *supra*, 185-201. At page 190, he writes: "A striking feature of the submissions so far presented by developed countries is the absence of any reference to the link between the granting of IPRs(sic) and the promotion of domestic technological developments."
29. *Transnational Corporations and Technology Transfer: Effects and Policy*, United Nations Centre on Transnational Corporations, United Nations, New York, 1987, 1.
30. *Ibid.*

The forms and kinds of arrangements through which technology is transferred include foreign direct investment[31], Joint ventures[32], franchising[33], management contracts[34], marketing contracts[35], technical service contracts[36], turnkey contracts[37], international subcontracting[38] and licensing agreements.[39]

Whichever mode of transfer of technology is adopted will depend on specific factors. For example foreign direct investment is more likely to be

---

31. This is the establishment by a transnational corporation of an affiliate in a foreign country over which the parent firm is able to exercise effective control. Control is realized through whole or majority ownership but it is possible for arrangements to be made which give the transnational corporation control even with a minority equity participation: *Transnational Corporations and Technology Transfer: Effects and Policy*, *ibid*, 3.

32. These are business associations between two or more parties who agree to share the provision of equity capital, investment risk, the control and decision making authority and the profits or other benefits of the operation: *Ibid.*

33. These are a particular form of licensing implying continuing relationship in which the franchiser provides rights usually including the use of a trademark or brand name plus the services of technical assistance, training, merchandising and management in return for certain payments: *Ibid*, 4.

34. These are arrangements under which operational control of an enterprise over one phase of its activities which would normally be exercised by a board of directors or managers elected or appointed by the owners is vested by contract in a separate enterprise which performs the necessary managerial functions in return for a fee: *Ibid.*

35. These are similar to managerial contracts in that the contractee firm assigns to the contractor the responsibility of marketing its production, or a part of it and all activities associated with it in return for a fee, normally a percentage of sales revenues: *Ibid.*

36. In this arrangement the contracting firm agrees to provide technical services associated with one particular aspect of the contractee's operations: *Ibid.*

37. A contractor firm under the arrangement undertakes the responsibility for carrying out all (or most of) the activities required for planning, construction and commissioning of a discrete project. Whereas the contractor may sub-contract specific activities and tasks to other firms, he alone is responsible to the contractee for completion of the project as a whole and delivery of a full operational production system. The arrangement provides a complete once and for all physical transfer of technology as a package from one party to another: *Ibid*, 5.

38. In international subcontracting a transnational corporation places orders with a foreign enterprise often in the developed country to produce components or assemble finished products using inputs and technology supplied by the transnational corporation which absorbs the final product for its own production or marketing needs. The technology provided consists of specifications, production know-how and sometimes machinery and equipment as well: *Ibid.*

39. This is a legal contract under which the licensor confers certain rights upon a licensee for a specified

important in industries with significant firm-specific, intangible, knowledge based assets. This is because information advantages can easily be transferred across borders at low cost. Second, knowledge is similar to a public good; unlike labour or capital, a particular technology or trade secret can be used in several production facilities without reducing its availability for others.[40] Similarly where investment policy exists which limit foreign equity participation, firms are more likely to engage in licensing arrangements.

As regards patent protection, in countries with weak protection, licensing is seen as insecure relative to investment in the high technology sectors. In theory firms are more likely to undertake foreign direct investment than licensing when they have complex technology and highly differentiated products and when the costs of transferring technology through licensing are high. In these circumstances it is more efficient to internalize the costs of technology transfer through wholly or majority owned subsidiaries. As patent protection improves, licensing costs should fall as it becomes easier to discipline licensees against revelation or appropriation of proprietary

---

duration in return for certain payments: *Ibid*, 3.

40. Markusen J.R. "Multinationals, multiplant economics and the gains from trade", (1984) 16 *J. Int'l Econ.* 205, 207-8.

technology. Thus for a given level of complexity of innovations, licensing should displace foreign direct investment as patent rights are strengthened.[41]

2.4 THE TRIPS AGREEMENT; A CRITIQUE

It is imperative for a more wholistic comprehension of the TRIPs Agreement and its impact on national competition policy particularly in developing countries that a critical examination of the Agreement be conducted. This exercise will not only underscore the practical reality and the resultant difficulties with which developing countries have to contend as they seek to implement the norms set out in the Agreement but also bring to the fore the philosophical undertones which characterize the approaches of both the developing and developed countries to patent protection.

Generally transfer and dissemination of technology is more likely to be achieved in competitive markets. This is because the dynamics of such markets accommodate the free movement of capital and the interchange and acquisition of information. Transfer of technology therefore is a matter which is within the realm of competition law and policy.

41 Maskus, K.E. "The role of intellectual property rights in encouraging foreign direct investment and technology transfer" (1998) 9 *Duke J. Comp. & Int'l L.* 109, 133.

On the other hand, patent rights entail the granting of monopoly rights for a given duration of time. The abuse of such rights would adversely affect competition and to that extent impede the transfer and dissemination of technology.

At least three different practices can occur which do not live up to the normal expectations of the host country and for which competition could well be the solution. First, making insufficient use of patent rights by not taking into account the real demand for the patented product or process. This can lead to a deflected demand/supply curve which in turn can lead to artificially high prices.[42] The same problems would arise as when establishing whether a dominant position is being abused.

Second, where the patent is merely exploited through the importation of patented products by the holder of that right, the national economy will be disadvantaged because no employment will be created and the technology will not be transferred directly. In those circumstances the gross of the gains made will flow back to the country of exportation.[43]

---

42. Govaere, *supra* note 25 at p. 71.
43. *Ibid.*

Last, when the patent is not exploited at all, the potential benefits for the country granting the protection have obviously become nil.[44]

Notwithstanding these categories of abuse, the TRIPs Agreement limits its scope to licensing practices and conditions which constitute only a small part of exploitation of patents. There are however many other practices which have no relation to licensing in the exploitation of patents. For example in the recent case of *Microsoft Corporation*[45] where it was alleged and the court found that Microsoft's combination of Windows and Internet Explorer by contractual and technological artifices constitute unlawful tying to the extent that a not insubstantial amount of commerce was foreclosed to competitors as a result of Microsoft's decision to bundle Internet Explorer with Windows. Bundling *per se* is not licence- related at all. But to the extent that Microsoft conditioned the provision of a licence to distribute Windows on a prohibition of the licensees (manufacturers or assemblers of Personal Computers) from ever modifying or deleting any part of Windows including in particular providing a browser less version of Windows 95 without Internet Explorer, a licence related abuse of patent rights arose.

44. *Ibid.*

45. United State s District Court for the District of Columbia, *United States of America v. Microsoft Corporation; State of New York, et al v. Microsoft Corporation* and *Microsoft Corporation v. Elliot*

Special Equipment Company v. Coe[46] on the other hand was a case involving non-use of patents. In the case the majority did not find it necessary to reach a decision on whether non-use of patents was unreasonable and contrary to public policy. The minority on the other hand, led by Mr. Justice Douglas stated:

> "...The court is a court of equity. It should withhold its aid from a patentee who has employed or plans to employ the patent not to exploit the invention but to suppress it in order to protect another patent or otherwise."[47]

The non exploitation of patent rights can therefore constitute abuse of patent rights in certain circumstances and result in suppression of competition. Such a scenario would however not be covered by the provisions of the TRIPs Agreement.

And even while focusing on licensing agreements, the TRIPs Agreement does not set out the entire array of licensing practices and conditions which would have an adverse impact on competition and for which it would therefore be necessary that intervention be made; rather it gives as examples

---

Spitzer, Civil Actions No. 98-1232(TPJ) and No. 98-1233(TPJ); the case went on appeal to the United States Supreme Court.

46. Supreme Court, 1945.

exclusive grant back conditions, conditions preventing challenges to validity and package licensing.

The TRIPs Agreement is therefore deficient to the extent that it does not give guidelines on the nature and extent of licensing practices which are inimical to competition and the measures which states should adopt to prevent and control such practices. Moreover it fails to address abuses other than licensing practices which impact negatively on transfer and dissemination of technology.

The result of the abovementioned shortcoming of the TRIPs Agreement is that there is a profound uncertainty in international law in this area because decisions relating to practices which amount to abuse of patents continue to be within the residual jurisdiction of states. Even then, a review of state practice reveals no consensus concerning the application of abuse doctrine.

A comparison of the practice in the United States and the European Union with regard to some of the issues will demonstrate these divergences.

---

47. A.D. Neale, *Antitrust Laws of the United States*, Cambridge, C.U.P. 1962, 300, fn. 3.

2.4.1. PERSPECTIVES ON STATE PRACTICE IN THE UNITED STATES AND THE EUROPEAN UNION

The general position in the United States is that if a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws.[48] Indeed as with any other tangible or intangible asset that enables its owner to obtain significant supra competitive profits, market power (or even a monopoly) that is solely the consequence of a superior product, business acumen or historic accident does not violate antitrust laws.

In contrast in the European Union, the general policy captured in the EU Regulation 240/96 remains silent regarding presumptions of market power from the existence and ownership of intellectual property rights. The issue was however confronted in the *Deutche Grammophon case* [49]where it was held that only certain anticompetitive exercises of distribution rights and not the existence of such rights constitute unlawful market power.

---

48. *1995 Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property*

49. Case 78/70 *Deutsche Grammophon Gmbtt v Metro-SB Gross Markle Gmbtt & Co.*, 1971 E.C.R. 487, 506- 7; 1971 C.M.L.R. 631.

At the heart of EU competition law lies Article 81 of the European Union Treaty which prohibits and nullifies all restrictive agreements regardless of whether these agreements are, on balance pro competitive, unless the agreements in question have been formally exempted.[50]

Pursuant to authority granted by Regulation 19/65/EEC, the European Commission developed the block exemption format as a mechanism for *en masse* application requesting exoneration under Article 81(3) of the Treaty. In 1996, the Commission promulgated Regulation (EC) No. 240 of 1996 on the Application of (what was at that time) Article 85(3) of the Treaty.[51]

In the EU, licensing agreements attract withdrawal of the grant of exemption when the market share of the licensee exceeds forty percent with the consequence that the same is rendered void.[52] In the United States, the

---

50. Exemption is provided for under article 81(3) which declares inapplicable any agreement or category of agreements between undertakings, any decision or category of decisions by associations of undertakings, any concerted practices or category of concerted practices which contribute to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit and which does not either impose on the undertakings concerted restrictions which are not indispensable to the attainment of these objects or afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question : Treaty Establishing the European Union, Feb.7,1992, O.J. (C191) 1 (1992), 1992 C.M.L.R. 573. It should be noted that after the amendments introduced by the Treaty of Amsterdam in 1997, Article 85 became Article 81.

51. Commission Regulation 240/96 of 31st January 1996 on the Application of Article 81(3) of the Treaty to Certain Categories of Technology Transfer Agreements.

52. The Commission's aim is to prevent agreements where the licensed products are not faced with real competition in the licensed territory and it considers this to be the case where the licensee's share of the market exceeds 40% of the whole market for the licensed product, and of all the products or the services which customers consider interchangeable or substitutable on account of their characteristics, prices or intended use; See Biggers, S.M. *et al* " Intellectual property and antitrust: A comparison of

Guidelines for the Licensing of Intellectual Property creates a safety zone which is designed to provide owners of intellectual property with a degree of certainty in those situations in which anticompetitive effects are so unlikely that the arrangements may be presumed not to be anticompetitive without an inquiry into particular industry circumstances.[53]

The safety zone requirement is that the licensees and the licensor collectively account for no more than twenty percent of each relevant market significantly affected by the restraint.[54] But the consequences of exceeding the safety zone limit are not as serious in the United States as in the EU. Infact subsection 4.3 of the Guidelines states that licensing arrangements are not anticompetitive merely because they do not fall within the scope of the safety zone.

In the European Union, licences that restrict a party from competing in respect of research and development, production, use or distribution of competing products except as provided in Article 2(1), (17) and (18) of the

---

evolution in the European Union and the United States" (1999) 2 No. 22 *Hastings Int'l & Comp. L Rev.* 209, 276.

53. *Supra.* note 48, Article 4(3).

54. *Ibid.* It should be noted that compliance with safety zone parameters will be assessed " by reference only to goods markets unless the analysis of goods market alone would inadequately address the effects of the licensing arrangement on competition among technologies or research and development.

Commission Regulation 240/96 are explicitly included in the black list of Article 3 and are therefore null and void.

Further, the European Commission in its "White Paper on Modernization of the Rules Implementing Articles 81 and 86 of the EC Treaty" explicitly refused to adopt a Rule of Reason approach. The Commission argued first, that to adopt the approach would require a reform of the EC Treaty; second, that Article 81(3) of the Treaty already contains elements of a Rule of Reason; third, that the modernization of EC competition law cannot be made dependant upon developments in decision making practice; and last, that a Rule of Reason approach could lead to the setting aside of competition rules because of political considerations.[55]

It needs to be observed however that the European Court of Justice has applied a more flexible attitude towards vertical restraints than the European Commission. In *Delimitis v Henninger Brau*[56] the Court ruled that an agreement has to be analysed within its "legal and economic context" in order to show whether it has the effect of restricting trade. The court therefore stressed the importance of looking in a realistic way at the anti

55. 1999 O.J. (C 132) at Par. 57.
56. Case 234/89, 1991 E.C.R. 935.

competitive effect of an agreement as opposed to the formalistic approach often followed by the Commission in many of its decisions.

The direction given by the European Court of Justice was followed in *Lagnese*[57] and *Scholler Lebensmittel v. Commission.*[58] In the cases two ice cream manufacturers operated in the German market through a substantial number of exclusive purchase agreements concluded with their retail outlets. The Commission denied an individual exemption for the agreements on the grounds that, given the substantial percentage of the market controlled by Lagnese and Scholler through their tied outlets and the length of the exclusive purchase obligations imposed upon retailers, the agreement had the effect of foreclosing a third competitor, Mars, from access to the German market of "impulse" ice creams.

Both producers appealed the Commission's decisions before the Court of First Instance, which upheld the position of the Commission not to grant the exemptions. The important thing to note about the case however is that the Court of First Instance, applied *Delimitis* and analysed the effects of the agreements on the market under Article 81(1).[59]

---

57. 1995 E.C.R. II-1533
58. Case T-9/93, 1995 E.C.R. II-1611.
59. *Lagnese*, E.C.R. II-1572-1573, paragraphs 99-101.

In the United States on the other hand, exclusive licences including those which proscribe the licensor itself from exploiting the intellectual property right and thereby limit or even reduce the number of competitors with access to the licensed intellectual property on the one hand; and exclusive dealing whether explicit or implicit which occurs when the licensee is prohibited from licensing, selling, distributing or using competing technologies on the other hand, raise concern depending on whether the effects are pro competitive.

The United States' approach has been attributed to concern not only about restrictions on goods or technologies other than the licensed technology but also licence provisions that deter licensees from dealing with suppliers or products that compete with those of the licensor.[60]

In the United States, while tying can be anticompetitive in effect, this result is not presumed due to the potential procompetitive benefits and efficiencies that can be effected through tying arrangements.[61] The authorities accordingly are more likely to challenge a tying arrangement if the seller has

60. Guttuso, S. " Technology transfer agreements under EEC law" (1994) *Fordham Corp. L. Inst.* 227 at 242.

61. *Supra.* note 48, Article 5(3).

market power in the tying product, the arrangement has an adverse effect on competition in the relevant market for the tied product and efficiency justifications for the arrangement do not outweigh the anticompetitive effects.[62]

In the EU, tying arrangements require individual review by the Commission though there is considerable convergence in the treatment of tying provisions within the two jurisdictions.

As regards grant backs, these are obligations on the licensee to license back to the licensor those improvements the licensee makes to the licensed intellectual property. Grant backs can have procompetitive and anti competitive effects depending on conditions in a relevant market. They may promote innovation in the market allowing the licensor and licensee to share risks and provide incentives to disseminate the original licensed intellectual property and improvements thereto. Conversely competition to innovate

62. *Ibid.*

suffers when a grant back serves to substantially reduce a licensee's incentive to engage in research and development effort.[63]

In the United States nonexclusive grant backs in which the licensee is free to license its improvements to third parties do not raise anti-competition challenge. Similarly even when a grant back obligation is deemed likely to reduce a licensee's innovation incentive, consideration is still given to whether the grant back provides certain benefits under the agreement such as promoting dissemination of licensee's improvements to the licensed technology, increasing the licensor's incentive to disseminate the licensed technology or otherwise increasing competition and output in a relevant technology or innovation market.[64] Clearly therefore a key consideration in a rule of reason analysis of grant backs is the licensor's market power.

The EU on the other hand blacklists outright exclusive grant back restrictions. Infact, Article 2 of the EU Regulation 240/96 permits the inclusion of grant back obligations in licenses only when the restrictions are reciprocal, that is, non exclusive on the licensee whether exclusive or non exclusive on the licensor.[65]

63. Biggers, *et al. supra* note 52 at p.265.
64. IP Guidelines, *supra.* note 48, Article 5(6).
65. EU Regulations, *supra* note 51, Article 2(1)(4).

In respect of vertical agreements, the general attitude in both the United States and the European Union is that vertical restraints are less harmful to competition than horizontal restraints. There is the assumption that the advantages of vertical restraints in promoting inter brand competition outweigh their anti competitive effects on intra brand competition. In vertical agreements, each of the parties has an interest in having the other produce more, because that is the rational way to maximize their respective profits; in a horizontal agreement, each party has an interest in having the other produce less.

The European Union nevertheless takes a less flexible position towards vertical restraints than the United States, due in large part to two factors: The imperative of market integration in the European Union, and the influence of the Chicago School in the United States.

In brief, the Chicago School stresses that in a vertical restraint relationship, both the manufacturer and the dealer want production to increase in order to maximize their returns, whereas parties to a horizontal agreement generally want to cut down on production for the sake of monopolistic gains.[66] With a

66. Bork, H.B. *The Antitrust Paradox*, 1978/1993, 290.

vertical restraint, both manufacturer and consumer want distribution to occur at the lowest possible cost in order to distribute as much as possible.

Therefore Chicago School economists conclude that when a manufacturer chooses to impose a vertical restraint upon its dealers, it chooses based upon criteria that also control consumer welfare. Because lower distribution costs are one aspect of the overall efficiency of a firm, as a manufacturer becomes more effective in selling its brand, competition among manufacturers intensifies and output increases.[67]

Since the manufacturer who imposes vertical restraints cannot intend to restrict output, according to the Chicago School, it instead must create efficiencies. The underlying thought is that a manufacturer does not have any incentive to protect one dealer from other dealers unless that protection is necessary to induce one dealer to make investments in advertising, promotion, or services for the benefit of the brand as a whole or for the benefit of consumers.[68]

---

67. *Ibid.*

68. *Ibid* at 295-297; since vertical restraints are unlikely to harm competition because inter brand competition always provides a check on intra brand restraints, some Chicago School economists have advocated for the *per se* legality of vertical restraints: See Posner R.A. " The next step in the antitrust treatment of restricted distribution: Per se legality" (1981) 48 *U. Chi.. L. Rev.* 6, 8.

From the account of the treatment of patents and competition in both the European Union and the United States, it is possible to contend that the rule of reason is an imperative which permeates, albeit in a more restricted nature in the European Union, the treatment of competition and patents in the said jurisdictions.

The European and American experiences with regard to patent-competition issues demonstrates a lack of uniformity in state practice though one would have expected that the said jurisdictions being advanced would have extracted some core principles from experience. It is clear nonetheless that among the determinant factors is the philosophy governing each jurisdiction. What does the lack of uniformity portend for emergent markets which are only now grappling with the issues raised by patents and competition? This issue shall be the focus of the discussion that follows.

2.4.2 COMPETITION, THE TRIPs AGREEMENT AND DEVELOPING COUNTRIES

2.4.2.1 INCENTIVES TO CREATE OR COMPETITION?

Striking an appropriate balance between the incentives to create and the need to preserve healthy levels of competition within parameters set by the TRIPs Agreement has been a difficult task for countries which have established antitrust and intellectual property regimes. It will be a daunting task for countries only now seeking to address the issues.

The task is even harder for developing countries in view of the fact that their needs keep changing from one decade to the next, as do their priorities. Similarly, high levels of intellectual property protection produce different economic effects on different national actors. The resulting tensions could call into question governments' ability to mediate between those who stand to benefit and those who stand to lose. In India, for example, big firms in the pharmaceutical sector find themselves at odds with small but successful generic producers who have been resisting the adoption of tougher patent laws.[69]

The success of the Indian generic drug also constitutes a beacon to developing countries that see their prospects for emulation diminished by higher patent standards both at home and in the third world export market. The tendency to favour a procompetitive strategy for implementing the standards set out in the TRIPs Agreement could even win governments in developing countries the support of small and medium sized firms which might otherwise have to fend off the multinational corporations' high protectionist tactics by themselves without the help of strategic allies in the global market.

In Africa the concentration of patents is in favour of foreigners. Statistics supplied by the Industrial Property Organisation for English Speaking Africa in respect of patent applications during the years 1979 to 1981 and which are set out below show that most patent applications have been made by foreigners.

69 Adelman, M.J. *et al.* "Prospects and limits of the patent provisions in the TRIPs Agreement : The case of India" 29 *Vand J. Transnat'l L.* 507.

STATISTICS SUPPLIED BY ESARIPO MEMBER AND POTENTIAL MEMBER STATES TO WIPO IN RESPECT OF PATENT APPLICATIONS (1979-81); STATISTICS OF PATENT APPLICATION IN THE AFRICAN INTELLECTUAL PROPERTY ORGANIZATION (0API).[70]

Country	1979		1980		1981	
	Resident	Non-res.	Res.	Non-res.	Res.	Non-res.
Botswana				18		35
Ethiopia						
Gambia						
Ghana		37		17		19
Kenya		99		96		75
Lesotho						
Liberia						
Malawi	2	35	2	51	7	41
Mauritius		11		10	2	19
Tanzania		42		88		
Uganda		28		28		55
Zambia	1	94	2	115	1	107
Zimbabwe	55	201	39	281	35	274

70. Source: ESARIPO, Council's Sixth Session, Harare: December 6-10, 1982,4; quoted in Setai, B.P.

TOTAL	58	605	43	741	45	680
GRAND TOTAL		683		784		725
OAPI	6	278	6	298	7	272

The table shows that out of a total of 605 patent applications received in 1979 in the named countries 547 emanated from non-residents while only 58 applications were received from residents. In 1980 out of a total of 747 applications received, non-residents made 704 while residents made 43. Last, in 1981 non-residents made 625 patent applications while residents made 45.

The pattern of ownership revealed in the table shows that foreigners own a greater number of patents than by local applicants. In 1979, eighty nine percent of patents belonged to foreigners; in 1980, ninety five percent; and in 1981, ninety-four. The bottom of the table indicates the distribution for the French-speaking countries of OAPI. Again the pattern is similar in that the majority of patents are foreign owned. The number of OAPI countries is not shown.

" "The role of patents in economic development" (1988) 4 *Lesotho L.J.* 27, 33.

Not all of the patents granted are necessarily worked. Likewise, many may have been taken out merely for purposes of protecting markets for the products or processes in question and licensing rights in accordance with the production cycle theory. The effect on the market is that competition is reduced if not non-existent altogether within such markets. But even in situations where the patents are actually worked the production of goods and provision of services in respect of which the patents relate are in the protected hands of monopolies and oligopolies operating in the markets. In most cases these are multinational corporations.

Even though in theory the protection of patents does not advantage applications made by foreigners, the latter will reap the benefits of such protection when introducing new products into the market. To the extent that there are domestic products which are conceived by consumers within the host market as being substitutable, the legal monopoly granted will be limited in practice, for some degree of competition will occur.[71]

But where, on the contrary, no substitutable domestic products are at hand in the said market, and this will be so for most high technology products, the

---

71. *Ibid.*

legal monopoly will be strong and monopoly prices can therefore be charged.

As such, emerging African markets and Kenya in particular, face the task of finding a balance between giving protection to intellectual property rights in general and patents in particular, high enough to attract investments whilst also protecting the interests of their own industries and consumers. Generally speaking this implies that they have to safeguard the competitiveness of their own industries, especially in the long run, through enactment of tailor made intellectual property legislation and adequate competition rules.

But it also means that they have to secure export markets in order to obtain the foreign currency to pay for the foreign technology and for the development of the domestic economy. This exercise demands a thorough analysis of the domestic demands and requirements rather than merely copying the intellectual property legislation of the countries which most pressurise for change.

The observation by Heinrich in relation to Germany during the Vienna Conference on Patent Rights in 1872 ring true today for the Developing Countries:

> "Today, industry is developing rapidly; and as a result monopolisation of inventions and abuse of patent rights will inevitably expose large segments of industry to serious injury. (Patents taken out by foreign patentees) will not be taken out in order to protect industrial plants established or to be established…; they will be taken to monopolise production abroad."[72]

The trend in ownership of patents in developing countries today is increasingly shifting from individual ownership to corporate ownership. There are two reasons for this phenomenon. First, the level of ignorance has implied that individuals do not take out patents for their inventions. Second, corporations have the resources to invest in research and development.

The mentioned trend raises the possibility, in cases involving multinational corporations, that vast resources can be reserved by the corporations and channeled towards activities whose objective is the elimination of competition and implementation of restrictive trade measures. The intention

---

72. Kronstein H. & Till I. " A re-evaluation of the international patent movement", *Law and*

would be to preserve their markets against competition while the result would be to discourage inventive activities and accord them the capacity to control output and prices.[73] Potential competitors, which are usually local and with a smaller resource base, would in those circumstances face greater difficulties in undertaking economic activities in such markets.

This trend has translated into the problem relating to access to pharmaceutical products in developing countries. Most developing countries house high populations surviving within circumstances characterized by a high prevalence of diseases. Low literacy levels and limited education contribute to poverty and increase the need for low priced necessities. The great number of indigent citizens creates an incredible demand on the part of governments to provide medical supplies at affordable prices.

Multinational pharmaceutical companies are the predominant holders of patents over drugs and as such are able to determine the prices of the drugs wily-nily. Thus in 2001 39 pharmaceutical companies went to the Pretoria

---

Contemporary Problems (1947) 12, 733.

73. Setai, *supra* note1 at p. 35.

High Court in a suit filed against the South African Government challenging the South African Medicines Act which empowered the Health Minister to set conditions to ensure the supply of affordable medicines in the face of the AIDS epidemic.[74] The Act was said to discriminate against pharmaceutical patents whereas TRIPs required that patents be 'enjoyed without discrimination' as to the field of technology. In April 2001 the pharmaceutical companies withdrew from the litigation.[75]

The high prices charged on these pharmaceutical products spurred the generic drug industry to develop using patent policy as a mandate to provide medication to poor communities.[76] In creating monopolies in favour of pharmaceutical companies TRIPs sought to force impoverished nations swamped by diseases to pay patented prices for drugs thereby providing primacy to business interests and ignores the public health perspective.[77]

---

74. Drahos P. & Braithwaite J. *Information Feudalism, Who Owns the Economy*, Earthscan, London, 2002, 7.
75. *Ibid.*
76. Ragavan S. " Can't we all get along ? The case for a workable patent model" , 35 *Ariz. St. L. J.* 117, 137. At page 138 he states: "... the development of an alternative market is precisely what the TRIPs patent policy was designed to stop."
77. *Ibid.*

It is not surprising therefore that as soon as the Uruguay Round concluded, it became apparent that the obligations imposed by TRIPs were inappropriate in light of developing health crises in many countries involving malaria, HIV and tuberculosis. As a result as soon as TRIPs was signed a wide variety of governmental and non governmental organisations began a prolonged debate and reconsideration of the role of intellectual property in the context of national health policy.[78] Thus developing countries came to the Doha Ministerial Conference of the World Trade Organisation with the claim that the deals made in the Uruguay Round left them worse off, not better off; the burdens they undertook were greater than anticipated, and the benefits of the deal they struck were less than anticipated.[79]

The response was the Doha Development Agenda which dealt with several issues varying from but not limited to agricultural subsidies, industrial products, services, trade remedies, regional trade agreements, electronic commerce and intellectual property.

---

78. Drahos & Braithwaite, *supra* note 74, pp 5-10.

79. Gerhart, P. "Reflections on the WTO Ministerial: Slow transformations: The WTO as a distributive organization" 17 *Am. U. Int'l L. Rev.* 1045, 1049.

2.4.2.2 TRIPs AND THE IMPERATIVE OF PUBLIC HEALTH: THE DOHA MINISTERIAL CONFERENCE.[80]

On account of the Doha Development Agenda, the Ministerial Conference adopted the Doha Ministerial Declaration which subsumes the Declaration on TRIPs Agreement and Public Health.[81]

Clause 4 of the Declaration on TRIPs provides that the Agreement should not prevent members from taking measures to protect public health. Thus while reiterating members' commitment to the TRIPs Agreement, members affirmed that the TRIPs Agreement should be interpreted and implemented in a manner supportive of their right to protect public health and in particular, to promote access to medicines for all.

In one sense it can be argued that the decisions made at Doha resulted in rollbacks on prior commitments and decisions of substantive interpretation favourable to developing countries. The industrial countries, the argument

---

80. The Fourth Ministerial Conference of the World Trade Organization ('WTO') held at Doha, Qatar from 9th –13th November 2001.

81. Declaration on TRIPs Agreement and Public Health at Qatar, 2001, WTO Fourth Ministerial Conference, WT/MIN(01)/DEC/1 (01-5859)(Nov 9-14,2001) available at *http://www.wto.org/english/thewto-e/minist-e/min01-e/mindecl-trips-e.htm.*

goes gave up the right to seek interpretations that would favour their interests.[82]

TRIPs required least developed countries to take on the obligations after an eleven year transition period, ending in 2006. In addition, a least developed country member could obtain an extension only 'upon a duly motivated request'[83]. This provision made extensions available on a case by case basis, but gave no guarantee that any extensions would be given and gave no limit concerning the grounds for denying the extension.

In Doha that transition period is extended with respect to pharmaceutical products for all least developed countries by an additional ten years, until 2016, for the minimum requirements relating to patents and trade secrets. No application is necessary.[84] The expectations with respect to a reasonable transition period for least developed countries, at least with respect to pharmaceutical products, and the process of granting those extensions, appears to have been rolled back.

---

82. Gerhart, *supra* note 79 at 1074.
83. *Supra* note 5, Article 66.
84. TRIPs Declaration, *supra* note 81, par.7(stating that in addition to the ten year grace period provided to least developed countries regarding pharmaceutical products,least developed countries maintained the right to seek an even longer transition period with respect to pharmaceutical products).

Moreover the Doha interpretations clarified some of the ambiguities in TRIPs. In the TRIPs Agreement the moratorium on bringing non violation violations was to last five years[85] during which time the Council for TRIPs was to make recommendations concerning non violation violations.[86] In Doha the moratorium was to be continued until the Mexico City Ministerial Conference in 2003 with the 'agreement that the Members will not initiate such complaints under the TRIPs Agreement'.[87] It would seem that the industrial countries formally gave up their right to claim that the moratorium on non violation violations was ineffective unless it was explicitly extended, and they gave up the right to seek to have the moratorium extended.

Furthermore the Doha TRIPs agenda appears to add potential new exceptions to the TRIPs obligations which TRIPs did not even contemplate. For example some members were concerned that even if TRIPs were interpreted to permit them to secure needed pharmaceutical products by compulsory licensing, they could not effectively take advantage of

85. *Supra*, note 83, Article 64 (which sets the rules governing dispute settlement under TRIPs).
86. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade negotiations, April 15, 1994, 33 I.L.M 1125, 1183, Article XXIII(1194)(stating that a GATT member is permitted to challenge the measures of another member that nullify or impair a bargain, even if the measure does not itself violate an obligation).
87. Decisions on Implementation Related Issues and Concerns (Nov. 14, 2001)(discussing developing nations' challenges in implementing the WTO agreements) available at http://www.wto.org/english/thewto_e/minist_e/min0_e/mindeclimplementation_e.htm. art 11.1

compulsory licensing provisions as long as those licensees had to be located in their country.[88]

Most least developed countries do not have the manufacturing capacity to make generic versions of patented drugs. In fact there are only six developing countries that have any serious manufacturing capabilities- Brazil, Argentina, China, India, South Korea and Mexico.[89] Thus if the majority of developing countries were not able to secure their generic drugs from manufacturers who were located in other countries, any right which they have to address their health imperatives through compulsory licensing would be illusory. In light of this problem, the Doha Declaration directed the TRIPs Council to find a way to allow countries with insufficient manufacturing capacity for pharmaceuticals to take advantage of compulsory licensing provisions to get access to drugs.[90] This effectively sets a course for a new exception to the TRIPs minimum standard.

The compromises with respect to pharmaceuticals were often expressed in terms of an interpretation of the TRIPs Agreement. The declaration that 'each Member has the right to grant compulsory licenses and the freedom to

---

88. Gerhart, *supra* note 82, 1077.
89. Drahos & Braithwaite, *supra* note 78 at p. 9
90. *Supra,* note 81, Article 6 (requiring that TRIPs solve this problem by the end of 2002).

determine the grounds upon which such licenses are granted'[91] is in fact a substantial gloss on Article 31 of the TRIPs Agreement[92] and arguably a rollback to the substantial limitations Article 31 placed on compulsory licenses. At the very minimum, it is an expression that the developed countries will give up their right to argue that Article 31 puts limitations on the compulsory licensing process.[93]

Similarly the declaration that 'each Member has the right to determine what constitutes a national emergency or other circumstances of extreme urgency'[94] amounts to a declaration that the ambiguous provisions of Article 8 of TRIPs -allowing members to protect the public health in a manner that is consistent with the TRIPs Agreement- appears to carve out an exception to the TRIPs requirements. It effectively promises that declarations of national emergency will be unchallenged through the WTO dispute resolution system.[95]

---

91. *Ibid*, Article 5(b).

92. Article 31 provides for other use without authorization of the right holder. The requirements for this include among the things the following: that the authorization shall be considered on a case by case basis; that an application for a licence has been rejected by the patent holder, except in cases of national emergency; decisions to authorize use are subject to judicial review; and that supply be limited predominantly to the domestic market.

93. Gerhart, *supra,* note 88, 1077.

94. TRIPs Declaration, *Supra*, note 91, Article 5(c).

95. See Article 5(d), *ibid*: (" The effect of the provisions in the TRIPs Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for

There has been contrary contention however that the Doha talks will not directly affect the wealth of nations or prices paid by consumers: that they were talks about whether to hold further talks on global trade liberalization, and what their broad parameters and goals should be.[96] Thus the Doha TRIPs Declaration, it is contended grants no new rights regarding compulsory licensing to developing countries.[97] The text of the Declaration, it is to be noted, clearly reaffirms the existing TRIPs provisions. Indeed paragraph 4 'reiterates [the WTO Members] commitment to the TRIPs Agreement', and paragraph 'maintains [their] commitments in the TRIPs Agreement'. These reaffirmations appear designed to ensure compulsory licenses are granted in accordance with TRIPs Article 31, which deals with the matter.

In addition irrespective of the controversy whether the Doha Declaration actually expands the right of WTO members to grant compulsory licenses, the silence of the Declaration on imported pharmaceuticals is telling. The Declaration benefits only those poor countries with the capability to manufacture the necessary medicines- otherwise, a compulsory license has

---

such exhaustion without challenge…"). This effectively leaves the application of Article 6 of the TRIPs Agreement which had originally stated that principle, unreviewable.

96. Bhala R. " Globalization's impact on international trade and intellectual property law challenges of poverty and Islam facing American trade law" (2003)17 *St John's J.L. Comm.* 471,476

97. See for example Rugaber C. "TRIPs Declaration does not undermine IP rights, pharmaceutical groups say" 18 *Int'l Trade Rep. (BNA)* 1862-63(Nov. 22, 2001).

no practical value.[98] The declaration says nothing about whether a country without this ability can override a patent in the interest of public health by importing cheap copies of a patented drug from a third country. The responsibility of resolving these issues was accorded to the TRIPs Council which had until 2002 to resolve the same.

2.4.2.3 COMPETITION AS AN ALTERNATIVE PLATFORM

It is apparent that Doha did not settle the public health issue in developing countries. This issue has come to represent to an extent the public interest in its uneasy co-existence with the obligations imposed by the TRIPs Agreement. In these circumstances, the public interest in forging pro-competitive policies becomes imperative in developing countries. This is more so because the role of patents in promoting foreign investments has for long been doubted.[99]

---

98. Bhala, *supra* note 96, 482.

99. As an example, Vernon undertook a study in which he concluded that patents are only a secondary factor for the promotion of foreign investment: See Vernon, R. "The international patent system and foreign policy", *A Study Prepared for the United States Senate Committee on the Judiciary*, 85th Congress, 1st Session, Washington D.C. (1957), 16 in Edith Penrose " International patenting and the Less Developed Countries", (1973) 83*The Economic Journal*, 768-786.

Edith Penrose conducted a review of literature on the role of patent protection in attracting and promoting foreign direct investments and concluded:

> "None of the evidence clearly excludes patents as one of the considerations which, at the margin, might swing a decision in favour of making an investment. Nevertheless, the evidence does seem to support the proposition that in by far the greater number of cases the willingness of a country to grant patents on inventions already patented and worked abroad is of no great importance one way or another as an inducement or obstacle to foreign investment."[100]

Instead of foreign investment being justified on the basis of the patent system, it is often argued that it is done on the strength of the production cycle theory.[101] The theory contends that after a product has been successfully tested in the local market it will then be exported into a given foreign market. After a while the novelty of the technology that produced the product will wear off and competition will threaten the market. It is at this time that the firm will decide to invest as a pre-emptive measure against competition.[102]

---

100. *Ibid* at p.775.
101. Setai, *supra,* note 3.
102. *Ibid.*

However if the market does not justify investment, the company will take out a patent to preserve its dominance and continue to import into the country the product in question. Patents are therefore and in the circumstances taken out to a great extent by multinational corporations which intend to protect their markets and licensing rights.

The granting of patents, it can be concluded, restricts the transfer of technology because it reduces the competition that would otherwise have taken place.[103]

To the extent therefore that the TRIPs Agreement does not regulate the entire scope of protection (of patents) as such or the permissible range of exceptions to, and limitations on, the exclusive proprietary rights whose trans-national recognition it otherwise secures, it leaves the developing countries ample "wiggle room" in which to forge procompetitive strategies of their own.

In this regard, Reichman states:

103. Grundman, H.E. " The economic arguments for patents and their validity for Developing Countries", (1970) Vol. XIX (No.2) *Indian Economic Journal*, quoted in Penrose, *supra* at p.770.

> "The TRIPs Agreement leaves developing countries ample "wiggle room" in which to implement national policies favouring the public interest in free competition."[104]

The principle of national treatment recognised in the TRIPs Agreement is another mechanism which seeks to foster competition in the market by leveling the playing field for foreign enterprises *vis-à-vis* local enterprises. The same requires states members not to impose discriminatory measures or mete out such treatment upon foreigners in order to protect the competitiveness of their domestic enterprises.[105]

States members cannot therefore promulgate intellectual property legislation which differs in duration or enforcement according to the nationality of the applicant. This enhances the difficulty of finding tailor made legislation which lives up to the long term expectations of both the domestic enterprises and the potential foreign investors.

104. Reichman, J.H. " From freeriders to fair followers: Global competition under the TRIPs Agreement" (1997) 29 *N.Y.U. Int'l L. & Pol'y*, 11,17-21.

105. Article 3 of the TRIPs Agreement.

At the same time the principle also confers advantage on foreign enterprises and patent holders engaged in production of goods and provision of services. This is because the principle places foreign patent holders in the same position as local patentees. In the circumstances they are enabled to, wittingly or unwittingly, direct their vast resources in expertise and capital towards edging out local enterprises which still suffer from inadequacy in resources.

National treatment becomes therefore not so much an instrument for fostering competition but rather a vehicle for domination of developing markets by monopolistic and oligopolistic multinational corporations.

Does Kenya's legislative framework recognize and address sufficiently the specific challenges occasioned by the requirement of complying with international obligations imposed by the TRIPs Agreement and its unique needs as a developing country? How does the legislative regime address the issue of patents and competition in the absence of clear guidelines in the TRIPs Agreement? These issues shall form the next part of the study.

CHAPTER 3

COMPETITION AND PATENT PROTECTION IN KENYA

3.1.1 INTRODUCTION

In Kenya patent and competition issues are governed by two legislations, the Industrial Property Act[106] and the Restrictive Trade Practices Monopolies and Price Control Act.[107] This chapter will focus on the manner in which the two legislations relate and more particularly whether the legislations contain any instrumentalities for dealing with the conflict issues which arise from the practice of patents.

3.1.2 AN OVERVIEW OF PATENT PROTECTION IN KENYA

Patent protection in Kenya is conferred by the Industrial Property Act [108] which is hereafter referred to as the 'old Act'. The old Act provides that patents are available generally for inventions – whether processes or

106. Chapter 509 Of the Laws of Kenya.

107. Chapter 504 of the Laws of Kenya.

108. *Supra* note 106; It should be noted that at the time of writing this work, the Industrial Property Act enacted in 1989 is to be replaced by The Industrial Property Act, 2001(hereinafter referred to as "the new Act") which is to commence by notice.

products - which it defines as a solution to a specific problem in the field of technology.[109] For an invention to qualify as patentable, it must be new, involve an inventive step and be industrially applicable.[110]

The Kenya Industrial Property Act excludes plant varieties from patentable subject matter but not parts thereof or products of biotechnological processes.[111] Similarly inventions contrary to public order, morality, health and safety, and principles of humanity, environmental conservation and any other invention declared non-patentable by the Minister concerned are excluded.[112]

The inventor under the old Industrial Property Act is entitled to three categories of rights. First, he has the right to be granted a patent whenever

---

109. Section 6(1) of the Industrial Property Act, *ibid*; The new Act contains a similar provision in section 21(1).

110. Article 27 of the TRIPs Agreement also provides that patents are available for inventions whether products or processes provided that they are new, involve an inventive step and are industrially applicable; section 22 of the new Act.

111. Plant varieties are governed by the Seeds and Plant Varieties Act, Chapter 326 of the Laws of Kenya; section 11(a) of the Act; section 26 of the new Act has a similar provision.

112. Section 11(b) of the Industrial Property Act, Chapter 509 of the Laws of Kenya; the new Act has done away with the provision that excludes from patentability any invention declared by the Minister concerned not to be patentable.

the requirements of the Act have been fulfilled.[113]

Second, upon grant of the patent, he has the right to preclude any person from exploiting the patented invention.[114] The patentee is also entitled to conclude license contracts with regard to the use or exploitation of the patent rights.[115]

The rights conferred upon a patentee are exclusive and can only be exercised by the patentee subject to the limitations imposed by the law relating to compulsory licensing. These rights imply that no person shall be authorized to import, export or in any other way deal with the patented invention or any part thereof without the consent of the patent holder.[116] It should be noted that the rights are limited to acts done for industrial and commercial purposes.[117]

---

113. *Ibid*, section 35(1)(a); the new Act has a similar provision in section 53(1)(a).

114. *Ibid*, section 35(1)(b); section 53(1)(b) of the new Act.

115. *Ibid*, section 35(1)(c); section 53(1)(c) of the new Act.

116. Section 36 of the Industrial Property Act, 1989, provides that when a patent is granted in respect of an invention it gives the exclusive right of making, importing, offering for sale, selling and using the product. It also confers the exclusive right to stock such products for purposes of sale. Where the patent has been granted in respect of a process, then it accords the exclusive right to use the process or do any of the acts aforementioned with the process; See also section54(1)(a) and (b) of the new Act for a similar provision.

117. *Ibid*, section 37 of the old Act; see section 58(1) of the new Act.

3.1.3 COMPETITION IN KENYA

Competition issues on the other hand are generally governed by the Restrictive Trade Practices, Monopolies and Price Control Act.[118] The preamble to the Act provides that it is an Act of Parliament:

> " ... to encourage competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and for connected purposes."

Generally, the exploitation of patents can be direct in which case the patentee himself applies the patent in the process of production of goods and supply of services. It could also be secondary in the sense that the patentee authorizes third parties to employ the patent in the production of goods and supply of services. The authorization usually takes the form of licensing.

When the patentee sets out to apply the patent in the production of goods and supply of services its conduct can be restrictive of trade. The Restrictive

118. Chapter 504 of the Laws of Kenya.

Trade Practices Monopolies and Price Control Act[119] should in the circumstances regulate the conduct. In addition, patents are monopolies and should to that extent also be regulated by the Act in view of the provisions of the preamble.

It deserves mention that no provision exists in the Restrictive Trade Practices, Monopolies and Price Control Act[120] which exempts patents from its application. The provision which governs exemptions from the application of the Act is section 5. It is useful to set out the same *verbatim*.

> "5. The following trade practices are exempted from the provisions of this Act-
>
> (a) trade practices which are directly and necessarily associated with the exercise of exclusive or preferential trading privileges conferred on any person by an Act of Parliament or by an agency of the Government acting in accordance with authority conferred on it by an Act of Parliament;
>
> (b) trade practices which are directly and necessarily associated with

119. *Ibid.*
120. *Supra* note 118.

(c) the licensing of participants in certain trades and professions by agencies of the Government acting in accordance with authority conferred on them by an Act of Parliament."

It will be noted that the Act does not define 'trade'. Nevertheless exception (b) applies to the licensing of participants in trades and professions by agencies of the Government acting under authority conferred by an Act of Parliament. An example would be, for instance the Advocates Act[121] or the Accountants Act[122] and the provisions they make with regard to the licensing of persons to practice law and accounting respectively. It would seem that the Act does not apply to trade practices undertaken in such professional platforms.

The second exception has similar definitional problems. The Act does not define or attempt to explain what the phrase 'exclusive or preferential trading privileges' connotes. In the United States courts have stressed the point that a patent though having many of the legal attributes of property, is at the same time a franchise or privilege- a privilege 'conditioned by a public purpose'.[123] In this view the patent is justified by the public interest served

---

121. Chapter 16 of the Laws of Kenya.

122. Chapter 531 of the Laws of Kenya.

123. A.D. Neale, *supra* note 9, 262. Some ancient cases, for example, *Pennock v. Dialogue* (Supreme

by a patent system; the public interest underlies and remains prior to the inventor's interest and does not require or permit the inventor to exercise rights going beyond those strictly related to the protection of the invention against appropriation.[124] It is in this sense that a patent would be construed as a privilege, yet this is not the same as an 'exclusive or preferential trading privilege' for this latter also implies exclusivity in business or enterprise.

The patent does not confer exclusive trading privilege rather it grants exclusive rights to apply the invention in trade whether in manufacture, retail the provision of services or otherwise. It is submitted that exception (a) does not exempt restrictive trade practices and other anticompetitive activities undertaken by holders of patents from coming within the scrutiny of the relevant agencies charged with the enforcement of the provisions of the Act. No case involving patents and competition has so far come before the Monopolies and Price Controls Commissioner for determination.[125]

Court, 1829), also stressed the 'public interest' inherent in the patent grant.

124. *Ibid.*

125. The office is established under section 3 of the Restrictive Trade Practices Monopolies and Price Control Act, Chapter 504 of the Laws of Kenya and the office has the principal function of investigating complaints under section 14. One case involving intellectual property which has come before the Commissioner concerned trademarks in which a company by the name of Zebra Limited advertised in The East African Standard Newspaper that it had exclusive rights to distribute and sell Zebra and Lion brands of safety matches and threatened to sue persons who distributed the branded products. The Commissioner perceived the 'cautionary' notice as contravening section 6(1) of the Restrictive Trade Practices, Monopolies and Price Control Act, Chapter 504 of the Laws of Kenya which prohibits hindering or preventing the sale or supply or purchase of goods or services or buying of goods or services and Zebra Limited were asked to withdraw the notice by advertising the withdrawal through the same media and furnish the Commissioner with evidence of such advertisement. However when Zebra Limited complained of infringement of their trademark they

Similarly, where the patentee licences the employment of the patent in the production of goods and supply of services, the terms of the agreement and the course of conduct followed by the licensee are regulated by the Act.

In the discussion following the various instrumentalities through which the conduct of patentees and/or licensees under the patent are regulated within Kenya's statutory regime will be considered.

3.2 INSTRUMENTALITIES FOR THE REGULATION OF PATENT PRACTICE

3.2.1 COMPULSORY LICENCES

The provisions which address compulsory licences are sections 95-102 of the Industrial Property Act, 1989. Under Section 95, any time after the effluxion of four years from the filing of an application or three years from the grant of a patent, whichever period last expires, or one year after the working of the patented invention has been discontinued, any person may apply for a compulsory license on the grounds: that the patented invention,

---

were advised to lodge a complaint with the Registrar of Trademarks: *Commissioner v. Zebra Ltd,* while capable of being worked in the country, has not been worked[126] ; the degree of working of the patented invention in the country does not meet, on reasonable terms, the demand for the patented product on the domestic market, or for purposes of exportation[127] ; the working of the patented invention in the country is being hindered or prevented by the importation of the patented product;[128] and that by reason of the refusal by the owner of the patent to grant licenses on reasonable terms, the establishment or development of industrial or commercial activities in the country is substantially prejudiced[129], or that products from the patented invention are not being made available to the public at a reasonable price.[130]

It needs to be mentioned that section 72 of The Industrial Property Act, 2001 (hereinafter referred to as "the new Act") which shall commence on notice, seeks to replace this provision with one which allows an application to be made to the Industrial Property Tribunal at any time after four years from the filing date of a patent or three years from the grant of a patent for a licence

---

MPC/RTP, 95.

126. Section 95(1)(a).

127. Section 95(1)(b).

128. Section 95(1)(c).

129. Section 95(1)(d).

130. Section 95(1)(e).

to exploit the patented invention on the grounds that a market for the patented invention is not being supplied on reasonable terms in Kenya.

Nevertheless sub-section (2) provides that such a licence will not be granted if the owner of the patent satisfies the tribunal that circumstances exist which justify the fact that the market for the patented invention is not being supplied, or is not being supplied on reasonable terms.

Further, section 73(1) of the new Act provides that where a patented invention cannot be worked without infringing the rights derived from an earlier patent, the owner of the latter patent may request the tribunal to grant to him a compulsory licence with respect to the earlier patent to the extent necessary for the working of his invention, if the invention constitutes an important technical advance of considerable economic significance.

Unlike the old Act, therefore, the new Act contemplates the grant of compulsory licences in three instances: non- working, insufficient working and interdependence of patents.

Section 97 of the Industrial Property Act, 1989, empowers the Minister to grant compulsory licenses in respect of patented inventions or products which are declared to be of importance for the defense of the country or for the economic development of the nation.

Section 98 of the Act declares that a compulsory licence may not be granted unless the person applying satisfies the Minister that he has asked the patentee for a contractual licence but he has been unable to obtain the same and that he is able to work the invention sufficiently to remedy the deficiency which gave rise to the request.

A licence can be cancelled if the licensee fails to comply with the terms of the license, or the conditions which justified the grant of the licence have ceased to exist.[131]

The foregoing provisions of the Industrial Property Act, 1989 reflect the traditional justification for enforcing working of invention by way of compulsory licensing namely, that in order to promote the industrialization of the country, patents for inventions should not be used merely to block the working of the invention in the country or to monopolize importation of the

131. Section 101 of the Industrial Property Act, 1989.

patented article by the patent owner. They should rather be used to introduce the use of the new technology into the country.[132]

There is a second argument with regard to compulsory licenses which takes a position which is diametrically opposed to the aforesaid traditional thought. In the view of proponents of this second school of thought, compulsory licensing should not be possible as it counters the very rationale for the grant of patent rights, namely to provide incentives to innovate.[133] For this reason industrialized countries that have compulsory licensing schemes subject them to tight conditions.

The new Industrial Property Act adopts a middle ground between the two positions and substantially limits the power of compulsory licensing both in terms of the justification, the duration for which such licences can be given and the circumstances warranting termination.

The TRIPs Agreement similarly adopts a compromise position between the two positions set out hereinabove. In the Agreement, a compulsory licence for non-working or insufficient working must be a non-exclusive licence and

---

132. Quashie-Idun J " International conventions and treaties in the field of industrial property" (1988) 4 No. 1 *Lesotho L.J.* 107, 118.

133. Hoekman, B.M. and Mavroidis, P.C. " Policy externalities and high-tech rivalry: Competition and

can only be transferred together with the part of the enterprise benefiting from the compulsory license. The patent owner must retain the right to grant other nonexclusive licences and to work the invention himself.

Moreover as the compulsory licence has been granted to a particular enterprise on the basis of its known capacities, it is bound to that enterprise and cannot be transferred separately from that enterprise. These limitations are intended to prevent a compulsory licensee obtaining a stronger position in the market than is warranted by the purpose of the compulsory licence, namely to ensure sufficient working of the invention in the country. At the same time, it also seeks to ensure that other interested players in the market have access to or entry points into the market. [134]

Other types of compulsory licences also seek to address excesses of practice of patents. It has been noted before that section 95 of the Industrial Property Act, 1989[135] allows the grant of compulsory licences on the ground that products from the patented invention are not being made available to the public at reasonable prices. It could also be granted for the reason that terms

---

multilateral co-operation beyond the WTO" (1996) 9 *Leiden J. In'l L* 273, 308.

134. Article 31 of the TRIPs Agreement; see also Quashie-Idun, *supra* 106.

135. Industrial Property Act, Chapter 509 of the Laws of Kenya.

of the contractual licences or other restrictions are unreasonable.[136] These are abuses in the practice of patents which are seen to exceed the rights granted by patents.

The compulsory licence is however a drastic measure for it goes against the grain of the patent grant, namely the consent of the patentee in cases relating to the exploitation of the patent.[137] This is particularly in cases where the reason behind the intervention of the public interest is the creation of a competitive market environment.

3.2.2 CONTROL OF MERGERS AND TAKEOVERS

Another mechanism available to the state to enable it to control accumulation of power is the provisions of Part III of the Restrictive Trade Practices, Monopolies and Price Control Act [138] which seek to control mergers and takeovers. In this respect mergers and takeover proposals as defined under the Act [139] are under section 27(2) required to obtain prior

---

136. *Supra.* note 129.
137. Hoekman *et al, supra* note 133.
138. Chapter 504 of the Laws of Kenya.
139 *Ibid*, section 22.

ministerial approval. Accordingly no merger or takeover which has purportedly been carried out in the absence of an authorizing order by the minister shall have any legal effect and no obligations imposed on participating parties by any agreement in respect of the merger or takeover are enforceable.

A patentee who is himself engaged in the exploitation of an invention for commercial purposes or a licensee who exploits the invention under licence from the patentee may merge or takeover another enterprise or other enterprises which could be producing or supplying similar or one or more closely related goods or services, or a current or potential supplier or customer, or other enterprises which produce or supply unrelated goods or services.[140]

In a case of a horizontal merger or takeover involving enterprises involved in the production or supply of similar or closely related goods or services the patentee or licensee's overall position in the market would be strengthened. Similarly, conglomerate mergers or takeovers involving producers or suppliers of other closely related goods or services may increase overall concentration of power in the relevant market. On the other hand vertical

---

140. Vyas, Y. " Anti-monopoly policy and the structure-conduct-performance paradigm: The Kenyan

mergers or takeovers which involve current or potential suppliers or customers may result in the disappearance of independent retail outlets so that competitors of the integrated enterprise are unable to release goods into the market. [141]

Last, when a patentee or licensee acquires or integrates with a supplier of raw materials the result may be to enable the patentee or licensee to obtain sole or preferential access to raw materials.[142] In all cases therefore numerous opportunities for domination in the market by the patentee or licensee exist in the different types of mergers or takeovers.

The provisions of Part III of the Restrictive Trade Practices, Monopolies and Price Control Act however only apply to horizontal mergers and takeovers and not vertical and conglomerate mergers and takeovers. This is because section 27(1) refers to first, ministerial approval in the consummation of a merger between two or more independent enterprises engaged in manufacturing or distributing substantially similar goods or supplying substantially similar services, and second, takeover of one or more enterprises by another such enterprise.

---

approach", (1994)10 No.1 *Eastern Africa Economic Review*, 11, 26.

141. *Ibid*, 27.

142. *Ibid.*

It cannot be disputed that vertical mergers may in certain circumstances eliminate competition so as to have detrimental effects. For example, vertical integration may result in the disappearance of independent retail outlets so that competitors of the integrated firms are unable to release goods into the market. At the same time such integration can enable a patentee or licensee to obtain sole or preferential access to raw material. Clearly therefore this mechanism is limited in application.

3.2.3 PRICE CONTROL

The provisions of Part IV of the Act confer on the Minister the power to fix maximum prices for goods and maximum service charge that may be made for any service in relation to any goods.[143] The minister is also empowered to prohibit any person carrying on any business or gainful occupation from increasing the price of any goods sold by him above the price ordinarily charged for like or similar goods.[144] It is important to note that the powers of the Minister only apply to goods and services produced by monopoly undertakings.[145]

143. Section 35(1)(a).
144. Section 35(1)(b).
145. Section 35(4).

Monopoly undertakings are defined by the Act as either a dominant undertaking or an undertaking which either alone or with not more than two other undertakings either produces, supplies, distributes, or otherwise controls not less than one half of the total goods of any description that are produced, supplied or distributed in Kenya or any substantial part thereof[146] or provides or otherwise controls not less than one-half of the services that are rendered in Kenya or any substantial part thereof.[147]

The use of the word 'or' after dominant undertaking indicates that a monopoly undertaking may either be a dominant undertaking or an undertaking which together with not more than two other independent undertakings produces, supplies or otherwise exercises control as described. It will however be noted that the Act has no definition of what would constitute a dominant undertaking.[148]

The omission by the Act to define what constitutes a dominant undertaking creates uncertainty and also enables enforcement agencies to adopt any one of the alternative criteria to decide whether or not a particular undertaking

146. Section 35(5)(a).
147. Section 35(5)(b).
148. Yash Vyas "Competition Law of Kenya: Imperfections and weaknesses" (manuscript).

falls within the ambit of the description or whether it is an undertaking falling within the alternative limb of what is a monopoly undertaking. This creates further uncertainty.[149]

In cases involving price fixing by patent holders the mechanism of price fixing by the Minister is another option available. But it must be remembered that unless the price charged by a patentee is prohibitory, the power to fix prices is one of the rights which attend to the grant of patents, for otherwise how would a patentee secure returns for resources and time expended in coming up with the invention?

3.2.5 MINISTERIAL ORDER UNDER SECTION 23 OF THE RESTRICTIVE TRADE PRACTICES MONOPOLIES AND PRICE CONTROL ACT.

The mechanism for the control of mergers and takeovers by the state through the Minister has been considered in the previous part. There is however another mechanism which is available to the state in cases which do not involve mergers or takeovers but which nevertheless involve unwarranted accumulation of economic power.

---

149. *Ibid.*

Section 23(2) of the Restrictive Trade Practices, Monopolies and Price Control Act allows the minister to direct the Commissioner of Restrictive Trade Practices to investigate any economic sector in which he has reason to believe that there is unwarranted concentration of economic power.

The Commissioner conducts the investigation and presents his report to the Minister who may make an order directing any person holding such unwarranted concentration of economic power to dispose of such portion of his interests in production or distribution of goods or supply of services as he deems necessary to remove such concentration of power.

The Act provides that unwarranted concentration of economic power is presumed prejudicial to the public interest if the effect is: First, to increase unreasonably the costs relating to production, supply or distribution of goods or provision of services; second, where the effect is to increase unreasonably the price at which goods are sold or the profits derived from production, supply or distribution or performance of any service; and last, where such concentration of economic power has the effect of reducing or limiting competition in production, supply or distribution of any goods or provision of any service, or results in deterioration of the quality of any goods or performance of any services.[150]

3.2.4 RESTRICTIVE TRADE PRACTICES

3.2.4.1 HORIZONTAL AGREEMENTS

These are agreements amongst people at the same level in the cycle of production and distribution of goods or supply of services.

Part II of the Restrictive Trade Practices, Monopolies and Price Control Act sets out provisions relating to restrictive trade practices. How effective are these provisions as an instrumentality for the control of abuse of patent rights?

Section 6(1) (a) provides that an agreement or arrangement between persons engaged in the business of selling goods or services to engage in conduct which hinders or prevents the sale or supply or purchase of goods or services between persons engaged in the selling or buying of goods or services is a restrictive trade agreement.

---

150. Section 23(4).

Section 6(1)(b) provides that an agreement or arrangement between manufacturers, wholesalers or retailers to sell goods at prices or on terms agreed upon between themselves is a restrictive trade practice.

Section 6 (1)(d) stipulates that when manufacturers, wholesalers, retailers or contractors or any combination of persons other than a partnership engaged in the selling of goods or performance of services, agree or arrange to sell goods, or perform services at prices or on terms agreed between the parties to any such agreement or arrangement, this is a restrictive trade practice.

The draftsmanship in section 6 (1)(d) has occasioned confusion and ambiguity with regard to the exact ambit of the provision. First, when the words 'any combination of persons' are read *ejusdem generis* with the preceding words 'manufacturers, or wholesalers or retailers or contractors' it may mean any combinations of persons at the horizontal level of production, distribution or supply. In that case the provision would apply to horizontal agreements and arrangements.

On the other hand when taken literally the words 'any combination' may mean any combination of persons including a combination between manufacturers or wholesalers or retailers *inter se* that is, at the same level of production, distribution or supply or at different levels of production, distribution or supply. In that case section 6(1)(d) would also apply to vertical agreements and arrangements which would include maximum resale price maintenance. Generally, maximum resale price maintenance is not a concern of competition law.[151]

In addition, an agreement or arrangement between manufacturers or between wholesalers to sell goods on the condition that the prices charged by or conditions of sale applicable to retailers shall be the prices or conditions of sale stipulated by those manufacturers or wholesalers, is a restrictive trade practice.[152]

A restrictive trade practice is also constituted by an agreement or arrangement between persons whether as producers, wholesalers, retailers or buyers to limit or restrict the output or supply of any goods, or withhold or destroy supplies of goods or allocate territories or markets for the disposal of goods.[153]

---

151. Vyas, Y. *supra.* note 148.
152. Section 6(1)(e).
153. Section 6(1)(j).

There are other restrictive trade practices which have been set out under arrangements or agreements between persons engaged in the business of selling goods or services in the Act. For our purposes however those that have been set out herein are important and suffice in so far as patent rights are concerned.

Section 6(2) of the Act [154] provides that no agreement or arrangement belonging to a category enumerated in subsection (1) shall be enforceable in legal proceedings and no person shall bring suit against any other person by reason of failure to observe or adhere to the terms of that agreement or arrangement or by reason of damages arising from that failure.

By dint of the provisions of Section 6(2), the practices set out under sub-section (1) do not confer any rights or create liabilities which are enforceable by legal proceedings. It is submitted that subsection 6(2) renders the practices set out in subsection (1) void and unenforceable as contradistinguished from unlawful.

The provisions of section 6(1) (a), 6(1)(b) and 6(1)(d) would by their terms cover price fixing conditions by holders of cross licensed patents in licenses

154. Chapter 504 of the Laws of Kenya.

granted to each other or in licenses granted to third parties under the Rule in *United States v. Line Material Company.*[155]

The facts of the case are that Line Material Company and Southern States Equipment Corporation were both interested in the manufacture of devices known as drop out fuse cutouts, to prevent electric circuits from overloading. The Southern States Company owned a basic patent but the article made under it was not commercially satisfactory. Line Material Company owned a later patent covering an improved version of the basic invention. Since the Line Material patent was subservient to the basic one, neither company could use the advantages of both without a cross-licensing arrangement.

The two companies therefore proceeded to make a cross-licensing agreement whereby Line Material granted Southern a non exclusive royalty free licence under its patent in return for a licence under the southern patent and the exclusive right to issue sub-licences under that patent. Line material prescribed that the prices of products made by Southern under the improvement patent should be "not more favourable to the customer than those established from time to time and followed by Line Company in making its sales".

155. 68 Supreme Court 550.

Line Material then simultaneously licenced ten other companies to make the product and included similar price-conditions in the licences. It is worth noting that the product made under these patents had to meet competition with other devices of the same type; it was estimated that they accounted for only forty percent of all the cut-outs sold by the manufacturers.

The trial court considered that these arrangements were legitimately within the saving power of the "G.E. doctrine".[156] The Supreme Court by a majority of five to three took a different view. Mr Justice Reed stressed the primacy of price-competition as the object of antitrust policy and the importance of limiting any exception to the rule.[157]

The rule in the *Line Material case* is therefore this: that patent holders competing in the same field must not make any price agreement, even when it is a matter of technological necessity for them to be licenced under each other's patent.[158]

---

156. The doctrine states that the owner of a patented invention may charge such price as he may choose, and assign or sell the right to manufacture and sell the invention on the condition that the assignee will charge a certain amount for the invention. The position was affirmed in *United States v. General Electric Company* 272 U.S. 476 (1926).

157. A.D. Neale, *supra* note 9 at p. 267, fn. 2; Justice Reed stated: "...the advantages of competition in opening rewards to management, in encouraging initiative, in giving labor in each industry an opportunity to choose employment conditions and consumers a selection of product and price have been considered to over balance the disadvantages."

158. A.D. Neale, *ibid.*

Variants of *Line Material* such as those found in *New Wrinkle* [159] would also be covered by the terms of the above provisions. In the case two companies had each developed a product which when mixed with paints, enamel or varnishes enabled a hard, wrinkled surface finish to be produced. Each company believed that the other's patents were subservient to its own but rather than fight it out in the courts they agreed to amalgamate their patents. A holding company, New Wrinkle, was formed to hold both sets of patents.

The new company then proceeded to licence the two parent companies to make the product. In the course of time some two hundred other manufacturers were licenced to make the product but all licences contained a minimum price stipulation. The Supreme Court held that the arrangements entailed the fixing of prices and condemned it.

The provisions of the Restrictive Trade Practices, Monopolies and Price Control Act go further and render unenforceable cases which involve

159. *United States v. New Wrinkle,* Supreme Court, 1952; See also A.D. Neale, *ibid,* 268.

arrangements by patentees or licensees to sell goods or perform services on terms which have been agreed.

In the United States, it is not the cross licensing or pooling of patents *per se* which runs afoul of the law, rather the delinquency occurs from the use made of the pooling or cross licensing agreement as a vehicle for exclusionary market sharing, price fixing or other restrictive agreements that go beyond the entitlement of the patent grant.

In *Standard Oil Company (Indiana) v. United States*[160] for example, Mr. Justice Brandeis held that arrangements between holders of patents by which they pooled together patents covering cracking processes for producing petrol and divided royalties among themselves was justified by the rule of reason. This was because non of the licenses imposed any price stipulation or territorial or other restriction: "An interchange of patent rights and a division of the royalties according to the value attributed by the parties is

---

160. *Standard Oil Company (Indiana) v United States*, 221 U.S. 1 (1911).

frequently necessary if technical advancement is not blocked by threatened litigation."[161]

Accordingly the rule of reason would in certain situations justify an agreement involving price fixing or fixing of other terms of sale of patented products and products arising from patented processes where the advantages emanating from the arrangement are open on reasonable terms to all manufacturers willing or desiring to participate.[162]

In Kenya, therefore, and in comparison to the United States, the law does not proscribe horizontal agreements and arrangements, but nevertheless deprives them of enforceability through legal proceedings.

Section 6(1)(i) addresses situations involving the allocation of territories or market for the disposal of goods. In the European Union, an obligation on the licensee not to exploit technology wrought by patents or patented processes in territories reserved for the licensor is *per se* illegal.[163] In Kenya on the other hand such agreements are not unlawful but rather unenforceable by legal proceedings.

---

161. Quoted in A.D.Neale, *supra* at p. 277.
162. *Ibid.*
163. Article 1(3) of Regulation 240/96, *supra* note 51.

The same case applies to an obligation on the licensee not to manufacture or use the product or process in territories reserved for other licensees.[164] The reason for this position in the European Union is that the goal of market integration is paramount within the European Union and any devise that seeks to partition the market is suppressed.[165]

The goal of market integration has no relevance to the Kenyan market. There is therefore no justification for subjecting the partitioning of markets by way of arrangements as contemplated by section 6(1)(i) to the void rule. This encourages extra judicial methods of resolving disputes which is a threat to the rule of law. Clearly a better approach would be to allow for the application of the rule of reason in these circumstances.

3.2.4.2 VERTICAL RESTRAINTS

Vertical restraints, are restrictions arising from agreements between person at different (vertical) levels in the production cycle.

---

164 *Ibid*, Article 1(4).

165. The goal of market integration is the basis of the exhaustion doctrine in the European Union. In *Merck & Co. v. Stephar BV* the European Court of Justice stated that the subject matter of patent rights guaranteed the exclusive right to manufacture and put the patented product on the market for the first time. Once marketing had occurred, the right holder had no right to block the importation and marketing within that market of patented products put on the market of another member state by

It has been noted previously that only a literal interpretation of section 6(1) (d) would enable the provision address vertical agreements or arrangements to sell goods or perform services at prices or on terms agreed upon between manufacturers, wholesalers, retailers or contractors or any combination of persons other than a partnership engaged in the selling of goods or the performance of services who are parties to such an agreement.[166]

It is submitted that construed in this way the provision would include a situation where a patentee by a contractual license restricts terms – both as to price or other condition – which persons at a lower level of the production cycle can sell or otherwise dispose of the products or processes which are the subject of the patent. However, and it will be noted again, under section 6(2) such vertical arrangements cannot be enforced by way of legal proceedings under Kenyan Law.

In the United States as well as in the European Union it is now generally accepted that vertical restraints do not *per se* have anticompetitive effect.

---

or with its consent. (1997) I C.M.L.R. 83.

166. See *supra* pp 82-83.

In the United States the *locus classicus* on the issue is the case of *Continental T.V., Inc. v. GTE Sylvania Inc.* [167]The facts of the case are that prior to 1962, GTE Sylvania, Inc. having slumped to a national market share of only one or two per cent, decided to completely overhaul its product distribution network. After first phasing out its wholesale distributors, Sylvania began selling directly to a smaller, more select group of franchised retailers. In order to attract more competent and aggressive retailers, Sylvania limited the number of franchises within a geographical area and included location restrictions in its franchise agreements. Sylvania retained sole discretion to increase the number of franchises within an area.

When denied permission to open a second store within an area already being served by another franchisee, a disgruntled franchisee, Continental T. V. Inc. filed suit claiming that the vertical location restrictions imposed by Sylvania was a *per se* violation of section 1 of the Sherman Act.

The Supreme Court overruled the *per se* illegal approach to vertical restraints and decreed a "return to the rule of reason that [has previously] governed vertical restrictions".[168] While acknowledging that as a result of vertical restraints intra-brand competition might be stifled or even eliminated

---

167. 433 U.S. 36 (1977).
168. A.D. Neale *supra* note 9 at p. 59.

altogether, the court nevertheless observed that "vertical restrictions promote inter-brand competition by allowing the manufacturer to achieve efficiencies in the distributions of his products".[169] Inter-brand competition, as declared by *Sylvania* is the primary concern of antitrust law.

Justice Powel, who wrote the opinion in *Sylvania* reasoned that since "there had been no showing in [the] case, either generally or with respect to Sylvania's agreements, that vertical restraints have or are likely to have a "pernicious effect an competition" or that they "lack any redeeming virtue" as needed to in order to support a finding of *per se* illegality, then despite the sanctity of *stare decisis*, the previous decision in *Schwinn*[170] must be overruled. The Judge however left open the possibility that regarding some vertical restraints the *per se* rule might be appropriate stating:

> "But we do make clear that departure from the rule of reason standard must be based upon demonstrative economic effect rather than – as in *Schwinn* – upon formalistic line drawing".[171]

---

169. *Ibid.* at p.54.

170. *United States v Arnold Schwinn & Co.* 388 U.S. 365 (1967) which set what was in essence a partial *per se* test- vertical restrictions on down line distributors were *per se* illegal, unless manufacturer retained title, dominion and risk.

171. *Supra* note 167 at p.59.

In the European Union The EU Commission has issued the Green Paper on Vertical Restraints in EU Competition Policy ("the Green Paper") [172]in response to a recognition of the high costs associated with penetrating new markets and the increasing importance of consumer benefit of pre sales and post sales support. The Commission recognised that the potentially competitive effects of vertical contract obligations between producers and distributors cannot be ignored.

Equally apparent however is the fact that "arrangements between producers and distributors can also be used to continue the partitioning of the [EU] market and exclude new entrants who would intensify competition and lead to downward pressure on prices".[173]

The Commission therefore emphasises the importance of evaluating market structure when assessing the impact of vertical restraints. In this regard a distinction must be made between situations in which vertical restraints have an "unambiguously positive effect" and those in which negative ramifications are highly likely.

---

172. *The European Commission Green Paper on Vertical Restraints in EC Competition Policy*, Com (96) 721.

173. *Ibid.* at par. 2.

In Kenya on the contrary the opposite is the case : The assumption is that vertical restraints result in the suppression of competition, otherwise there is no reason why it would be enacted that no rights can accrue or liabilities arise which can be enforced in legal proceedings .

It is submitted that the provisions regarding vertical restraints in the Restrictive Trade Practices Monopolies and Price Control Act[174] when applied to patents impose unnecessary fetters on the rights of a patentee. But what is more, to deprive a patentee of legally recognized machinery for enforcement of accrued rights as the Act does is to encourage recourse to extra judicial methods of enforcing contractual rights.

3.2.5 PREDATORY PRACTICES

Section 10 of the Restrictive Trade Practices Monopolies and Price Control Act provides *inter alia* that a person who, whether as principal or agent and whether by himself or his agent engages in a practice which has the object exclusively or in common with other objectives of driving a competitor out of business or deterring a person from establishing a competitive business in Kenya or any part of Kenya,[175] or which seeks to induce a competitor to sell

174. Chapter 504 of the Laws of Kenya.
175. Section 10(1)(a).

assets to or merge with the offender or other person [176] or which induces a competitor to shut down an existing manufacturing facility or wholesale or retail outlet for the sale of services or to deter a person from establishing any such facility or outlet in any one or more locations in Kenya [177] or which induces a competitor to desist from producing or trading in any goods or services or to deter a person from producing or trading in any goods or services is guilty of an offence.[178] This is the offence of predatory practice.

Subsection (3) sets out a non-exhaustive list of practices which are included in "predatory trade practices". Amongst the listed practices are the threatening of an existing or potential competitor with bodily harm, damage to property or other disadvantages consequences if the competitor undertakes or continues or refuses to agree not to undertake or continue specified lawful trade practice.

In non patent monopolization cases in the United States, the necessary purposive drive which is *sine qua non* to the offence of monopolization is constituted by the way a position of power is built or the manner in which it

---

176. Section 10(1)(b).
177. Section 10(1)(c).
178. Section 10(1)(d).

is exerted. *United States v. Besser Manufacturing*[179] involved the use of threats of infringement suits against any companies which entered the field of manufacture of machines for making concrete blocks.

The Government successfully contended that this action was directed at harassing competition in order to maintain a monopoly rather than to the legitimate protection of the patent. Evidence was tendered that as a result of these threats a number of other firms went out of the industry and made over their patents to the offender. The trial court put it thus:

> " ... all felt the persuasion of the Besser arguments ... Practically all these men got out of their own business, generally impelled by threats of law suits, being given a job, pressure on customers, or all three, and usually Besser picked up their patents with a mortgage on the fruits of their genius for years to come."[180]

In the generality of cases predatory practices are pursued in an endeavour to eliminate existing rivals and to prevent the entry of others into the market. It is in this respect that predatory practice becomes an instrument of monopoly

---

179. See A.D. Neale, *supra* note 9 at p.280.

180. Quoted in A.D. Neale, *ibid.*.

with regard to patent holding. Rivals are unable to venture into or are driven out of the market and as a result substitute products and/or processes of production are not available to consumers. The patentee perpetrates monopolization in that scenario.

It is submitted that the wordings of section 10 of the Restrictive Trade Practices Monopolies and Price Control Act[181] are vide enough to encompass practices which facilitate monopolization by a patentee. It should however be noted that the elimination of a competitor need not be the immediate objective of engaging in predatory practices. The purpose may be to discipline a competitor or constrain a competitor to merge or to induce it to co-operate in some monopolistic scheme such as collusive price fixing.[182]

3.2.5 PROPRIETY OF THE MECHANISMS AS INSTRUMENTS FOR THE CONTROL OF ABUSE OF PATENT POWER.

An examination of the mechanisms set out above shows that the underlying philosophy behind them is administrative expediency and to that extent the exercise of the powers is administrative rather than judicial. Wade explains the distinction in the following manner:

---

181. Chapter 504 of the Laws of Kenya.

182. Section 10(1)(a)-(d).

"A judicial decision is made according to law. An administrative decision is made according to administrative policy. A judge attempts to find what is the correct solution according to legal rules and principles. An administrator attemcccc7hpts to find what is the most expedient and desirable solution in the public interest."[183]

The judge's approach is objective guided by his idea of the law while the administrator's approach is empirical, guided merely by expediency.[184] Even where a body or individual is exercising quasi-judicial powers, the decision is administrative, dictated by policy and expediency but the procedure is subject to the principles of natural justice which require the body or person to act fairly.[185]

The fact that the mechanisms which have been considered are administrative in nature implies that the same lack the objectivity which would otherwise characterize judicial proceedings and limit the decision maker to the parameters which have been laid out by statute as policy guidelines in the process of decision making. In other words the overriding consideration is not the conception of law and the manner in which it applies to the facts, but

183. Wade, W. *Administrative Law*, 6th Ed. Clarendon Press, Oxford (Reprint 1989), 46.
184. *Ibid.*
185. *Ibid.*

rather the public interest encompassed in policy and the manner in which that interest would be safeguarded. How do the provisions demonstrate this contention?

Compulsory licences are governed by sections 95-102 of the old Industrial Property Act.[186] While section 95 provides that applications can be made for the reasons which have been set out therein, nevertheless the provision is silent and therefore not clear with regard to whom the application shall be made. Nor do subsequent provisions cast any light on this issue.

Subsection 3 of the section compounds the situation further. It provides that a compulsory licence shall not be given if the owner of the patent satisfies the High Court that the patent has not been worked because of *force majeure*. It is not clear whether the High Court will in this instance be in the process of considering an application for the grant of a compulsory licence on the ground of non-working or whether it will be considering a challenge of a compulsory licence which has been granted on that ground.

Section 96 on the other hand is explicit in providing that applications for compulsory licences based on interdependence of patents should be made to

186. The Industrial Property Act, 1989 (Chapter 509 of the Laws of Kenya).

the Industrial Property Tribunal. Similarly the provisions that follow give prominence to the role of the Industrial Property Tribunal with section 101 empowering the Tribunal to cancel or vary the terms of compulsory licences. Is it conceivable that the Tribunal would cancel or vary the terms of a compulsory licence granted by the High Court if the Court is the granting authority under section 95?

It is also noteworthy that the Tribunal is under some provisions of the Act made the appellate body from which appeals can be lodged against decisions of the Director and from the Tribunal second appeals lie to the High Court.[187] Under other provisions of the Act the Tribunal exercises original jurisdiction and appeals from the decisions of the Tribunal lie to the High Court.[188]

The exercise of the powers to grant vary or cancel compulsory licences is however not made subject to challenge in the High Court on appeal or otherwise except in two possible instances; that identified in section 95(3)

187. Section 119.

188. *Ibid.*

and under supervisory powers in judicial review which the High Court exercises over public bodies.

With regard to price fixing powers under section 35 of the Restrictive Trade Practices Monopolies and Price Control Act[189] the Act does not make the same subject to supervision by the Courts. It is expressly provided in section 38 of the Act that all orders by the Minister under the price fixing provisions are to be laid before the National Assembly and if a resolution is passed within twenty days of the date on which the Assembly next sits after such order is laid before it that that order be annulled, the order shall be void.

Ministerial orders under section 23 of the Restrictive Trade Practices Monopolies and Price Control Act are under section 25 of the Act subject to appeal to the Restrictive Trade Practices Tribunal and from there to the High Court.

A deliberate legislative philosophy can be discerned in the provisions setting out the instrumentalities which is unfriendly to justiciability of the issues involved. Even where recourse is available in the High Court on appeal or otherwise the extent to which the Court can be objective in determining the

189. Chapter 504 of the Laws of Kenya.

issues is limited, if not altogether non-existent. This is because the Court has to determine the issues raised on appeal within the policy framework which the relevant Act has prescribed and the guidelines which have likewise been set out.

CHAPTER 4

THE INDUSTRIAL PROPERTY ACT, 2001.

4.1 INTRODUCTION

The regime of Kenyan law relating to patents on the one hand, and competition on the other has for a long time been entirely bereft of any recognition of each other. It has been demonstrated in the previous chapter that to apply the provisions of the Restrictive Trade Practices, Monopolies and Price Control Act[190] to patents would negate the essence of patent grants and deprive patents of their content. In the same vein, the old Industrial Property Act, 1989,[191] contains no provisions whatsoever which accords recognition to the fact that patentees may at certain times engage in conduct which constitute unreasonable restraints on competition.

In essence therefore the Kenyan legislative framework has reflected the common confusion approach adverted previously which assumes in one way

190. Chapter 504 of the Laws of Kenya.

191. Chapter 509 of the Laws of Kenya.

or another that the other half of the problem, be it the aspect of patent or competition, does not exist.[192]

Furthermore there have been no guidelines under Kenya's legal framework for reconciling the demands of patent protection and competition. The situation is made worse by the fact that the determination of matters relating to restrictive trade practices under the relevant statute [193] is given to a Monopolies and Price Commissioner who after investigation presents his report to the Minister of Finance.[194] An order made by the Minister is appealable to the Restrictive Trade Practices Tribunal and therefrom to the High Court.[195]

The Restrictive Trade Practices, Monopolies and Price Control Act however does not give much leeway to the Commissioner or other bodies in which to make determinations that would help develop this area of law particularly in view of the fact that few guidelines are set out which give room for interpretation. Furthermore, few appeals, if at all, ever advance to the level of second appeals so as to have the benefit of judicial determination. As a

---

192. . Kaplow, L. "The patent-antitrust intersection: A reappraisal", *supra* note 10.
193. The Restrictive Trade Practices, Monopolies and Price Control Act, Chapter 504 of the Laws of Kenya.
194. *Ibid*, Section 18.
195. *Ibid*, Section 20.

consequence judicial determination of the issues involved and the importance thereof in setting the agenda for competition is lacking.

The enactment of The Industrial Property Act, 2001 into law portends a new era in the recognition that patent issues raise unique problems with regard to competition. Will the Act contribute towards removing the confusion wrought by the existence of the Restrictive Trade Practices Monopolies and Price Control Act? Does the Act offer solutions to the unique problems posed by abuse of patent rights? Are the solutions adequate?

4.2 SOCIO-POLITICAL FACTORS IN THE ENACTMENT OF THE INDUSTRIAL PROPERTY ACT, 2001.

The enactment of the Act can best be understood when considered against the backdrop of the problem of accessibility of essential drugs in developing countries, and the obligations of the said countries under the TRIPs Agreement.

Emerging markets in Africa and elsewhere are dominated by multinational corporations which manufacture anti-retroviral drugs either under licence or by virtue of patents which they hold.

The prices of the said drugs are fixed by the said corporations which do so on the traditional justification that the high prices are necessary to enable them recoup research and development costs. On the other hand it has been argued that the said prices are high and beyond the economic means of most ordinary Africans.[196]

It is also common knowledge that the extent of affliction of the general population in Sub-Saharan Africa by the Acquired Immune Deficiency Syndrome (AIDS) is now on a pandemic scale. The result is that the prices charged by multinational corporations on anti-retroviral drugs have rendered them unavailable to thousands of ordinary Africans and Kenyans in particular. It is for instance estimated that prior to the enactment of the Industrial Property Act, 2001, only 1000 Kenyans could afford taking anti-retroviral drugs.[197] The cheapest anti-retroviral cocktail in Kenya, it is said, cost around 650 Sterling Pounds (about Kshs. 70,000) in one year.[198]

In Kenya the problem is compounded by the fact that the public health sector has virtually collapsed. In addition to the AIDS pandemic, the Kenyan

196. Redfern P. "Kenya to feature in W.T.O. talks", *Daily Nation*, June 19, 2001, 18.
197. *Ibid.*
198. *Ibid.*

population continued to suffer a heavy toll from treatable diseases such as Malaria, Typhoid and respiratory infections. Some estimates suggest that over 70% of the Kenyan population cannot afford the essential medicines they need to combat these life threatening and chronic diseases.[199]

The multinational corporations were reluctant to reduce the prices of retro-viral drugs. Accordingly a solution was sought in the direction of cheap copied, generic drugs. The problem in Kenya however was that the Industrial Property Act, 1989, prohibited *inter alia* the importation or making of any product or the use or doing of any act with the process in respect of which a patent had been granted without the consent of the holder of the patent.[200] Nor could the Kenya Government use the powers of compulsory licensing which were very limited in scope.

The Industrial Property Act, 2001 was enacted as the culmination in Kenya of the larger campaign to have African Governments given the green light to either buy cheap generic drugs or manufacture them.[201]

199. Kimani, D." Property Bill passage a milestone for Kenya" Daily Nation June 15, 2001, 6.
200. Section 36, Chapter 509 of the Laws of Kenya.
201. Kenya Gazette Supplement No.60 (Acts No.2).

The impetus to pass the Act was occasioned by two main factors. First, the fact that the Act contained provisions which would enable the availability of cheap generic substitutes of retroviral drugs to the needy population; and second, the fact that the Act essentially sought to comply with the prescriptions of the TRIPs Agreement. Paragraph 4 of the Memorandum of Objects and Reasons set out in the Industrial Property Bill acknowledges that Kenya is a member of the World Trade Organisation and as such is required to modify its intellectual property legislation to conform to the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPs Agreement").

Amongst the key provisions in the Act are those which allow for parallel importation. It has been noted previously that compulsory licences may be granted where a market for a patented invention is not being adequately supplied on reasonable terms in terms of section 72(1) of the Act. Further, such a licence can also be granted where a patented invention cannot be worked without infringing the rights derived from an earlier patent if the invention constitutes an important technical advance of considerable economic significance in relation to the earlier patent. The latter is what section 73(1) provides.

Nevertheless the Act provides that a compulsory license should not be granted unless the applicant satisfies the Tribunal that he has asked the owner of the patent for a contractual license but has been unable to obtain the same on reasonable terms. The applicant must also satisfy the Tribunal that he can work the relevant invention sufficiently to remedy the deficiencies or to satisfy the requirements which gave rise to his request.[202]

The aforesaid preconditions need not be met however in cases of national emergency or other circumstances of extreme urgency provided that the owner is notified as soon as reasonably practicable.[203]

It must be born in mind that under Article 30 of the TRIPs Agreement, members are allowed to provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with the normal exploitation of the patent and do not unreasonably prejudice the legitimate interest of third parties.

---

202. Section 74(1) of the Act.
203. Section 74(2) of the Act.

Further the Agreement provides that where the law allows for other use[204] including use by the government or third parties authorized by the government, then such use can only be permitted if prior to such use, the proposed user has made efforts to obtain authorization from the rights holder on reasonable commercial terms and conditions and such efforts have been unsuccessful within a reasonable period of time.[205] This requirement may however be waived by a member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non commercial use. In addition such other use must be non-exclusive[206]; authorized predominantly for the supply of the domestic market of the member authorizing such use[207]; and the right holder must be adequately compensated.[208]

It is further provided that authorization of other use shall be liable to be terminated, subject to adequate protection of the legitimate interests of the persons so authorized, if and when the circumstances which led to it cease and are unlikely to recur.[209]

---

204. The notation on "other use" explains that the phrase refers to use other than that allowed under Article 30 of the TRIPs Agreement.

205. Article 31(b) of the TRIPs Agreement.

206. *Ibid*, Article 31(d); the new Act has a similar requirement in section 75(2)(d).

207. *Ibid*, Article 31(f); the new Act contains a provision of similar effect in section 75(2)(b).

208. *Ibid*, Article 31(h); the new Act has a similar requirement in section 75(2)(e).

209. *Ibid*, Article 31(g); section 77(1) of the new Act provides that any interested party may apply to the

Article 30 of the TRIPs Agreement therefore accommodates the prerogative of the state to grant compulsory licences where the circumstances warrant it. As has been noted before, the old Industrial Property Act[210] recognized and granted to the state the power to license the exploitation of patented products and the application of patented processes. Nevertheless the provisions of the Act did not contemplate and therefore provide for exploitation by way of generic or copied products.

The new amendments to the Industrial Property Act have therefore signaled an expanded compulsory licensing regime by which the Government is empowered to license local manufacturers of pharmaceutical products to produce generic substitutes particularly in situations of national emergency or extreme urgency.

The other key provision of the new Act is section 80 which addresses the exploitation of patented inventions by the government or third parties authorized by the Government. The section essentially allows the Government through the concerned Minister, in situations where *inter alia*

Tribunal for a cancellation of the compulsory licence on the grounds *inter alia* that the conditions which justified the grant of the licence have ceased to exist or are unlikely to recur.

210. Chapter 509 of the Laws of Kenya.

the public interest and in particular national security, nutrition, health, environmental conservation, or the development of other vital sectors of the national economy so require, to order that the protected invention shall be exploited by a Government ministry, department, agency or other person as the Minister may designate subject to the payment of adequate compensation to the owner of the patent.

An applicant must in the first instance seek, unsuccessfully, to be granted a contractual licence by the owner of the patent before the Minister can make the order except in situations of national emergency or extreme urgency in which case the Minister is required to communicate the contents to the owner as soon as reasonably practicable.[211]

Section 80 therefore allows a government body such as the Ministry of Health or a licensed private importer to purchase and import cheap medicines regardless of patent rights so that the low prices can be passed on to the patient in cases which warrant such intervention. Licensed drug importers can therefore source generic AIDS and other drugs from countries such as India and Brazil where they are already being manufactured, lowering the costs substantially. It would therefore be possible to provide

211. Section 80(2).

cheap medicines for treatable diseases like Malaria, typhoid and respiratory infections which continue to exact a high toll on the population.[212]

The position before the enactment of the Industrial Property Act, 2001 therefore is that the Kenya Government lacked the legal power and mechanism to reign in multinational corporations with regard to the prohibitory prices charged by them on antiretroviral drugs and in the face of the onslaught of the AIDS pandemic. It was widely accepted that even the powers to control prices set out in Part IV of the Restrictive Trade Practices Monopolies and Price Control Act[213] were in those circumstances not applicable as far as patent rights were concerned. Indeed the Kenyan Minister for Health is reported as recognizing that in seeking to have the leeway to either buy cheap generic drugs or manufacture them, the aim of the Government is "to push the drug companies into creating competition".[214]

But quite apart from the extreme situations when the public interest intervenes under the provisions of the Act, the Act is also the first attempt by

---

212. Kimani, *supra.* note 199.
213. *Supra* note 193.
214. Redfern, *supra* 196.

the legislature to set out principles which should govern the crossover of patents into the realm of competition. What are some of the provisions of the Act which are relevant in this regard?

4.3 THE INDUSTRIAL PROPERTY ACT, 2001 AND COMPETITION

A non exhaustive list of terms which the law considers as unjustified restrictions in contractual licenses are set out in Section 69 of the new Industrial Property Act. The provision characterizes these terms on the basis of their effects.

Thus where a patentee includes a requirement in a contractual licence that a licensee should pay a price or other consideration which is disproportionate to the value of the technology to which the contract relates such a term is unreasonable.[215]

Similarly where the patentee/licensor requires the licensee to acquire any materials from either it or other sources designated by it, or the patentee/ licensor prohibits or otherwise restricts the licensee from acquiring any

215. Section 69(ii).

material from any source or imposes restrictions on the use of any materials which are not supplied by it or by sources identified by it, such restrictions are unjustified unless it is otherwise impossible to ensure the quality of the products to be produced.[216]

A patentee also unduly restricts a contractual license if he provides or demands that the licensee should sell products produced by him under the contract exclusively or to persons designated by him.[217] Similarly the patentee could demand that the licensee make available to it without appropriate consideration any improvement made with respect to the technology to which the contract relates. Such a condition is also unjustifiable under the Industrial Property Act, 2001.[218]

Other situations which are governed by the Industrial Property Act 2001 include those where there are restrictions or prohibitions by the patentee on the export of products produced by the licensee;[219] impositions of restrictions on research or technological development carried out by the licensee to adopt or absorb the technology in connection with new products, processes

---

216. Sections 69 (iii)(iv0 and(v).
217. Section 69(vi).
218. Section 69 (vii).
219. Section 69 (ix).

or equipment;[220] and the use by the licensee of any technology other than that to which the contract relates.[221]

A term of a contractual license in which a patentee fixes prices for the sale or resale of the products produced by the licensee with the help of the technology to which the contract relates would likewise be unjustifiable;[222]

Circumstances may also arise in which a patentee limits or prohibits the use by the licensee of the technology acquired as a result of the contract after it expires [223]; a patentee could also establish a duration of the contract which is unreasonably long in the relation to the economic function of the patent;[224] a related circumstance would be where the patentee imposes confidentiality requirements after the expiry of the license agreement , or unreasonably long periods for secrecy following the commissioning of manufacturing facilities using the licensed technology. [225]

---

220. Section 69(xi).
221. Section 69(xii).
222. Section 69(xiv).
223. Section 69(xvi).
224. Section 69(xviii).
225. Section 69(xxiv).

These circumstances are an abuse of patent rights .A patent right is however not abused where the duration of the contract does not exceed the duration of the patent to which the contract relates.[226]

For purposes of protecting the legitimate interests of the patentee, he is allowed to restrict the licensee with respect to entering into sales, representations or manufacturing agreements relating to similar or competing technologies, otherwise such restrictions also amount to an abuse of patent rights.[227]

The patentee would also not be justified to place restriction on a licensee where the latter makes adaptations of the technology to local conditions or introduces innovations in it on his own and without using the licensor's name except to the extent that the adaptation unsuitably affects the product or the process for their manufacture.[228]

Other situations directly addressed by the Act include, undue limitation of access to technological developments or abuse of domination of a market by way of restrictions on quantities, prices, territories, customers or markets

226. *Ibid.*
227. Section 69(xix).
228. Section 69(xx).

arising out of a patent pool or cross-licensing agreement or other technology transfer interchange agreements[229]; where a patentee imposes restrictions which regulate advertising or publicity by the licensee except where restriction of such publicity may be required to prevent injury to the licensor's good will or reputation[230] and where a term of the contractual license allows the licensor to participate permanently in the management of the licensee's business as a condition for obtaining the technology.[231]

It is worthy of comment that clauses 69 (ii) and (xiv) implicitly recognize the prerogative of the holder of the patent to fix the price for which the invention shall be acquired by a licensee, or sold to third parties by a licensee. The price in every case must however be proportionate to the value of the technology.

This prerogative is akin to that recognized in the United States following the case of Supreme Court in *United States v. General Electric Company.*[232] In the case the Supreme Court appreciated that the owner of a patented invention may as a rule charge such price as he may choose, and assign or

---

229. Section 69(xxii).
230. Section 69(xxiii).
231. Section 69(xxviii).
232. 272 U.S. 476(1926).

sell the right to manufacture and sell the invention on condition that the assignee will charge a certain amount for the invention.

Mr. Justice Taft put it squarely thus:

> "If the patentee … licenses the selling of the article, may be limit the selling by limiting the method of sale and the price? We think he may do so provided that conditions of sale are normally and reasonably adopted to secure pecuniary reward for the patentee's monopoly."[233]

The court went on to observe that one of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold:

> "Yes, you may make and sell articles under my patent but not so as to destroy the profits that I wish to obtain by making them and selling them myself".[234]

Similarly, sections 69(iii), (iv) and (v) of the Industrial Property Act, 2001 contemplate contractual licenses which include terms whose effect is to

---

233. See A.D. Neale, *supra* note 9 at p. 264.
234. *Ibid.*

require the licensee to acquire materials from the licensor or other source designated or approved by the licensor, or prohibit the licensee acquiring or restrict the acquisition by the licensee of materials from any source or prohibit or restrict the licensee from using materials which are not supplied by the licensor or by sources designated or approved by the licensor.

The only situation in which the restrictions are allowed is when the same is necessary to ensure the quality of the products to be used. An example of a case which would probably fall within the situations contemplated is the United States' case of *International Salt Company v. United States*.[235] International Salt was the largest producer of salt for commercial use in the United States. The charge was that International Salt had leases for two patented machines, one for dissolving rock salt into a brine used in various industrial processes, the other for injecting salt into canned products during the canning process which required the lessees to purchase from them all the salt used in operating the machines.

The defence claimed that the machines ran properly only on salt of high standard, so that it was reasonable to insist that their own salt should be used. The argument was rejected by Mr. Justice Jackson who stated:

235. Supreme Court, 1947; 332 U.S. 392.

> "But it is not pleaded, nor is it argued, that the machine is allergic to salt of equal quality produced by anyone except International. If others cannot produce salt equal to reasonable specifications for machine use it is one thing; but it is admitted that, at times at least, competitors do offer such a product. They are, however, shut out of the market by a provision that limits it, not in terms of quality, but in terms of a particular vendor."[236]

International Salt was accordingly found to have engaged in a restriction of trade by insisting on the use of their own salt for which the patents afforded no immunity from competition laws.

On the whole the provisions of section 69 accord the Managing Director of the Kenya Industrial Property Institute the leeway to assess the effects of the individual terms of a licence contract on the basis of a rule of reason test. It must however be noted that the Managing Director's role is restricted only to the stage of licensing where he can refuse to register a licence contract which has the abovementioned conditions. His role does not extend to the actual activities which the licensee undertakes in exploiting the patent after a

236. Quoted in Thompson, G.C. and Brady G.P. *Antitrust Fundamentals*, California, Wadsworth P.C. 92; see also A.D. Neale, supra note 9 at pp. 288-289.

licence contract has been registered. The latter stage would, it is submitted, fall within the jurisdiction of the Prices and Monopolies Commissioner.

The Industrial Property Act, 2001[237] falls short of enacting a dynamic regime which would enable an objective determination of competition issues arising in the course of the exercise or purported exercise of patent rights. It is particularly noteworthy that with regard to abuse of patent rights and the refusal of the Managing Director of the Kenya Industrial Property Institute to register a licence which in his opinion contains a clause which imposes an unjustified restriction on a licensee, the Act allows for an appeal to the Industrial Property Tribunal.[238] No provisions exist for a further appeal to the High Court. Similarly the Act does not contain any provision for an appeal to any court from any decision by the Tribunal in granting, varying or canceling a compulsory licence.

It seems clear therefore that the provisions of the new Act suffers from the same shortcomings which characterize the instrumentalities which were considered earlier. A reading of its provisions discloses a deliberate effort made towards preventing recourse to judicial proceedings. This situation it is

---

237. Kenya Gazette Supplement No. 60 (Act No. 2).
238. Section 71.

submitted will further stultify the development of dynamic principles in solving problems relating to abuse of patent rights.

CHAPTER 5

CONCLUSIONS AND PROPOSALS FOR REFORM

The TRIPs Agreement does not set out any comprehensive standards by which patent/ competition issues can be addressed. This matter is left essentially within the residual jurisdiction of member states. Accordingly there is a need in each state party for the establishment of a dynamic set of principles which would adequately address the various complex problems and circumstances which are occasioned by the interaction between patent rights and competition issues. Kenya is no exception.

Kenya's legislative regime which addresses patent and competition issues is in a state of utter uncertainty. On the one hand patents are governed by the Industrial Property Act[239] which also has provisions which to a certain extent address competition issues. On the other hand competition issues are governed by the Restrictive Trade Practices, Monopolies and Price Control Act.[240] It is not at all certain whether the latter Act governs patents particularly because it makes no reference at all to patents and does not

239. Chapter 509 of the Laws of Kenya enacted in 1989 which is to be replaced by Act No.2 of 2001.
240. Chapter 504 of the Laws of Kenya.

except them from the application of its provisions. The ambit of the latter Act in this respect needs to be clarified to foster certainty in the market.

There are several mechanisms which are available in the aforesaid two statutes by which public interest in competition can be brought to bear on the market. Examples include the provisions requiring prior ministerial approval before any merger or takeover, the provisions relating to price control and provisions relating to compulsory licensing.

These instruments are however limited in applicability and scope and more particularly in view of the fact that the same involve the exercise of what would appear to be administrative rather than judicial powers. To that extent, their legitimacy in the market is questionable more particularly as they are also subject to political influences. Accordingly these mechanisms are hardly ever applied. The development of a dynamic set of principles of competition law would appear to be the best solution in addressing the peculiar demands of this area of law. This *a fortiori* calls for a functional role for judges in interpretation of the law and dispute settlement

The Restrictive Trade Practices, Monopolies and Price Control Act condemns wholesale among other practices horizontal and vertical agreements which, restrict the sale, supply or purchase of goods or services and the terms and conditions of sale, supply or purchase of goods or services.

Kenya's legislative regime should recognize the imperative of the rule of reason as a dynamic tool for the assessment of the impact of trade practices on the market. The rule was explained in *Continental T.V., Inc. v GTE Sylvania* in these words:

> "Under "the Rule of Reason" the fact finder weighs all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition."[241]

In regard to vertical restraints it needs to be observed that the prevailing approach is to apply the rule to non price restraints. In the United States it was held in *State Oil v. Khan* [242]that there is no economic justification for *per se* invalidation of vertical maximum price fixing. The same Court held however that vertical minimum price fixing continue to be *per se* illegal.

241. *Continental T.V. Inc. v. G.T.E. Sylvania* 433 U.S. 36, 49 (1977).
242. 522 U.S. 3 (1977).

The attempt to outlaw the fixing by the patentee of prices for the sale or resale of the products produced by the licensee with the help of the technology to which the contract relates would appear to be an unnecessary clog on the rights of the patentee. This is because one of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the higher the profit unless it is prohibitory. The rule of reason would certainly be useful to determine whether such a condition in a patent license has objectives which are otherwise consistent with the rights of the patentee.

It is also vital that determinations as to whether a patentee has engaged in anticompetitive practices or not, and whether there is justification or not in such practices, and whether the refusal by the Managing Director to register a licence contract under section 69 of the Industrial Property Act is justified or not should be subject to judicial determination. One gets the impression that section 71 of the Act which provides that an appeal from the decision of the Managing Director lies to the Industrial Property Tribunal is intended to restrictively circumscribe avenues for seeking relief in the courts. It is only through judicial determination that dynamic principles in this area of law can be formulated and subjected to review every so often as circumstances warrant.

The provisions of the Industrial Property Act do not address the issue, or even set out standards for the assessment, of patent practices, apart from clauses in licence contracts, which are anticompetitive and therefore go beyond the rights granted by the patent. As has been suggested previously in this work, it is doubtful whether the provisions of the Restrictive trade Practices, Monopolies and Price Control Act apply in cases involving patents, and even if the same apply, the provisions are so deficient as to be incapable of application in a manner that ensures that the goals of competition *vis-à-vis* patent rights are accomplished.

There is therefore a clear need to rectify this deficiency in Kenyan law and to come up with principles which will govern the interaction between these two areas of law.

Last, section 69 of the Act appears to prescribe subjective standards on the part of the Managing Director in arriving at a decision whether a clause in the licence contract imposes an unjustified restriction on the licensee. It is important that matters relating to competition be determined objectively. Not only would this ensure certainty, but it would also enable a development of clear principles which would apply in situations where patent issues and competition interact.

SELECT BIBLIOGRAPHY

ARTICLES

1. Alai, P. "Free trade or sustainable development ? An analysis of the WTO Appellate body's shift to a more balanced approach to trade liberalization" (1999) 14 *Am. U. Int'l L. Rev.* 1129.

2. Steward, P. T. & Johnson D. S. "The SPS Agreement of the World Trade Organisation and plant pest infestations: A case study of the 1997 Mediterranean fruit fly outbreak in Florida" (1999) 14 Am. *U. Int'l Law Rev.* 1107.

3. Cooper, J. M. "Spirits in the material world: A post – modern approach to United States trade policy" (1999) 14 *Am. U. Int'l Law Rev.* 957.

4. Zikonda, A. R. "Survey of industrial property laws of English speaking Africa: The need for harmonization" (1988) 4 No. 1 *Lesotho Law Journal* 1.

5. Setai, B. P. "The role of patents in economic development" (1988) 4 No. 1 *Lesotho Law Journal* 27.

6. Ntabgoba, J. H. "In search of relevant technology for Africa" (1988) 4 No. 1 *Lesotho Law Journal* 63.

7. Quashie Idun, J. "International conventions and treaties in the field of industrial property"(1988) 4 No. 1 L*esotho Law Journal* 107.

8. Hunter, J. P. "The impact of industrial property laws on the economic development of the SADCC group: An agenda for research" (1988) 4 No. 1 *Lesotho Law Journal* 91.

9. Freeman, H. R. "Reshaping trademark protection in today's global village: Looking beyond GATT's Uruguay Round towards global trade mark harmonization and centralization" (1995) 1 *ILSA J. of Int'l & Comp. L.* 67.

10. Govaere, I. "The impact of intellectual property protection on technology transfer between the European countries and the central and eastern European countries" (1991) 25 No. 1 *Journal of World Trade* 57.

11. Charnovitz, S. "Exploring the environmental exceptions in GATT Article XX " (1991) 25 No. 1 *Journal of World Trade* 37.

12. Hoekman, B. M. & Mavroidis, P.C. "Policy externalities and high -tech rivalry: Competition and multilateral co-operation beyond the WTO" (1996) 9 *Leiden J. Int'l L.* 237.

13. Maskus, K. E. "The role of intellectual property rights in encouraging foreign direct investment and technology transfer" (1998) 9 *Duke Journal of Comparative and International Law* 109.

14. Agreement on Trade - Related Aspects of Intellectual Property Rights, Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, April 15, 1994, LEGAL INSTRUMENTS - RESULTS OF THE URUGUAY ROUND VOL. 1 (1994) 33 I. L. M. 1125 (1994).

15. Foster, G. K. "Opposing forces in a revolution in international patent protection: the US and India in the Uruguay Round and its aftermath" (1998) 3 UCLA *J. of Int'l L. & For. Aff.* 283.

16. Lang, J. T. "European Community anti - trust law: Innovation, markets and high technology industries" (1997) 20 *Fordham Int'l L. J.* 717.

17. Reindl, A. "Intellectual property and intra - community trade" (1997) 20 *Fordham Int'l L. J.* 819.

18. Feaver, R. R. "China's copyright law and the TRIPs Agreement" (1996) Vol. 5 No. 2 *J. Transnat'l L. & Pol'y* 431.

19. Fletcher, C. R. "Greening world trade: Reconciling GATT and multilateral environmental agreements within the existing world trade regime" (1996) Vol. 5 No. 2 *J. Transnat'l L. & Pol'y 341.*

20. McNiel, D. E. "The first case under the WTO's Sanitary and Phytosanitary Agreement: The European Union's hormone ban" (1998) 39 *Virg. J. Int'l L.* 89.

21. Faye, A. A. "APEC and the new regionalism: GATT compliance and prescriptions for the WTO" (1996) 28 *Law and Policy in International Business* 175.

22. Marschall, R. H. "Patents, anti-trust, and the WTO/GATT: using TRIPs as a vehicle for anti-trust harmonization" (1997) 28 *Law and Policy in International Business* 1165.

23. Reichman, J. H. and Lange, D. "Bargaining around the TRIPs Agreement: The case for ongoing public - private initiatives to facilitate worldwide intellectual property transactions" (1998) 9 No. 11 *Duke J. Comp. & Int'l L.* 11.

24. United Nations' Conference on Trade and Development (UNCTAD), *The Trips Agreement and Developing Countries*, UN Doc. UNCTAD /Ite /I, UN Sales, No. 96.11.D.10 (1996).

25. World Health Organization (WHO), *Globalization and Access To Drugs – Implications of the WTO/TRIPs Agreement*, WHO/DAP/98.9, Geneva, Switzerland (November 1997).

26. Abbot, F. M. "Protecting First World assets in the Third World : Intellectual property negotiations in the GATT multilateral framework" (1989) 22 *Vand J. Transnat'l* 689.

27. Reichman, J. H. "From free riders to fair followers: Global competition under the TRIPs Agreement" (1997) 29 *N. Y. U. J. Int'l L. & Pol'y* 11.

28. Reichman, J. H. "The TRIPs component of the GATT's Uruguay Round : Competition prospects for intellectual property owners in an integrated world market" (1993) 4 *Fordham Intell. Prop. Media & Ent. L. J.* 171.

29. Fox, E. M. "Trade, competition and intellectual property - TRIPs and its anti-trust counterparts" (1996) 29 *Vand. J. Transnat'l L.* 481.

30. Evans, G. E. "The principle of national treatment and the international protection of industrial property" (1996) 18 *Eur. Intell. Prop. Rev.* 149.

31. Bosselmann, K. "Focus: Plant and politics: The international legal regime concerning biotechnology and biodiversity" (1996) 7 *Colo. J. Int'l Envt'l. L. & Pol'y* 111.

32. Arsic, J. "Combating trade in counterfeit goods: The GATT and EC approaches" (1995) 18 *World Comp. L. & Econ. Rev.* 75.

33. Hamillon, M. A. "The TRIPs Agreement: Imperialistic, outdated and overprotective" (1996) 29 *Vand. J. Transnat'l L.* 613

34. Jaszi, P. A. "Goodbye to all that : A reluctant [and perhaps premature] *adieu* to a constitutionally grounded discourse of public interest in copyright law"(1996) 29 *Vand. J. Transnat'l L.* 595.

35. Mackaay, E. "Legal hybrids : Beyond property and monopoly?" (1994) 94 *Colum. L. Rev.* 2630.

36. Reichman, J. H. "Legal hybrids between the patent and copyright paradigm" (1994) 94 *Column L. Rev.* 2432.

37. Steinberg, R. H. "Great power management of the world trading system: A transatlantic strategy for liberal multilateralism" (1998) 29 *Law and Policy in International Business* 205.

38. Munoz, P. M. "Using American anti-trust to interpret Costa Rican competition law" (1996) 3 *ILSA J. Int'l & Comp. L.* 119.

39. Chang, J. " China's copyright system: Rising to the spirit of TRIPs requires an internal focus and WTO membership" (1998) 21 *Fordham Int'l L. J.* 1941.

40. Getter, P. E. "From patchwork to network : Strategies for international intellectual property in flux" (1998) 9 *Duke Journal of Comparative and International Law* 69.

41. Khansari, A. M. "Searching for the perfect solution: International dispute resolution and the new World Trade Organization" (1996) 20 *Hastings Int'l & Comp. L. Rev.* 183.

42. Nichols, P. M. "GATT doctrine" (1996) 36 *Virg. J. of Int'l Law* Ferrante, A. R. "The dolphin/tuna controversy and environmental issues : Will a World Trade Organization's "Arbitration Court" and the International Court of Justice's Chamber for Environmental Matters assist the United States and the world in furthering environmental goals ?" (1996) 5 No. 2 *J. Transnat'l L. & Pol'y* 279.

43. Palmeter, D. "The WTO Appellate Body's first decision" (1996) 9 *Leiden J. Int'l L. 338.*

44. Golino, D. S. "Moral rights and real obligations : A property - law framework for the protection of authors' moral rights" (1995) 69 *Tulane L. Rev.* 935.

45. Odek, J. O. "Public domain in patentability after the Uruguay Round : A developing country's perspective with specific reference to Kenya" (1995) 4 No. 1 *Tulane J. Int'l & Comp. L.* 15.

46. Jackson, J. H. *Legal Problems of International Economic Relations*, West Publishing Co. Minnesota, 1977.

47. Odek, J. O. "Sub-Saharan Africa and the proposed GATT trade related investment measures regime" Vol. 8 No. 1 *Lesotho L. J. 65.*

48. Bhala, R. "Hegelian reflections on unilateral action in the world trading system" (1997) 15 No. 2 *Berkeley J. Int'l L.* 159.

49. Koul, A. K. *The Legal Framework of UNCTAD in World Trade*, N. M. Tripathi Private Limited, Bombay, 1977.

50. Rishikesh, D. "Extraterritoriality versus sovereignty in international anti-trust jurisdiction" (1991) 14 No. 3. *Journal of World Trade.*

51. Bhala, R. "National security and international trade law: What the GATT says, and what the United States does" (1998) 19 No. 2 *U. of Penn. J. Int'l Econ. L.* 263.

52. Opi S.G. "The approaches of the European Commission and the U.S. antitrust agencies towards exclusivity clauses in licensing agreements" (2000) XXIV No.1, *Boston College Int. & Comp. L. Rev.* 85.

53. Bigger S.M. *et al.* " Intellectual property and antitrust: A comparison of evolution in the European Union and United States" (1992) 2 No. 22 *Hastings Int. & Comp. L. Rev.* 209.

54. Yash Vyas, " Anti-monopoly policy and the structure-conduct-performance paradigm: The Kenyan Approach" (1994)10 No. 1 *Eastern Africa Econ. Rev.* 11.

55. Srividhya, R. "Can't we all get along? The case for a workable patent model" (2003) 35 *Ariz. St. L.J.* 117.

56. Lovett, W.A. "Reflections on the WTO Doha Ministerial: Bargaining challenges and conflicting interests: Implementing the Doha Round" (2002) 17 *Am. U. Int'l L. Rev.* 951.

57. Bhala, R. "Globalization's impact on international trade and intellectual property law challenges of poverty and Islam facing American trade law" (2003) 17 *St. John's J. L.* Comm. 471.

58. Gerhart, P.M. " Reflections on the WTO Ministerial: Slow transformations; the WTO as a distributive organization" (2002) 17 *Am. U. Int'l L. Rev.* 105.

BOOKS

1. Juma, C. and Ojwang, J. B. (eds.), *In Land We Trust: Environment, Private Property and Constitutional Change* Initiatives Publishers, Nairobi, Kenya, 1996.

2. Okoth Ogendo, H. W. O. & Ojwang, J. B. (eds), *A Climate for Development : Climate Change Policy Options for Africa,* ACTS Press, Nairobi, Kenya, 1995.

3. Sasson, A. *Biotechnology and Natural Products: Prospects for Commercial Production*, ACTS Press, Nairobi, Kenya, 1989.

4. Juma, C. *Biological Diversity and Innovation: Conserving and Utilising Genetic Resources in Kenya*, ACTS Press, Nairobi. Kenya, 1989.

5. Juma, C. Torori, C. & Kirima, C. C. M. (eds.), *The Adaptive Economy: Economic Crisis and Technological Innovation*, ACTS Press, Nairobi, Kenya, 1993.

6. Okoth Ogendo, H.W.O. and Tumushabe, G.W. *Governing the Environment, Political Change and Natural Resources Management in Eastern and Southern Africa,* ACTS Press, Nairobi, Kenya, 1999.

7. Juma, C. Mugabe, J. and Mbote, P. K. *Coming to Life: Biotechnology in African Recovery*, ACTS Press, Nairobi, Kenya, 1995.

8. *Biodiplomacy: Genetic Resources and International Relations*, ACTS Press, Nairobi, Kenya, 1994.

9. Nair KRG & Kumar, A. (eds), *Intellectual Property Rights*, Allied Publishers Ltd. New Delhi, 1994.

10. Sanchez V. & Juma C. *Biodiplomacy, Genetic Resources and International Relations*, ACTS Press, Nairobi, 1994.

11. Drahos P. & Braithwaite J. *Information Feudalism*, Earthscan Publications ltd, London, 2002.