THE IP RIGHTS EXEMPTION TO THE AUSTRALIAN COMPETITION LAW RULES TO BE REPEALED

A Bill to remove the competition law exemption which currently applies to certain types of transactions involving intellectual property (**IP**) rights is before the Australian Federal Parliament and expected to become law in early 2019. IP owners will need to review their existing IP licensing or assignment arrangements and ensure compliance with the Australian competition laws within six months of the Bill receiving Royal Assent. A compliance review is recommended, in light of some concerns that have been raised about the lack of safeguards against a resulting competition law overreach over legitimate IP licensing or assignment of IP.

Key issues

- The exemption to the Australian competition law rules for IP rights restrictions is likely to be repealed by draft legislation currently before Parliament.
- Concerns have been raised about consequential overreach of competition laws to socially beneficial restrictions in IP licensing or assignment arrangements.
- IP rights owners will have six months from the date the repeal comes into effect to ensure their licensing and other arrangements comply with their new competition law obligations.
- Post-repeal, applying for authorisation will be the only option to protect IP owners from breaching competition law rules in relation to certain common restrictions that were previously protected by the exemption.
- The ACCC has the power to issue a class exemption if certain categories of restrictions are identified as being generally always of a pro-competitive or socially beneficial nature.
- The ACCC will issue guidelines on the application of competition law rules to IP rights restrictions once the repeal is passed.

THE IP EXEMPTION – S51(3) CCA

Section 51(3) of the *Competition and Consumer Act 2010 (Cth)* (**CCA**) provides an exemption from the competition law prohibitions contained in Part IV of the CCA – other than misuse of market power and resale price maintenance – for licences or assignments of IP rights in patent, registered designs, copyright, trademarks and circuit layouts. This means, for example, a trademark owner can restrict the kind or number of goods bearing the trademark which a registered user of the trademark can supply or produce, or a patent owner can restrict a licensee from sub-licensing the patent, without having to consider whether such restrictions could be considered a form or cartel agreement (e.g. market sharing, restricting output), an agreement that has the purpose or effect of 'substantially lessening competition' (**SLC**) or an anti-competitive form of 'exclusive dealing', all of which are prohibited under Part IV of the CCA.

The s51(3) CCA exemption was originally aimed at encouraging innovation by allowing inventors to commercially exploit their IP rights and protect the commercial value of their IP by deciding who and how others are permitted to use their IP. The exemption relates only to restrictions which are sufficiently connected to the relevant IP rights (and will not apply to the overall licence or any conditions in the licence which are not necessary for the protection of the IP rights).

THE PROPOSED REPEAL

The proposed repeal is contained in the *Treasury Laws Amendment (2018 Measures No. 5) Bill 2018* (**Bill**) which was introduced and moved for a second reading in the Senate on 18 October 2018. It simply repeals s51(3) and provides for transitional arrangements. There are no related amendments to any other sections of the CCA (the relevance of this is explained below).

The repeal will apply retrospectively (i.e. to restrictions agreed to prior to the repeal coming into effect and which continue to operate) but IP owners will have six months to review and amend their existing licences and agreements.

BACKGROUND TO THE REPEAL

Repeal of s51(3) CCA had been raised and considered in a number of previous Australian Government policy reviews. These included the National Competition Policy Review in 1993 (**Hilmer Review**) and by the Intellectual Property Competition Review Committee (**Ergas Committee**) in 2000. It was not until the Competition Policy Review of 2014 (**Harper Review**) and Productivity Commission Inquiry into Intellectual Property Arrangements in 2016 (**PC Inquiry**) that the proposal was taken further, culminating in the current Bill before Parliament.

The Harper Review Final Report of March 2015 (**Harper Report**) made a number of recommendations for competition policy reform, one of these being the repeal of section 51(3). It considered the rationale behind s51(3) to be flawed because it assumed that the imposition of conditions in licences and assignments cannot extend the scope of exclusive rights granted to the IP owner and therefore cannot harm competition. The Harper Report considered that in such benign instances, competition would not be affected in any case and therefore the exemption was redundant. However, it also considered that there were many situations in which restrictions in IP licences or assignments could be anti-competitive – such as instances where cross-licensing arrangements are entered into to resolve disputes – and that these should be examinable under competition laws.

The Government deferred its response to this recommendation until the PC Inquiry was completed. In September 2016, the PC Inquiry published its final report which also recommended the repeal of s51(3) but noted that it should be done in conjunction with the broadening of the cartel exceptions so as to exempt vertical licensing or assignment arrangements from the per se cartel provisions.

On 25 August 2017, the Government released its responses to the PC Inquiry Report and supported the recommendation to repeal s51(3), while (apparently, mistakenly, as detailed below) noting that the recommendation to broaden the cartel exceptions to include all types of vertical trading restrictions was "already being implemented".

ARE THERE SUFFICIENT SAFEGUARDS TO PREVENT OVERREACH?

In recommending the repeal of s51(3), the Harper Report referred to a number of safeguards against overreach. The more useful or practical ones have not yet eventuated (and are not likely to eventuate before the repeal comes into effect), leaving the less practical, more burdensome safeguards only. IP

owners will need to consider carefully the need to take up the available safeguards. Competition legal advice should be sought in this regard.

Authorisation or notification

Restrictions in agreements which would otherwise be a breach of the competition rules may be given a specific exemption by the ACCC in response to an application under the authorisation or notification process. This is an exemption granted to agreements which may substantially lessen competition (and thereby be in breach of the competition rules) but have a net public benefit (or are shown not to lead to an SLC for contraventions other than cartel or RPM contraventions). Authorisations and notifications have to be made to the ACCC before the conduct is engaged in. There is no exemption available for conduct which has an SLC effect but also a public benefit which has already been engaged in. The lack of such a retrospective defence is a key differentiating factor of the Australian regime from competition law regimes globally such as in the US and Europe.

Authorisations require the ACCC to actively provide approval before the conduct is exempt. The ACCC has six months in which to consider the authorisation application with the power to extend by another six months. Authorisation applications must be supported by detailed and usually lengthy submissions as to the public benefits (and lack of substantial lessening of competition, if applicable). Notifications are generally a less burdensome process available for conduct that may otherwise breach the exclusive dealing or resale price maintenance prohibitions. A party who has notified the conduct to the ACCC can assume the conduct is exempted unless, and until, the ACCC gives the notifier a notice in writing stating that the ACCC is not satisfied that the conduct has a net public benefit (and/or that there is no SLC, if applicable and for exclusive dealing conduct only).

Broadening of the cartel exception for vertical trading restrictions

In recommending the repeal of s51(3), both the PC Inquiry and Harper Review also recommended a broadening of the cartel exemptions to ensure that generally benign vertical arrangements including vertical IP licensing or assignment arrangements are not caught by the per se cartel provisions. The concern about the potential overreach of the cartel laws to socially beneficial IP arrangements was also raised in 2000 by the Ergas Committee which stated that a simple repeal of s51(3), without more, may lead to an overreach or the need to engage in burdensome administrative review requirements, that could over the longer term reduce innovation and distort competition.[1]

In responding to the PC Inquiry Report and supporting the repeal of s51(3) in August 2017, the Government referred to the recommendation to broaden the vertical trading restriction exemption and stated that these changes were already being implemented. In fact, the relevant cartel exemption recommendation – which was to broaden the vertical trading restriction exemption to cover not just exclusive dealing restrictions but all restrictions on the acquisition or supply of a good or service between a buyer and seller (including IP licensing) – had been dropped from the relevant legislation, the *Competition and Consumer Amendment (Competition Policy Review) Act*

[1] Ergas Committee Report, 2000, p212.

2017, by the Government in March 2017 following concerns raised by the ACCC during the consultation period in late 2016.

This apparent oversight makes it more important that IP rights owners consider arrangements covering their IP rights to ensure they could not fall within the cartel provisions and, if there is a possibility that they could, that they seek authorisation of the conduct.

Block exemptions and ACCC Guidelines

Following the Harper Review, the ACCC has a 'block exemption' power which enables it to exempt whole categories of restrictions where there are easily identifiable categories of restrictions that are generally always pro-competitive (or at least neutrally competitive) or have net public benefits. This is similar to the position in Europe in which the European Commission has used the power to issue a block exemption for certain categories of technology transfer agreements where market shares of the parties are less than 30% (for non-competitors) and 20% (for competitors).

This power was noted by the Harper Review as possibly being particularly useful to clarify the scope of permissible conduct relating to the exercise of IP rights.

It is hoped that once the legislation is in force, the ACCC issues such a block exemption to provide some form of certainty to IP owners.

Additionally, the explanatory memorandum to the Bill provides that the ACCC will issue guidelines on the application of competition law to IP rights, as was recommended by the PC Inquiry.

PENALTIES FOR BREACHING THE COMPETITION LAW RULES

The consequences for not complying with competition law in Australia are significant. Maximum penalties for breaches of the relevant competition laws for each act or omission will be:

- For corporations, the greater of: (i) A$10 million; (ii) three times the value of any benefit that a Court can determine is reasonably attributable to the breach; or (iii) 10% of the annual turnover in the preceding 12 months.
- For individuals, $500,000.

NEXT STEPS FOR IP RIGHTS OWNERS

Especially in light of the potential for overreach of the competition laws once the repeal is effected, IP rights owners should start reviewing their licensing and assignment arrangements to identify any restrictions which could fall within the ambit of the competition laws. It cannot be assumed that the ACCC will issue a block exemption and with no protection from the cartel laws other than for exclusive dealing arrangements between non-competitors, even arrangements that do not have an SLC purpose or effect may attract ACCC attention.

Please contact Clifford Chance for more information or assistance with compliance with your new competition law obligations.

CLIFFORD CHANCE

CONTACTS

Dave Poddar
Partner

T +61 2 8922 8033
E dave.poddar @cliffordchance.com

Elizabeth Hersey
Senior Associate

T +61 2 8922 8025
E elizabeth.hersey @cliffordchance.com

Mark Grime
Senior Associate

T +61 2 8922 8072
E mark.grime @cliffordchance.com

Alice Bradshaw
Associate

T +61 2 8922 8507
E alice.bradshaw @cliffordchance.com

Holly Cao
Associate

T +61 2 8922 8098
E holly.cao @cliffordchance.com

www.cliffordchance.com

Clifford Chance, Level 16, No. 1 O'Connell Street,

Sydney, NSW 2000, Australia