

ACCC ISSUES GUIDANCE ON COMPETITION RISKS IN IP TRANSACTIONS: BEWARE THE INADVERTENT CARTEL

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Legal Briefings - By **Samantha Nadilo, Laura Simonds, Amalia Stone and Patrick Gay**

The ACCC has issued final Guidelines on how Australia's competition laws will apply to intellectual property assignments and licences following the repeal of the 'IP exemption' from prohibitions on anti-competitive conduct which was contained in subsection 51(3) of the Competition and Consumer Act (**CCA**). Following a grace period, from 13 September the IP exemption will cease to apply.

However, certain worked examples remain undeveloped or unrealistic, such that uncertainties remain as to the ACCC's likely approach in particular matters. The Guidelines do helpfully acknowledge and discuss threshold questions including as to when parties to an agreement will be considered to be competitors or likely competitors and the importance of the 'with and without' approach in considering the competitive effect of a licensing agreement.

Where the IP exemption once applied, IP licensing and assignment arrangements will be subject to the same competition laws as other commercial arrangements including in regards to the prohibition on cartel conduct. Arrangements which may now be subject to greater scrutiny include cooperative research and development arrangements, assignments of IP which include restrictions in regards to markets in which goods can be sold and fields of use as well as exclusive or conditional licences.

Industries which rely heavily on IP rights, such as health, pharmaceuticals, biotech, IT, Fintech and telecommunications are most likely to be affected by this change.

Contraventions of Australia's competition law carries significant consequences, including hefty penalties. In part, given legal uncertainty as to the scope of the IP exemption which limited reliance on its terms, the repeal is not expected to impact the majority of IP agreements. Nevertheless, increased risk is likely to result in increased compliance costs, as parties review both current and future arrangements with to ensure competition law compliance.

WHAT DOES THIS MEAN FOR YOU?

There is no "grandfathering" of the current IP exemption - the removal of the IP exemption will apply to new and pre-existing arrangements in place from 13 September 2019.

To the extent that you have not yet considered the possible application of the removal of IP exemption to your arrangements you should do so as a priority and, if necessary, either terminate arrangements or negotiate amendments to ensure compliance. Going forward agreements will need to be more fully considered for potential competition law risks than was previously the case.

WHAT DID THE IP EXEMPTION PROTECT?

Subsection 51(3) provided a limited exemption relating to the licensing of IP rights from certain provisions of the CCA. The exemption applied to:

- a condition in a license granted by the proprietor, licensee or owner of a patent, registered design or copyright, to the extent that the condition related to the matter (eg invention, goods) the subject of the patent, registered design or copyright;
- inclusion in contracts, arrangements or understandings of the authorisation of use of a certification trade mark in accordance with approved rules; and
- inclusion of provisions in contracts, arrangements or understandings in relation to other trade marks (not certification trade marks) between registered proprietors and registered users of the trade marks relating to the kinds, qualities or standards of goods bearing the mark.

From 13 September 2019, to the extent that parties could otherwise have relied on the subsection 51(3) exemption, conduct including involving the licensing of intellectual property rights will be subject to:

- the *per se* prohibition on cartel conduct;
- the prohibition on making or giving effect to a contract, arrangement or understanding, or engaging in a concerted practice, for the purpose, or with the effect or likely effect of substantially lessening competition in a relevant Australian market (section 45); and
- the prohibition on engaging in exclusive dealing conduct for the purpose, or with the effect or likely effect of substantially lessening competition in a relevant Australian market (section 47).

The scope of the IP exemption was limited and its scope uncertain. There was, therefore, some risk in assuming that the 51(3) exemption would apply to any particular IP arrangement. This is because the IP exemption was limited:

- to “conditions” of licences and assignments to the extent that the condition “relates to” the subject matter of the specified IP rights. There was some uncertainty as to when the terms of a licence would be a condition relating to the subject matter for the purpose of the exemption;
- in the sense that the exemption did not provide an exemption to the misuse of market power or resale price maintenance provisions of the CCA ; and
- in that, in respect of conduct relating to trade marks, the extent to which the introduction of the *Trade Marks Act 1995* interacted with the 51(3) exemption was uncertain.

APPROACH TAKEN BY ACCC IN THE GUIDELINES

Conditions attaching to licensed IP are often used as a tool by IP owners seeking to control the use of their IP assets. The Guidelines do not suggest that IP owners cannot control the use of their IP. However they highlight that greater care will be needed to consider the impact of the arrangements, especially where it could be considered that there are motivations beyond the protection of IP or where restrictions may be considered ancillary or collateral to the relevant grant.

CARTEL CONDUCT

As cartel conduct is strictly prohibited and subject to possible criminal or civil proceedings, the possibility of cartel conduct will be of particular concern to licensors of IP.

Most relevantly as it relates to the removal of the IP exemption, the CCA prohibits as cartel conduct competitors or likely competitors from making or giving effect to a contract, arrangement or understanding containing a provision which has:

- the purpose of preventing, restricting or limiting the supply, production or acquisition of goods or services (**Output Restriction**);
- the purpose of allocating (between the parties to the arrangement) customers, suppliers or territories with respect to the supply or acquisition of goods or services (**Market Sharing**); or
- the purpose or effect of fixing, controlling or maintaining prices (**Price Fixing**).

Parties are considered to be 'in competition' with each other for the purposes of the cartel prohibitions if they are, or likely to be, in competition with each other for the supply/acquisition of relevant goods or services, including if they would be in competition but for the provision of an arrangement (eg but for a restriction on supply).

The cartel prohibition only applies as between competitors or likely competitors. As such, a threshold issue will be when should a licensor and licensee be considered to be competitors, which may depend on whether the possibility of competition is contingent on the grant of the licence.

To its credit the Guidelines acknowledge this issue, noting 'it is relevant to consider whether a firm could produce the goods or services, or substitutable good or services, prior to the licencing or assessment of intellectual property rights, or would be likely to do, or obtain the capacity to do so, but for the licence or assignment'. The example provided by the Guidelines, which considers the licensing of textbook copyright, notes the ACCC's position that parties will be considered competitors where they supply substitutable products, even where they cannot supply the particular product in question absent the relevant licence.

The Guidelines also contain worked examples of possible Price Fixing, Output Restrictions and Market Sharing conduct. Of particular interest is the ACCC's example of a collaboration agreement supported by cross-licensing in circumstances where the parties agree that one party will have the right to commercialise the results of the research for a particular field and the other party will have the rights to commercialise the results for another field. Assuming that the competition condition is satisfied, the ACCC notes that, in considering the purpose of a provision, it will consider a variety of factors, including the commercial rationale of the parties.

In this respect the ACCC seems to accept that the form of a restriction does not, necessarily, reveal the purpose of a provision. As such, it should not be assumed that a provision which limits the territories in which a licensee may supply goods would have a market allocation purpose. A broader investigation of relevant circumstances should be required including whether restrictions enhance production and supply which, in turn, may require the consideration of whether, in the absence of the relevant restriction, any licence would be granted.

SECTION 45 AND 47

From 13 September 2019, to the extent that parties could otherwise have relied on the subsection 51(3) exemption, conduct including involving the licensing of intellectual property rights will also be subject to:

- the prohibition on making or giving effect to a contract, arrangement or understanding, or engaging in a concerted practice, for the purpose, or with the effect or likely effect of substantially lessening competition in a relevant Australian market (section 45); and
- the prohibition on engaging in exclusive dealing conduct for the purpose, or with the effect or likely effect of substantially lessening competition in a relevant Australian market (section 47).

In considering whether or not there could be a substantial lessening of competition the ACCC notes that it will apply a 'with or without' test. This may involve the comparison of a situation where there is a licence in place with the relevant licence condition, to the one where there is no licence at all. That is, the Guidelines recognise that the commercial position may be such that the licence may not be offered absent the condition and, accordingly, the grant of a licence subject to conditions will allow for a greater exploitation of IP rights than would occur absent the licence. In such circumstances there should be no substantial lessening of competition.

The Guidelines provide a number of examples which seek to shine light on the likely ACCC approach to IP related issues and the possibility of a substantial lessening of competition. Somewhat surprisingly, in many examples outlined in the Guidelines, the ACCC is of the view that the 51(3) exemption would not have applied in any event and, as such, the law and the ACCC approach is unchanged.

Time restrictions	Conditions that seek to restrain a licensee's behaviour beyond the time scope of the intellectual property rights granted to the licensor are the type of restraint where the ACCC would consider whether there is a substantial lessening of competition. The Guidelines note that, insofar as a restraint extends beyond the term of the IP rights, it was likely collateral to the rights and so not covered by 51(3) in any event..
Grant-back provisions	Conditions that require a licensee to assign or grant an exclusive licence back to the original licensor for any improvements generated through the licensee's exploitation of IP rights will also be assessed as to whether the conduct meets the 'substantial lessening of competition' threshold. Again, the ACCC expresses the view that this conduct would not have been protected by s51(3) in any event as the restraint is collateral to the licence.
No challenge provisions	This would include conditions that prohibit a licensee from challenging the validity of the IP rights that underlie the licence. Again the ACCC has expressed the view that this conduct would not have been protected by s51(3) and would therefore be have always be considered by whether the provision had the effect or likely effect of substantially lessen competition.
Output restrictions	The Guidelines posit an example of an output restriction in circumstances where a firm licenses a patent to the two principal manufacturers operating in Australia. The terms of the licences are different, in that the first licensee agrees to pay the licensor a higher licensing fee on condition that the licensor require the second licensee to abide by more stringent quality requirements. Insofar as the quality requirements may have "related to" the intellectual property rights at issue the 51(3) exemption may have applied to the imposition of the term though not the agreement with the first licensee to impose the term of the second licensee. The ACCC considers that the licensee and licensor are at risk of contravening the prohibition on an agreement that substantially lessens competition (through making an agreement to restrict the output of the other licensee).
Exclusive dealing	The guidelines include a number of exclusive dealing examples. These include: <ul style="list-style-type: none"> • the entering into a long term supply agreement on exclusive terms in the period immediately prior to the expiration of a patent; • the licensing of film rights on condition that prevents the licensor from licensing at film to other distributors in Australia; • the granting of a licence which allows for the production and sale of the market leading smartphone on condition that the licensee acquire necessary plastic components from a specified supplier; and • the granting of a licence to use key trade marks in a limited geographic area in conjunction with a franchise arrangement. Not surprisingly, the Guidelines indicate that the ACCC's consideration of these issues would depend on an assessment of the relevant counterfactual (the application of the 'with and without' test) as well as a detailed consideration of the relevant market in order to consider effects. As such, in the plastic components example, the ACCC concludes that where an agreement prevents other plastic manufacturing firms for competing for the opportunity to manufacture relevant components to the market leader and by consequence thereof to other manufacturers the effect threshold is likely to be met

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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