Fraunhofer
IIS

Fraunhofer Institute for
Integrated Circuits IIS

Management of the Institute
Prof. Dr. Albert Heuberger (executive)
Dr. Bernhard Grill

Am Wolfsmantel 33
91058 Erlangen, Germany

Stefanie Mielert
Senior Expert Standards, IP and Innovation
Patents and Licensing
Phone + 49 9131 776-6121
Stefanie.mielert@iis.fraunhofer.de
www.iis.fraunhofer.de

Fraunhofer IIS | Am Wolfsmantel 33 | 91058 Erlangen, Germany

Mr Parnos Munyard
Director
Advocacy and Law Reform
Australian Competition and Consumer Commission
GPO Box 3131 Canberra 2601

Erlangen, 19 July 2019

Dear Mr Munyard,

Comments on the draft "Guidelines about the repeal of subsection 51(3) of the Competition and Consumer Act 2010" ("Draft ACCC Guidelines")

We express our thanks for the opportunity to remain engaged in the ongoing consultation and dialogue regarding the Draft ACCC Guidelines.

Fraunhofer is Germany's and Europe's largest industrial research organisation, collaborating across a broad range of sectors and entity types for the benefit of industry and the public. It is active in the fields of communications and ICT, health and environment, mobility and transport, security and protection, and production and services.[i]

Fraunhofer is a developer and holder of all types of intellectual property, including standard essential patents. From these activities, Fraunhofer has participated in many licensing programs developed to implement world-class, global technology solutions to ultimately serve societal benefit and advancement. Fraunhofer also has experience regarding the development of policies and practices pertinent to the broader innovation ecosystems, and the foundational elements supporting these. In this latter regard, Fraunhofer has provided input on a number of government consultations which have taken place regarding the interplay of competition law and intellectual property law[1].

Both as an industrial research partner and in its active pursuit of achieving the strategic goals of government, Fraunhofer is attentive to the legal and policy framework conditions for investment into research, the creation of globally competitive technology, and return on this investment.

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1 For example, the US Department of Justice and Federal Trade Commission's Antitrust Guidelines for the Licensing of Intellectual Property; the Canada Competition Bureau Intellectual Property Enforcement Guidelines; and various calls for comment by the European Commission regarding competition law and intellectual.

We hope that the **attached** comments are of assistance to your consultation process. Fraunhofer welcomes the opportunity to further contribute to this important discussion.

Yours sincerely

Stefanie Mielert
Senior Expert Standards, IP and Innovation

Encl.:
Attachment 1: Comments of the Fraunhofer-Gesellschaft (Fraunhofer) on ACCC´s draft guidelines on the repeal of subsection 51(3) of the CCA

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[i] Fraunhofer undertakes applied research of direct utility to private and public enterprise and of wide benefit to society. With a workforce of over 26,600 and an annual research budget of €2.6 billion, the Fraunhofer-Gesellschaft is Europe's largest organisation for industrial research, and currently operates a total of 72 institutes and research units. Fraunhofer's research focuses on the needs of people in the areas of healthcare, security, communication, mobility, energy and the environment. Fraunhofer's international sites and its representative offices act as a bridge to the regions of greatest importance to scientific progress and economic development. Fraunhofer has a number of cooperations in place with leading Australian research organisations and technology-centric companies (see for example, https://www.fraunhoferventure.de/de/partnerevents/InnoHealthAustralia.html, https://www.item.fraunhofer.de/en/lighthouse-projects/icair-project.html and https://www.processonline.com.au/content/business/news/germany-s-fraunhofer-institute-and-australia-s-imcrc-sign-agreement-1320579308

Comments of the Fraunhofer-Gesellschaft (Fraunhofer)
on ACCC´s draft guidelines on the repeal of subsection 51(3) of the CCA

1. General comments

We commend the Australian Competition & Consumer Commission ("ACCC") for its broad consultation regarding the approach set out in the draft "Guidelines about the repeal of subsection (ss.) 51(3) of the Competition and Consumer Act 2010" ("Draft Guidelines").

Prior to its repeal, ss. 51(3) of the *Competition and Consumer Act 2010* (Cth) ("CCA") provided a limited exemption for conditional licensing or assignments of certain intellectual property (IP) rights (including, patents, registered designs, copyright and eligible circuit layout rights) from being subject to certain anti-competitive conduct prohibitions set out in Part IV of the CCA. We note that misuse of market power and resale price maintenance provisions were not part of ss. 51(3), and are unchanged by virtue of the repeal of ss. 51(3).

On 13 September 2019, the ss. 51(3) exemption will cease to apply. Following its repeal, conduct on and from this date which involves intellectual property rights will be subject to the anti-competitive conduct prohibitions in Part IV of the CCA, in the same manner as all other conducts. This is so, even if the subject arrangements were put in place by contract prior to 13 September 2019.

In its Draft Guidelines, the ACCC provided general guidance directed to intellectual property right holders, legal practitioners and business advisors, and set out its current understanding and interpretation of this area of law.

Rather than relying on the notification or authorisation processes of the ACCC[1], which may result in adding significant burden to those creating intellectual property in terms of time and cost, our below comments suggest that the ACCC expressly acknowledge the nature and social value of IP, and provide further guidance in the areas of:

- Patent Pools;
- Standardisation;
- R&D Agreements;
- Territorial Restraints; and
- No Challenge Obligations.

You will note that our comments reference the approach other competition law authorities around the world have adopted regarding the interplay between competition law and intellectual property (IP) law. Being most familiar with the European laws on competition law, most examples are drawn from this and the application of relevant European Union Guidelines. It is acknowledged that competition law is not 'international'. The examples cited are to highlight types of guidance which could be useful to Australian-created or -exploited IP in a world that is becoming more interactive, comprising new markets and even new trade arrangements. Certainly, each country will adopt guidelines suited to its own jurisdiction, which one might expect to foster what is universally considered the aim of both these areas of law – being to promote economic growth and innovation for the benefit of end-consumers, and more broadly, society.

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1 See https://www.accc.gov.au/update/removal-of-the-ip-exemption-in-s513-of-the-cca

a) Intellectual property rights trigger dynamic competition

Intellectual property rights are at the heart of innovation and are of essence in order to trigger dynamic competition for the market. Intellectual property laws confer exclusive rights on holders of patents, copyright, design rights, trademarks and other legally protected rights. The owner of intellectual property is entitled under intellectual property laws to prevent unauthorised use of its intellectual property and to exploit it, for example, by licensing it to third parties.

Both intellectual property and competition law aim at promoting consumer welfare and at facilitating an efficient allocation of resources. Innovation constitutes an essential and dynamic component of an open and competitive market economy. Intellectual property rights promote dynamic competition by encouraging undertakings to invest in developing new or improved products and processes. So does competition by putting pressure on undertakings to innovate. Therefore, both intellectual property rights and competition are necessary to promote innovation and ensure a competitive exploitation thereof.[2]

The creation of intellectual property rights often entails substantial investment and a certain amount of risk. Preserving dynamic competition and maintaining the incentive to innovate require that innovators not be unduly restricted in the exploitation of their intellectual property rights. For these reasons the innovator should be free to seek appropriate remuneration for successful projects that is sufficient to maintain investment incentives, taking failed projects into account.

Investment in R&D, and the encouragement of international technical cooperation, is considered necessary to ensure the viability of the digital economy in the long term. It is respectfully suggested that the ACCC acknowledge in any ACCC Guidelines, and in the exercise of its enforcement powers, the importance of investments in R&D (an in turn, intellectual property (IP)) as a prerequisite to push technological frontiers and ultimately be of societal benefit and improved quality of life. We note that such an acknowledgement exists in competition law guidelines adopted in other jurisdictions around the world, such as in Europe and the United States of America – thus acknowledging the interplay between innovation, IP, and competition in the market.

The continuing importance of R&D can be illustrated through observing the evolution, over the last 35 years, of the wireless telecommunication standards applied to mobile phones - from 1G technology to 4G. During this period of time, consumers have gradually moved from basic voice call, to text messages, to incorporating rudimentary cameras, until finally enjoying a wide range of technology and apps related to every aspect of daily life, from mobile payments to "Voice over Internet Protocol" ("VoIP") and map-based services. In other words, extensive and multi-disciplinary R&D made the Internet more stable, faster, and functional so that manufacturers of standard-compliant products (i.e.: mobile phones) could improve the quality of products and their related services. A full deployment of the so-called Internet of Things (IoT) requires the successful adoption of 5G, a technical standard which remains a

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2 See European Commission Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, in particular at paras. 6-9, available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0328%2801%29&from=EN (the 'EU Guidelines'). From a US perspective, see the U.S. Department of Justice and the Federal Trade Commission *Antitrust Guidelines for the Licensing of Intellectual Property* (12 January 2017), in particular the General Principles set out on page 2, section 2, available at https://www.ftc.gov/system/files/documents/public_statements/1049793/ip_guidelines_2017.pdf.

work-in-progress, and which implies the adoption of a number of patented technologies owned by different companies.[3]

b) Intellectual property rights are protected by international treaties

There are fundamental rights attaching to intellectual property and the operation of a business which are safeguarded by international treaties and conventions, cascading through to regional and national laws and other instruments. This is acknowledged, for example, in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and[4] under the Charter of Fundamental Rights of the European Union (EU Charter)[5], which in turn is safeguarded at constitutional level in several jurisdictions of countries which are Member States of the EU (for example, Article 14 of the German Constitution). The preamble to the EU Guidelines[6] on the application of Article 101 TFEU to technology transfer agreements also acknowledges this.

It is further noted that in the European Union, Directive 2004/48/EC on the enforcement of intellectual property rights explicitly "respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union. In particular, this Directive seeks to ensure full respect for intellectual property, in accordance with Article 17(2) of th[e] Charter".[7]

Fraunhofer considers that this view of intellectual property rights as fundamental rights is also consistent with the landmark decision of the CJEU in *Huawei Technologies Co. Ltd v.*

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3 The Internet of Things (IoT) is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these things to connect and exchange data. IoT-related devices rely on the use of standardised technologies (i.e.: Wi-Fi) and on the development of new ones (i.e.: 5G) which will make Internet connections faster and more suitable to such a major breakthrough. For a better understanding of the phenomenon of the "Internet of Things" and of the issues arising from it, see Lexinnova, Internet Of Things: Patent Landscape Analysis; Mckinsey Global Institute, The Internet Of Things: Mapping The Value Behind The Hype (2015); Goldman Sachs Global Investment Research, The Internet Of Things: Making Sense Of The Next Mega-Trend (2014).

4 See https://www.wto.org/english/tratop_e/trips_e/trips_e.htm. TRIPS is the most important multilateral agreement for the globalisation of IP laws, with its stated objective being that '(t)he protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations'. Refer to Article 7 TRIPS, available at https://www.wto.org/english/tratop_e/trips_e/intel2_e.htm.

5 See for example Articles 16 and 17 Charter of Fundamental Rights of the European Union, available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12012P/TXT&from=EN.

6 See European Commission *Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements*, in particular at paragraphs 3, 6, 7-9, and the remainder of Section 2, available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014XC0328%2801%29&from=EN (the 'EU Guidelines').
From a US perspective, see the U.S. Department of Justice and the Federal Trade Commission *Antitrust Guidelines for the Licensing of Intellectual Property* (12 January 2017), in particular the General Principles set out on page 2, section 2, available at https://www.ftc.gov/system/files/documents/public_statements/1049793/ip_guidelines_2017.pdf.

7 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004, Recital 32, OJ 2004 L 157, available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32004L0048R(01)&from=EN

ZTE Corp. and ZTE Deutschland GmbH[8]. In particular the CJEU held that: "the need to enforce intellectual-property rights [is] covered by [...] Directive 2004/48, which – in accordance with Article 17(2) of the [European] Charter [of Fundamental Rights] – provides for a range of legal remedies aimed at ensuring a high level of protection for intellectual-property rights in the internal market, and the right to effective judicial protection guaranteed by Article 47 of the [European] Charter [of Fundamental Rights], comprising various elements, including the right of access to a tribunal.'[9]

In light of the above, it is considered of utmost importance that enforcement of competition law rules always take into account the existing legal framework establishing and protecting IP rights. For this reason, it is considered important that any antitrust investigations against intellectual property-related conduct should always be performed in compliance with the international regulatory framework which protects IP rights and with the awareness that wrongful actions might dissuade future investments in R&D and, in the long term, result in a significant harm for economic growth and the wellbeing of end-consumers and society.

c) Licensing or assignment of intellectual property rights usually encourages competition

As pointed out by the ACCC in sections 2.4 and 2.5 of the Draft Guidelines, intellectual property licensing agreements as such are pro-competitive as they facilitate diffusion of technology by licensor and licensees and generate product market competition. Such agreements will usually improve economic efficiency as they can reduce duplication of research and development, strengthen the incentive for the initial research and development, spur incremental innovation.

The likelihood that such efficiency-enhancing and pro-competitive effects will outweigh any anti-competitive effects due to restrictions contained in technology transfer agreements depends on the degree of market power of the undertakings concerned and, therefore, on the extent to which those undertakings face competition from undertakings owning substitute technologies or undertakings producing substitute products.

Recommendation: it is humbly recommended that the ACCC adopt a general block exemption regulation applicable to technology transfer agreements.

In light of all the efficiencies arising from the existence of the intellectual property legal framework described above and from the licensing of IP rights, it appears that removing the pre-existing exemption from competition law prohibitions of intellectual property-related transactions might result in an increase of uncertainty among the stakeholders not justified by significant antitrust concerns. In turn, this might determine a reduction in the investments in R&D and harm dynamic competition for the market, to the detriment of end-consumers.

It is therefore suggested that the ACCC exercise its power under section 95AA of the CCA to issue a class exemption that specifies that one or more provisions of Part IV CCA do not apply to the kind of conduct set out in the class exemption. This class exemption might go along the same lines of the EU Commission Regulation on the application of Article 101(3) TFEU to categories of technology transfer agreements ("TTBER").[10]

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8 Herein referred to as *Huawei v. ZTE;* Case C-170/13 dated 16 July 2015, available at http://curia.europa.eu/juris/document/document.jsf;jsessionid=9ea7d0f130d56dcb57f245c14a50b55394be437b2660.e34KaxiLc3eQc40LaxqMbN4ObN8Te0?text=&docid=165911&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=129069.

9 See para. 57 of the *Huawei v. ZTE* judgment.

10 Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements (TTBER), available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014R0316&from=EN.

More specifically, the European Commission has issued a block exemption for categories of technology transfer agreements, including IP licensing agreements and IP assignments, subject to market share thresholds and a "black list" of hard-core restrictions.

It is therefore also humbly recommended that the ACCC follow the same path. Such class exemption would contribute to ensure effective protection of competition and to provide adequate legal security for undertakings.

By way of example, under the framework provided by the Commission in its TTBER, technology transfer agreements between competitors are block-exempted where the combined market share accounted for by the parties does not exceed 20 % and the agreements do not contain certain severely anti-competitive restrictions. Technology transfer agreements between non-competitors are block-exempted where the individual market owned by each of the parties does not exceed 30% and the agreements do not contain certain severely anticompetitive restrictions. If the applicable market-share threshold is exceeded, the block exemption should not apply to the agreement for the relevant markets concerned, and a case-by-case assessment would take place.[11]

2. Detailed comments

a) Patent pools

In the Draft Guidelines the ACCC did not provide guidance on how it will apply competition law rules to technology pools.

Technology pools are defined by the European Commission as "arrangements whereby two or more parties assemble a package of technology which is licensed not only to contributors to the pool but also to third parties".[12] Technology pools are highly relevant in relation to licensing negotiations involving standard essential patents – with such patents being of particular importance for the global functioning, interconnectivity and compatibility of communications and Wi-Fi-enabled technologies – in turn underpinning new markets established by virtue of the Internet of Things. In light of the importance of this tool in today´s economy, it is recommended that the ACCC clarify its approach to technology pools under Australian competition law rules.

Patent pools generally allow manufacturers of standard-compliant products to license the relevant IP rights through a one-stop shop, thereby overcoming the need for both licensors and licensees to negotiate multiple agreements. Consequently, patent pools may trigger enormous efficiencies in terms of reduced transaction costs and reduced risk of royalty stacking.[13]

The EU Commission recently noted that:

> *the creation of patent pools or other licensing platforms, within the scope of EU competition law, should be encouraged. They can address many of the SEP licensing challenges by offering better scrutiny on essentiality, more clarity on aggregate licensing fees and one-stop-shop solutions. For IoT industries, and particularly SMEs, newly exposed to SEP licensing disputes, this will bring more clarity to licensing*

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11 TTBER, Recitals 10-13.

12 Communication from the Commission, *Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements*, 2014/C 89/03, para. 244 (TTBER Guidelines), available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52014XC0328(01)&from=EN.

13 TTBER Guidelines, paras. 244-273.

conditions of SEP holders in a specific sector. Measures to encourage the setting up of pools for key standardised technologies should be encouraged, e.g. facilitating access to pool management offers and technical assistance by SDO.[14]

Recommendation: It is humbly recommended that the ACCC (i) acknowledge the pro-competitiveness of patent pools and (ii) provide stakeholders with the criteria used to assess the compliance of patent pools with Australian competition law.

By way of example for what criteria could be considered by the ACCC, the European Commission provided a clear safe harbour by noting that the creation and operation of the pool, including the licensing out, 'generally falls outside Article 101(1) of the Treaty, irrespective of the market position of the parties, if all the following conditions are fulfilled:

(a) participation in the pool creation process is open to all interested technology rights owners;
(b) sufficient safeguards are adopted to ensure that only essential technologies (which therefore necessarily are also complements) are pooled;
(c) sufficient safeguards are adopted to ensure that exchange of sensitive information (such as pricing and output data) is restricted to what is necessary for the creation and operation of the pool;
(d) the pooled technologies are licensed into the pool on a non-exclusive basis;
(e) the pooled technologies are licensed out to all potential licensees on fair, reasonable and non-discriminatory terms;
(f) the parties contributing technology to the pool and the licensees are free to challenge the validity and the essentiality of the pooled technologies, and;
(g) the parties contributing technology to the pool and the licensee remain free to develop competing products and technology.' [15]

b) Standardisation agreements

In the Draft Guidelines the ACCC has not provided guidance on how it will apply competition law rules to standardisation agreements, namely those agreements having as their primary objective 'the definition of technical or quality requirements with which current or future products, production processes, services or methods may comply'.[16] Australia has contributed greatly to the area of global standardisation, with Australia's Commonwealth Scientific and Industrial Research Organisation creating Wi-Fi as the world knows it today, and Standards Australia having an ongoing role representing Australia at various standards bodies around the world (such as at International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), and the International Telecommunication Union (ITU)).

Technical standards created through standardisation generally involve the use of technical solutions covered by intellectual property rights and the adoption of specific IP policies as a manner of self-regulation which imposes limits with regard to the management of IP rights

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14 Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee "Setting out the EU approach to Standard Essential Patents", 29.11.2017 COM(2017) 712 final. Page 7, section 2.3, available at https://ec.europa.eu/docsroom/documents/26583.

15 TTBER Guidelines, para. 261.

16 European Commission, Guidelines on the Applicability of Article 101 of the Treaty on the Functioning of the European Union to Horizontal Co-operation Agreements, paras. 257 ff., 2011 O.J. (C 11/1) ("co-operation agreements guidelines"), available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52011XC0114(04)&from=EN.

reading on the standards, particularly in the context of the negotiations which lead to the licensing agreements.

Standardisation is universally considered an efficient tool that enables interoperability, economies of scale and avoids duplication of R&D, with a consequent reduction of costs and a positive impact on consumer welfare. Interoperability between devices covered by the patents contributed to the standard is very important. This statement may be easily checked, for example, in the ICT sector, where the quality of the performance relies heavily on the interaction between different technologies eventually implemented in base stations, antennas and baseband chips.

The ability of different inventive components to interoperate using the same communication protocol leads to more focused investments, to relevant costs-savings, and ultimately to a more substantial and higher-quality output. This outcome arises also from the fact that firms can focus on niche areas of the production chain (for example, the design of semiconductors), without being constrained to cover the full line of production – from the R&D activity until the manufacture of the end-use product – as often occurred in the past.[17]

Economies of scale occur as a consequence of the higher demand met by manufacturers in consideration of the internationalisation of the market served by the standard. Despite having to compete with more players, interoperability between the devices allows manufacturers to serve wider areas than in the past and to raise the quantity and the quality of the output. This leads to cost-savings and provides companies with the opportunity to use the saved resources as a leverage to compete on a price basis, ultimately benefiting final consumers.

The latter are able to enjoy not only lower prices as a result of the standardization process, but also standard-compliant products of higher quality.

Recommendation: It is humbly recommended that the ACCC (i) acknowledge the pro-competitiveness of standardisation and (ii)) provide stakeholders with the criteria used to assess the compliance of standardisation agreements with Australian competition law.

By way of example for existing guidance available regarding participation in standardisation activities, the European Commission identified certain conditions to be fulfilled for standardization to comply with EU competition law. More specifically, 'where participation in standard-setting is **unrestricted** and the procedure for adopting the standard in question is **transparent**, standardisation agreements which contain **no obligation to comply** with the standard and provide **access to the standard on fair, reasonable and non-discriminatory terms** will normally not restrict competition".[18] Of note, the European Commission emphasised that "in the case of a standard involving IPR, a **clear and balanced IPR policy, adapted to the particular industry** and the needs of the standard-setting organisation in question, increases the likelihood that the implementers of the standard will be granted effective access to the standards elaborated by that standard-setting organisation'.[19]

c) Research and development agreements

In the Draft Guidelines the ACCC has not provided guidance on how it will apply competition law rules to research and development agreements, namely those agreements having as their object 'the research and development of products, technologies or processes up to the

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17 Anne Layne-Farrar, Business Models and the Standard Setting Process (Nov. 12, 2010), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1718065, p. 4

18 Co-operation agreements guidelines, para 280.

19 Co-operation agreements guidelines, para 284.

stage of industrial application, and exploitation of the results, including provisions regarding intellectual property rights'.[20]

It is generally considered that below a certain level of market power the positive effects of research and development agreements will outweigh any negative effects on competition and will result in promoting technical and economic progress if the parties contribute complementary skills, assets or activities to the cooperation.

The joint exploitation of the outcome of joint research and development can take different forms such as manufacture, the exploitation of intellectual property rights that substantially contribute to technical or economic progress, or the marketing of new products. This generally goes to the benefit of end-consumers, who will enjoy new or improved products or services, a quicker launch of those products or services or the reduction of prices brought about by new or improved technologies or processes.[21]

Recommendation: It is humbly recommended that the ACCC (i) acknowledge the pro-competitiveness of research and development agreements and (ii) provide stakeholders with the criteria used to assess their compliance with competition law.

Such guidance might go along the lines of the framework provided by the European Commission, that provides an exemption to research and development agreements between competitors relating to products, technologies or processes for which the use of the results of the research and development is decisive, provided that the combined market share of the parties does not exceed a certain threshold.[22] When the parties involved in the agreement are not competing undertakings, there are less risks for competition and a market share threshold should not be identified.[23] Absence from the agreement of certain identified hardcore restrictions is always a condition for the application of the exemption.[24]

d) Territorial restraints between competitors

At Section 3.8 of its Draft Guidelines, it is understood that the ACCC considers territorial restraints in contracts, arrangements, or understandings between competitors will likely be prohibited cartel conduct. By 'territorial restraints', the ACCC refers to conditions that restrict the territories in which firms can supply goods, including as part of a cross-licensing arrangement.

It is humbly suggested that the ACCC acknowledge that the following cases of market or customers allocation agreed between competitors do not amount to a prohibited cartel conduct, as also concluded by the European Commission in the TTBER and in the TTBER Guidelines:

i. the obligation on the licensor and/or the licensee, in a non-reciprocal agreement, not to produce with the licensed technology rights within the exclusive territory reserved for the other party and/or not to sell, actively and/or passively, into the exclusive territory or to the exclusive customer group reserved for the other party.[25]

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20 Commission Regulation (EU) No 1217/2010 of 14 December 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to certain categories of research and development agreements ("R&D exemption Regulation"), recital 1, available at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32010R1217&from=DE.

21 R&D exemption Regulation, Recital 10.

22 R&D exemption Regulation, Article 4.2.

23 R&D exemption Regulation, Article 4.1.

24 R&D exemption Regulation, Article 5.

25 TTBER, Article 4.1(c)(i).

The purpose of such agreements may be to give the licensor and/or licensee an incentive to invest in and develop the licensed technology. The object of the agreement is therefore not necessarily to share markets.[26]

ii. the restriction, in a non-reciprocal agreement, of active sales by the licensee into the exclusive territory or to the exclusive customer group allocated by the licensor to another licensee provided that the latter was not a competing undertaking of the licensor at the time of the conclusion of its own licence.[27]

By allowing the licensor to grant a licensee, who was not already on the market, protection against active sales by licensees which are competitors of the licensor and which for that reason were already established on the market, such restrictions are likely to induce the licensee to exploit the licensed technology more efficiently. On the other hand, if the licensees were to agree between themselves not to sell actively or passively into certain territories or to certain customer groups, the agreement would amount to a cartel amongst the licensees.[28]

iii. the obligation on the licensee to produce the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products.[29]

These so-called 'captive use restrictions' may be necessary to encourage the dissemination of technology, particularly between competitors, and do not amount to anticompetitive conducts.[30]

iv. the obligation on the licensee, in a non-reciprocal agreement, to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer.[31]

The potential of such agreements to share markets is limited where the licence is granted only for the purpose of supplying a particular customer. In such circumstances it can, in particular, not be assumed that the agreement will cause the licensee to cease exploiting its own technology.[32]

Recommendation: it is respectfully suggested that the ACCC exempt these conducts from the application of Australian competition law through adopting a class exemption or introducing these clarifications in its Draft Guidelines. Such exemption would better reflect the nature of IP – whose scope can be carved up for field of use, and for territory, in order to create best value and also as an incentive to have the IP used in particular markets.

e) Territorial restraints between non-competitors

It is also humbly recommended that the ACCC acknowledge that the following cases of market or customers allocation agreed between non-competitors do not amount to a prohibited cartel conduct, as also concluded by the European Commission in the TTBER and in the TTBER Guidelines:

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26 TTBER Guidelines, para. 107.
27 TTBER, Article 4.1(c)(ii).
28 TTBER Guidelines, para. 110.
29 TTBER, Article 4.1(c)(iii).
30 TTBER Guidelines, para. 111.
31 TTBER, Article 4.1(c)(iv).
32 TTBER Guidelines, para. 112.

i. the restriction of passive sales into an exclusive territory or to an exclusive customer group reserved for the licensor.[33]

It is presumed that up to the market share threshold such restraints, where restrictive of competition, promote pro-competitive dissemination of technology and integration of such technology into the production assets of the licensee.[34]

ii. the obligation to produce the contract products only for its own use provided that the licensee is not restricted in selling the contract products actively and passively as spare parts for its own products.[35]

These so-called "captive use restrictions" may be necessary to encourage the dissemination of technology, particularly between competitors, and do not amount to anticompetitive conducts.[36]

iii. the obligation to produce the contract products only for a particular customer, where the licence was granted in order to create an alternative source of supply for that customer.[37]

The potential of such agreements to share markets is limited where the licence is granted only for the purpose of supplying a particular customer. In such circumstances it can, in particular, not be assumed that the agreement will cause the licensee to cease exploiting its own technology[38]

iv. the restriction of sales to end-users by a licensee operating at the wholesale level of trade.[39]

Such an obligation allows the licensor to assign the licensee to the wholesale distribution function and normally falls outside the scope of competition law prohibitions.[40]

v. the restriction of sales to unauthorised distributors by the members of a selective distribution system.[41]

This exception allows the licensor to impose an obligation on the licensees to form part of a selective distribution system. In that case, however, the licensees should be permitted to sell both actively and passively to end users, without prejudice to the possibility to restrict the licensee to a wholesale function.[42]

Recommendation: it is humbly recommended that the ACCC exempt the fore-mentioned conduct from the application of Australian competition law through adopting a class exemption or introducing these clarifications in its Draft Guidelines.

f) No Challenge obligation

At Section 3.15 of its Draft Guidelines, the ACCC notes that prohibiting a licensee from challenging the validity of the intellectual property rights that underlie the licence ("no

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33 TTBER, Article 4.2(c)(i).
34 TTBER Guidelines, para. 121.
35 TTBER, Article 4.2(c)(ii).
36 TTBER Guidelines, para. 122.
37 TTBER, Article 4.2(c)(iii).
38 TTBER Guidelines, para. 123.
39 TTBER, Article 4.2(c)(iv).
40 TTBER Guidelines, para. 124.
41 TTBER, Article 4.2(c)(v).
42 TTBER Guidelines, para. 125.

challenge" provisions) allows a licensor to gain an advantage that is collateral to the relevant intellectual property rights. The ACCC concluded that "no challenge" provisions should be considered anticompetitive.

Recommendation: it is humbly recommended that the ACCC clarify that when the licensor provides a licensee with an exclusive licence, the licensor should be entitled to terminate the license in the event that the licensee challenges the validity of any of the licensed technology rights.[43]

The rationale for this exception is that when an exclusive licence is granted, the licensor may find itself in a particular situation of dependency, as the licensee will be its only source of income as regards the licensed technology rights if royalties are dependent on production with the licensed technology rights, as may often be an efficient way to structure royalty payments. In this scenario, the incentives for innovation and for licensing out could be undermined if, for example, the licensor were to be locked into an agreement with an exclusive licensee which no longer makes significant efforts to develop, produce and market the product to be produced with the licensed technology rights.[44] In the absence of a right to terminate the agreement upon the licensor, such situation would result in less innovation around the specific contract products concerned by the agreement and in a decline in the value of the licensed IP rights. Ultimately, the licensor would enjoy significantly lower royalties and its reputation would be harmed as a consequence of the reduced attractivity of the contract products in the eyes of customers.

43 TTBER, Article 5.1(b).
44 TTBER Guidelines, para. 139.