CSIRO Submission 19/668

CSIRO submission in response to ACCC draft guidelines on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth)

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**CSIRO submission in response to ACCC draft guidelines on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth)**

Thank you for the opportunity to provide comments and suggestions in relation to the draft guidelines.

**General comments**

We welcome guidelines from the ACCC on the application of competition law to IP transactions.

A number of sections in the guidelines focus on whether particular conduct would have been exempted under subsection 51(3) of the Competition and Consumer Act 2010 (Cth) (the Act). It is submitted that the question of whether subsection 51(3) would or would not have applied to particular conduct is generally not relevant to the question of how Part IV of the Act will apply to that conduct after the repeal.

Accordingly, we respectfully suggest that the guidelines would benefit from increased clarification that the question of whether or not particular conduct would have been exempted under subsection 51(3) is different to the question of how Part IV of the Act will apply to that conduct after the repeal.

**Cartel conduct**

We consider that example 1 oversimplifies the applicable cartel analysis and potentially describes an incorrect legal conclusion. Specifically, example 1 concludes with the statement that the ACCC considers that the firms’ conduct *is likely to contravene the cartel provisions*. There is no mention of potentially application exceptions to the application of the cartel conduct prohibitions.

In example 1, although the facts state that no express patent licences are granted, it is likely that the conduct involves the grant of implied patent licences or similar rights. This is because if the firms agree to sell equipment in different territories within Australia (in circumstances where each firm’s patent rights have effect throughout Australia), then the agreement not to sue for infringement in respect of sales in particular territories is in effect a licence.

Further, on the facts given, each patent licence could be exclusive for the relevant territories. Subsection 47(13) may be relevant to identifying the scope of a “condition” in the other provisions of section 47.

Accordingly, such licences could potentially constitute exclusive dealing under section 47(4) of the Act, and could therefore potentially be excepted from the application of the cartel conduct prohibitions under the anti‑overlap provision, section 45AR.

Similar observations can be made in relation to section 3.8. In particular, section 3.8 states that “[t]he ACCC considers that the following examples of provisions in contracts, arrangements or understandings between competitors are *likely to be prohibited cartel conduct*:…”*.* This section of the guidelines is not qualified by reference to any of the potentially applicable exceptions to the cartel conduct prohibitions.

**Treatment under section 45 of particular restrictions in IP arrangements**

Section 3.15 of the guidelines provides three examples of categories of provisions in licence agreements which the ACCC considers would never have been exempt under subsection 51(3). After the repeal, the question of whether such conduct contravenes section 45 will depend on the application of the competition test to the conduct. This is not the same test as whether or not subsection 51(3) would have applied.

It is true that provisions which would never have been exempt were subject to section 45 before the repeal, and will continue to be subject to section 45 after the repeal. However, provisions of the type described in the examples (agreements with time restrictions, grant‑back provisions or no challenge provisions) would only contravene section 45 subject to application of the competition test (i.e. whether the conduct has the purpose, effect or likely effect of substantially lessening competition). Accordingly, we respectfully suggest that the clarity of the paragraph could be improved by more clearly distinguishing between the following two different concepts: (i) discussion of whether the conduct would ever have been exempted under subsection 51(3); and (ii) clarifying that whether section 45 applies to the conduct depends on the application of the competition test.

In many instances, licence agreement provisions of the type described in paragraph 3.15 of the guidelines may be carefully structured for legitimate purposes and without anticompetitive effects.

For example, restrictions that extend beyond the duration of a statutory IP right may be appropriate to manage additional rights or interests associated with a licence agreement, for example to manage rights to confidential information treated as licensed know-how, or to manage the reputational or product liability risks of the licensor. Each of these purposes could be potentially relevant to the facts of example 4 in the draft guidelines. Another example of a provision extending beyond the duration of a statutory IP right could be a carefully structured royalty arrangement designed to spread financial risk over a longer period to reduce the risk associated with investing in developing the licensed technology.

Similarly, for example, grant-back provisions may be structured in a variety of ways for legitimate purposes and without lessening the incentive to innovate. Neither the second dotpoint of paragraph 3.15, nor example 5, accounts for different approaches that could be taken to structuring grant-back provisions. For example these examples do not account for the different ways that improvements might be defined (for example whether or not exploitation of the improvement requires a licence to IP, or a right to use confidential information, forming part of the original licence grant) and whether or not a licensee that makes an improvement may license or sub‑license the improvement (depending on whether the licensee’s improvement is assigned or licensed-back to the licensor).

**Example 8 – exclusive licensing**

Example 8 concerns an exclusive copyright licence agreement. We agree that on the facts of example 8, but for the operation of subsection 47(10), firm A’s conduct would constitute the practice of exclusive dealing under subsection 47(4), and that accordingly the competition test in subsection 47(10) needs to be applied to determine whether subsection 47(1) applies. Therefore, we understand the statement in the draft guidelines that, following the repeal, “the ACCC would consider whether Firm A’s conduct would be likely to have the purpose, effect, or likely effect of substantially lessening competition”.

However, the draft guidelines give no indication as to the likely outcome of the competition analysis in relation to the exclusive licence agreement. We are concerned that readers may gain the impression that the ACCC considers exclusive licensing to be generally likely to be anticompetitive. We of course acknowledge that there may be circumstances where exclusive licensing is anticompetitive. However, we respectfully suggest that suitable acknowledgement be provided in the guidelines that exclusive licence arrangements (at least between non‑competitors) are not generally likely to be anticompetitive absent other relevant factors.

For example, the guidelines published by the European competition regulator[[1]](#footnote-1) state the following at paragraph 194:

Exclusive licensing between non-competitors — to the extent that it is caught by Article 101(1) of the Treaty — is likely to fulfil the conditions of Article 101(3). The right to grant an exclusive licence is generally necessary in order to induce the licensee to invest in the licensed technology and to bring the products to market in a timely manner. This is in particular the case where the licensee must make large investments in further developing the licensed technology. To intervene against the exclusivity once the licensee has made a commercial success of the licensed technology would deprive the licensee of the fruits of its success and would be detrimental to competition, the dissemination of technology and innovation. The Commission will therefore only exceptionally intervene against exclusive licensing in agreements between non-competitors, irrespective of the territorial scope of the licence.

Similarly, for example, the “Antitrust Guidelines for the Licensing of Intellectual Property”[[2]](#footnote-2) issued by the U.S. Department of Justice and the Federal Trade Commission, states the following on pages 5-6:

Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible. These various forms of exclusivity can be used to give a licensee an incentive to invest in the commercialization and distribution of products embodying the licensed intellectual property and to develop additional applications for the licensed property. The restrictions may do so, for example, by protecting the licensee against free riding on the licensee’s investments by other licensees or by the licensor. They may also increase the licensor’s incentive to license, for example, by protecting the licensor from competition in the licensor’s own technology in a market niche that it prefers to keep to itself. These benefits of licensing restrictions apply to patent, copyright, and trade secret licenses, and to know-how agreements.

It is acknowledged for completeness that each of the above cited US and European competition regulator guidelines contains significant additional commentary on aspects of the analysis of exclusive licensing in various circumstances.

The author would be pleased to discuss any aspect of this submission, or of the draft guidelines more generally, if that would be of any assistance to the ACCC.

1. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0328(01)&from=EN> [↑](#footnote-ref-1)
2. <https://www.ftc.gov/system/files/documents/public_statements/1049793/ip_guidelines_2017.pdf> [↑](#footnote-ref-2)