Walking the tightrope: delineating the inherent conflict between intellectual property rights and competition law in trademark licensing arrangements

Intellectual property law and competition law share identical underlying aims of incentivising innovation, furthering dynamic competition and ensuring consumer welfare. Nonetheless, both areas of law seek to realise such aims through divergent, and apparently conflicting, means. Underpinned by such objectives, intellectual property law accords rights' holders' exclusive rights over their intellectual property assets and the ensuing right to limit or exclude others from using or largely reproducing those assets. On the other hand, in a bid to ensure such aims, competition law ultimately undermines the extent of such rights by outlawing anti-competitive conduct; including, abuses of dominant positions; and restrictive agreements. The result is an inherent conflict between the exclusive rights accorded under intellectual property laws and, on the other hand, the competition law. This conflict largely comes to the forefront in trademark licensing arrangements, which require particular consideration on the part of rights' holders.

Restrictive agreements and abuses of dominant positions

Article 3 of the Federal Law No. 4/2012 Concerning Regulating Competition ('Competition Law') expressly cites the "exploitation of intellectual property rights in the State and abroad" as something the Competition Law is directly concerned with and governs. Of particular significance in this respect are the restrictive agreement and dominant position provisions under Articles 5 and 6, respectively, of the Competition Law.

Restrictive Agreements are agreements which have as their subject or objective the abuse, restriction or prevention of competition. In accordance with Article 5 of the Competition Law, some of these agreements include, amongst others, agreements involving:

- direct or indirect price fixing;
- setting conditions on the sale and purchase of goods or performance of services;
- colluding to refuse to buy from certain establishments or to sell or supply to certain establishments and to obstruct them from the practice of their activities; and
- market or client allocation based on geographic areas, distribution centers, quality of clients, seasons and time periods or any other basis that may negatively affect competition.

Moreover, under Article 6 of the Competition Law, parties to an agreement or transaction who are in a dominant position in the relevant market concerned, or in a substantial or influential part thereof, are prohibited from carrying out acts constituting an abuse of their dominant position in order to undermine competition. Article 3 of the Cabinet Resolution No. 13 of 2016 on the Ratios and Controls Related to the Application of the Competition Law, defines a dominant position as arising when the share of any of the parties exceeds 40 per cent of the total transactions in the relevant market in question. To this extent, some of the conduct that the Competition Law expressly outlaws, amongst others, are:

- directly or indirectly imposing prices or conditions on the resale of goods and services;
- selling goods or providing services at below cost price with the aim of obstructing the entry of competitive organisations to the relevant market in question, excluding them, or exposing them to losses that make it hard for them to continue their business;
- forcing a client not to deal with a competitive establishment; and
- increasing or decreasing the available quantities of the product, thereby creating a forced deficit or oversupply of the goods in question.

Delineating the inherent conflict in trademark licensing arrangements

The core issue giving rise to this apparent inherent conflict between intellectual property and competition law, is that many of these, otherwise, prohibited practices under the restrictive agreement and abuse of dominant position clauses of the Competition Law are in fact commonly perceived as rights arising from the concept of exclusive intellectual property rights accorded under intellectual property laws. Some of these practices are in fact even expressly provided for under the Federal Law No. 37/1992, as amended by Federal Law No. 8/2002, Concerning Trademarks (‘Trademarks Law’).

Specifically, Article 34 of the Trademarks Law expressly allows for trademark licence agreements to limit the marketing of goods or services, bearing the licensed trademark, to geographical territories. Additionally, Article 34 of the Trademark Law also expressly allows for, amongst others, the licensor to impose an obligation on the licensee relating to quality control of the product or services in question bearing the trademark.

Noting the provisions relating to the Competition Law and save for the applicable exceptions therein, such practices, otherwise allowed for under the Trademarks Law and forming a central part of some trademark licence agreements, do run the risk of being in violation of the Competition Law; particularly, if they have the purpose or effect of undermining competition in the market in question in the UAE. Some examples of problematic provisions commonly found to contravene the Competition Law may include:

- directly or indirectly fixing prices on the sale of goods and services bearing the licensed trademark;
- restricting or limiting the sale or supply of other goods and services not bearing the licensed trademark;
- restricting or limiting the supply of goods or services bearing the licensed trademark to certain

geographical locations or time periods; and
- obliging a licensee not to license, sell, distribute or use other goods or services.

Exceptions

Of course, as abovementioned, many intellectual property licensing arrangements would be exempt from the application of the Competition Law, for multiple reasons; including the following:

- if the parties involved are considered small or medium-sized enterprises, in accordance with Article 4 of Cabinet Resolution No. 22 of 2016 on Unified Definition of Small and Medium Enterprises, which covers enterprises of, depending on the industry in question, up to 199 to 249 employees or enterprises that make up AED200 to AED250 million (approximately, US$54,458,815 to US$68,073,519) in annual revenue; or
- if the licensing arrangement involves certain sectors exempt from the provisions of the Competition Law, under Annex 1 thereof; including, but not limited to, the following sectors: telecommunications, financial, cultural activities, gas and petrol, pharmaceuticals, postal, electricity and water, transport, drainage and sanitation activities and transport; or
- if the arrangement is registered as a commercial agency under Federal Law No. 18 of 1981 Concerning Organizing Trade Agencies, then the arrangement is exempt from the provisions pertaining to restrictive agreements; or
- if the arrangement is deemed a weak-impact agreement, such that the share of the parties to the agreement does not exceed ten per cent of the total transactions of the relevant market in question, then these arrangements, save for directly or indirectly fixing prices and conditions on products or services and dividing markets, are also exempt from the restrictive agreement provisions of the Competition Law.

Moreover, if the arrangement does not fall within such exceptions, then the concerned parties can apply beforehand for an exemption through the Ministry, which may be granted provided it is established that such, otherwise, prohibited practices would result in the enhancement of economic development, improvement in the performance of the parties to the arrangements and their competitive ability, development of production or distribution systems or the realisation of certain benefits to consumers.

Conclusion

The right to limit or exclude others from using or largely reproducing intellectual property assets is central to applicable intellectual property laws alike in the UAE. However, this right is conditional and not absolute. Despite having a shared goal, with the Competition Law, of advancing innovation, dynamic competition and consumer welfare, unbounded intellectual property rights could result in anti-competitive conduct and thereby serve to undermine those very aims they set out to further. As such, trademark licence agreements, and intellectual property licensing arrangements in general, should be scrutinised having regard to the Competition Law, by licensor and licensee alike. In essence, trademark or intellectual property licensing arrangements, should not, in actuality, have the effect of hindering competition in the market in question. Otherwise, the shared common goals emanating from both areas of law would be undermined and such intellectual property licensing arrangements would violate the Competition Law and be exposed to the array of sanctions therein; including, substantial fines of up to AED5 million (approximately US$1,361,470) and closure of business premises for a period of between three to six months.

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