Draft guidelines on the repeal of subsection 51(3) of the *Competition and Consumer Act 2010* (Cth)

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Business Law Section

Australian Competition and Consumer Commission

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Executive Summary

1. The Competition and Consumer Committee and the Intellectual Property Committee of the Business Law Section of the Law Council of Australia (**Committees**) welcome the opportunity to comment upon the draft guidelines concerning the repeal of subsection 51(3) of the *Competition and Consumer Act 2010* (Cth) (**CCA**) issued by the Australian Competition and Consumer Commission (**ACCC**) on 21 June 2019 (**Draft Guidelines**).The Draft Guidelines provide an opportunity to guide parties involved in the licensing of intellectual property as they seek to ensure their compliance with the full scope of Part IV of the CCA, in particular:

    (a) their potential exposure to the cartel provisions;

    (b) the operation of the anti-overlap provisions pertaining to exclusive dealing; and

    (c) the ACCC's approach to assessing whether conduct has the purpose, effect or likely effect of substantially lessening competition (**competition test**).

2. Upon analysing the Draft Guidelines, the Committees consider that further guidance on the above issues would be extremely helpful. In addition, the Committees consider that some reframing of the current examples provided in the Draft Guidelines, as well as additional examples, would assist businesses greatly in understanding the full implications of the repeal of subsection 51(3). This submission contains detailed comments and examples for the ACCC's consideration.

3. The Committees are also of the view that the Draft Guidelines highlight several shortcomings in the law as currently drafted. These principally relate to:

    (a) the scope of the existing joint venture defence; and

    (b) the prescriptive requirements of the exclusive dealing provisions, which have the effect of limiting parties' ability to rely on the anti-overlap provisions. As a consequence, for example, certain types of franchise agreements may now be exposed to the cartel provisions, potentially creating significant issues for franchisors operating company-owned businesses.

4. Many of the issues identified in this submission seem inadvertent or appear to reflect the piecemeal implementation of the recommendations of the 2015 Competition Policy Review chaired by Professor Ian Harper (**Harper Review**). They certainly do not reflect the policy considerations which underpin the structure of the CCA's competition provisions. Such issues have the potential to expose pro-competitive or competitively neutral arrangements to *per se* prohibitions thereby chilling certain licensing arrangements or research collaborations. It is also likely to result in significant compliance costs as parties review and perhaps renegotiate agreements which have no prospect of harming competition in order to ensure they do not fall foul of *per se* prohibitions.

5. Pending (or in lieu of) the legislative reforms necessary to correct these issues, the Committees call upon the ACCC to issue *as a matter of priority* targeted class exemptions in relation to:

    (a) vertical supply arrangements involving intellectual property arrangements (including in the context of franchising), pending the full implementation of the Harper Review's recommendation in that regard; and

(b) cooperative research and development arrangements, given the issues identified below in relation to the scope of the joint venture defence.

6. Once these issues have been attended to, the Committees also call upon the ACCC to consider issuing:

   (a) a class exemption in respect of IP licensing arrangements, similar to that adopted in the European Union (**EU**); and

   (b) a revised and updated version of its intellectual property (**IP**) licensing guidelines, as the previous guidelines were issued in 1991 and do not reflect Part IV as currently drafted. While the Draft Guidelines have the capacity to substitute in part for more general licensing guidelines, the issues affecting IP licensing extend well beyond those relating to the repeal of subsection 51(3).

7. The Committees acknowledge that the ACCC may not agree with all matters of legal construction contained within this submission. In such circumstances, the Committees call upon the ACCC to make clear statements outlining its position. The Committees note that, where there are reasonable grounds for disagreement, that in itself creates an inherent uncertainty as to the potential application of the law – such uncertainty inevitably leads to increased compliance costs and may chill competitive conduct. Accordingly, the Committees welcome all moves by the ACCC to clarify its analysis of the legal framework.

8. The Committees thank the ACCC for consideration of their joint submission.

Section A: Introductory comments

9. The Committees appreciate the opportunity to comment on the ACCC's Draft Guidelines.

10. While (as noted below) the Committees consider that there is a strong justification for the issuing of class exemptions in relation to certain conduct involving the licensing of intellectual property, the Committees also acknowledge the benefit in the ACCC providing practical guidance as to the manner in which it considers that the CCA applies to such transactions following the repeal of subsection 51(3). However, the Committees consider that the Draft Guidelines would benefit from the inclusion of more relevant commentary and examples which are specifically tailored to intellectual property arrangements and the provision of practical insights into the way in which the ACCC will likely analyse the application of Part IV to these arrangements.

11. The Committees consider that IP rights holders will be particularly interested to understand matters including:

    (a) the circumstances in which the ACCC considers that a licensee and a licensor will be 'in competition' for the purposes of the cartel laws;

    (b) the application of key exemptions and the anti-overlap provisions to IP arrangements, including the scope of the joint venture exemption and the construction of the exclusive dealing provisions; and

    (c) the factors relevant to the assessment of whether an intellectual property arrangement could have the purpose, effect or likely effect of substantially lessening competition in a market.

12. It would assist if the Draft Guidelines provided additional detail and clarification of these matters, along with relevant and practical examples that address each of these matters. It would also be helpful for the ACCC to provide guidance on any enforcement priorities following the repeal of subsection 51(3). The Committees have set out in Section D below some observations and suggestions regarding each of the examples included in the Draft Guidelines. In addition, the Committees have listed some further examples for which guidance would be appreciated.

13. The Committees consider that the repeal of subsection 51(3), in advance of implementing the Harper Review's recommendation in relation to an exemption for vertical supply arrangements, has created genuine and very practical problems for intellectual property owners and licensees. The Committees note the Competition and Consumer Committee's previous support for the introduction of this reform to the extent that it provided a clear and targeted exemption to cartel conduct.[1]

14. Clear guidelines will assist IP rights holders (and prospective licensees) to understand the risks associated with their proposed conduct or arrangements and adjust accordingly, given it is not often practical to seek notification or authorisation to ensure IP arrangements do not trigger the cartel prohibitions.

15. In addition to issuing guidelines, the Committees consider that there is justification for the ACCC to issue a class exemption in respect of IP licensing arrangements. This has been the approach adopted in the EU.[2]

16. Even if (contrary to the Committees' views) a general IP licensing class exemption is not issued, the Committees consider that there is strong justification for issuing targeted class exemptions in relation to:

    (a) vertical supply arrangements involving intellectual property arrangements (including in the context of franchising), pending the full implementation of the Harper Review's recommendation in that regard; and

    (b) cooperative research and development arrangements, given the issues which are identified below in relation to the drafting of the joint venture exemption.

17. The Committees also call upon the ACCC to issue a revised and updated version of its IP licensing guidelines, as the previous guidelines were issued in 1991 and do not reflect Part IV as currently drafted. While the Draft Guidelines have the capacity to substitute in part for more general licensing guidelines, the issues affecting IP licensing extend well beyond those relating to the repeal of subsection 51(3).

Section B: Important context for the repeal of subsection 51(3)

18. The Harper Review made the following comments in respect of the repeal of the IP licensing exemption in subsection 51(3):

    [T]he Panel considers that the IP licensing exception in subsection 51(3) of the CCA should be repealed.

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[1] Business Law Section, Law Council of Australia, Submission to the Treasury, *Competition Law Amendments: Exposure Draft Consultation* (28 October 2016) <https://www.lawcouncil.asn.au/docs/eae48254-edbc-e611-80d2-005056be66b1/3200_-_Competition_Law_Amendments_Exposure_Draft_Consultation.pdf>.

[2] Annexure A contains a summary of the block exemptions currently in force in the European Union.

…

However, as is the case with other vertical supply arrangements, IP licences should remain exempt from the per se cartel provisions of the CCA insofar as they impose restrictions on goods or services produced through application of the licensed IP. Such IP licences should only contravene the competition law if they have the purpose, effect or likely effect of substantially lessening competition.

…

Additionally, the block exemption power recommended by the Panel (see Recommendation 39) could be used to specify 'safe harbour' licensing restrictions for IP owners.[3]

19. Harper Review identified that section 47 of the CCA does not cover all forms of vertical supply restrictions. It recommended an exemption for trading restrictions imposed by one firm on another in connection with the supply or acquisition of goods or services (subject to a test of whether the conduct has the purpose, effect or likely effect of substantially lessening competition).[4] Indeed, the recommendations to repeal subsection 51(3) were linked to this key reform to vertical supply restrictions and it was accepted that licensing restrictions should not be prohibited *per se* under the cartel prohibitions. This point was reiterated recently by Justice O'Bryan in a speech to a LESANZ conference.[5]

20. Given subsection 51(3) has been repealed without the inclusion in the CCA of the recommended vertical supply restriction exemption, the *per se* cartel laws could potentially apply to a large number of pro-competitive or competitively neutral IP licensing arrangements. This means that Australia now diverges from key jurisdictions in the way in which competition law applies to intellectual property transactions.[6]

21. In the absence of an exemption in Division 1 of the CCA or a relevant class exemption, it would be helpful for the Draft Guidelines to provide detail on the ACCC's priorities and views on the application of the cartel laws to IP licensing arrangements.

Section C: General principles

22. The ACCC acknowledges that the licensing or assignment of IP rights is usually helpful to the competitive process (at paragraph 2.4 of the Draft Guidelines), but that certain licensing or assignments of IP rights have anti-competitive consequences (at paragraph 2.4 of the Draft Guidelines).[7] The Committees support any further acknowledgement by the ACCC of specific restraints or conditions that are commonly

[3] Ian Harper et al, Australian Government, *Competition Policy Review* (Final Report, March 2015) 110 ('*Harper Review*').
[4] Ibid 42.
[5] Justice O'Bryan, 'The Repeal of s 51(3) of the Competition and Consumer Act 2010 (Cth)' (Speech, LESANZ Breakfast Meeting, 10 April 2019) <https://www.fedcourt.gov.au/digital-law-library/judges-speeches/justice-obryan/obryan-j-20190410>.
[6] The Committees also note that while subsection 51(3) has been repealed, there has been no corresponding amendment to subsection 51(1) to remove the references to intellectual property statutes. This means that the treatment of conduct authorised by intellectual property statutes stands in contrast to the treatment of conduct authorised by other (non-intellectual property) statutes. The Committees consider that this should be addressed by legislative amendment.
[7] CCA s 45(8) ('*CCA*').

included in licensing or assignment arrangements and that ordinarily would not result in the licensing agreement having an anti-competitive consequence.

23. As a general observation, the Draft Guidelines appear to address the grant of rights separately from any limitation inherent in the grant. The Committees note that certain provisions of a licence or assignment such as a grant-back may be a key motivator to ensure a licensor's entry into a licensing arrangement is commercially rational. The Committees consider that any assessment of whether a provision of a licence or assignment has or is likely to have the effect of substantially lessening competition in a market is more appropriately assessed in the broader context of the other provisions of the licence agreement and the competitive benefits of this agreement, given that an agreement may not have been entered into absent a particular provision (i.e. on a proper application of the counterfactual analysis).[8]

24. The Draft Guidelines (at paragraph 2.2) correctly indicate that intellectual property rights do not necessarily, of themselves, confer substantial market power on a firm. The Draft Guidelines, at paragraph 2.3, further state that the "CCA does not prohibit a firm from gaining market power or from extending existing market power". The Committees agree. However, it would be helpful for more detailed guidance to be provided as to: (a) market definition in circumstances where IP rights are a key product or service being supplied or acquired; and (b) the circumstances in which holding IP rights could potentially create market power and the types of IP which are most relevant in this regard.

Cartel provisions

When will licensors and licensees be competitors?

25. The Committees consider that it would be helpful for the Draft Guidelines to include more detailed commentary as to the circumstances in which a licensee and licensor will or will not be "in competition" and therefore potentially subject to the cartel provisions in the CCA. Given the widely recognised competitive benefits of these arrangements (which the ACCC notes in paragraphs 2.4 and 2.5 of the Draft Guidelines), in many cases the key concern for market participants will be the application of the *per se* cartel laws.

26. The Committees note that in many intellectual property licensing arrangements the licensor will be supplying a service (the underlying IP licence) but not the goods or service to which the licence relates. In that case, the licensor and licensee will not be competitors for the purposes of the cartel prohibitions.

27. It has been noted by Justice O'Bryan in relation to the "competition condition" that:

> *Difficult questions will arise where the owner of intellectual property exploits the rights to supply goods or services in Australian trade or commerce but, at the time the licence is entered into, the licensee is not a competitor in respect of the supply of those goods or services and is not likely to be a competitor. It is yet to be determined how the cartel prohibitions will apply to licence arrangements between persons who are not competitors at the time the licence is entered into, but have the potential to be competitors by reason of the licence.*[9]

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[8] See, eg, CCA s 45(8).

[9] Justice O'Bryan, 'The Repeal of s 51(3) of the Competition and Consumer Act 2010 (Cth)' (Speech, LESANZ Breakfast Meeting, 10 April 2019).

28. This is a critical threshold issue in the application of the cartel laws to licensing arrangements. The Committee considers that the ACCC should offer guidance as to the circumstances in which a licensor and licensee will be "likely competitors" where such competition is contingent on the grant of a licence.

Clearly distinguishing between purpose and effect

29. The Committees also consider that it would be beneficial for the Draft Guidelines to draw a clearer distinction (and include more detail) in the commentary and the examples between the purpose of a provision and its effect, including more detail on the circumstances in which provisions which may have the effect of restricting outputs or imposing territorial or customer restrictions will likely satisfy the 'purpose' condition. The ACCC identifies at paragraph 3.2 of the Draft Guidelines certain conduct which it considers is cartel conduct, however, it does not distinguish between "purpose" and "effect". The types of provision listed in subsection 45AD(3) are only prohibited if the provision has a proscribed purpose.

30. It would also be helpful for the Draft Guidelines to include detail on the following aspects of the "purpose" analysis under subsection 45AD(3):

    (a) The "purpose" of a provision is understood with reference to the subjective purpose of the parties to the licensing arrangements (although, the objective nature of the provision may provide evidence of subjective purpose).

    (b) Any restriction in an IP licence is inextricably linked to the scope of the grant of the right, as it is the restriction that determines the scope of the grant. Ordinarily, the purpose of a particular provision in a licensing arrangement should be understood with reference to the other provisions of the licensing arrangement.[10] Indeed, the form, rather than the substance, of a licensing arrangement which contains a restriction may not necessarily reflect the purpose of the restriction or the licence more broadly. For example, in a licensing arrangement, the same result can be achieved by including either a grant with a negative obligation (i.e. a restriction) not to operate in a particular territory, or a grant with a positive right to operate in a particular territory. Further, focusing purely on the specific provision that restricts the scope of the grant of a right does not accord with the required approach to assessing the purpose of a provision.[11]

31. Accordingly, to the extent that a licensing arrangement contains, for example, a provision which, in isolation, limits the territories in which the licensee may supply, it will not necessarily have a purpose proscribed by section 45AD(3) (although, this will depend on all the circumstances and the actual purpose of the provision). For example, in respect of common forms of licensing restriction such as field of use restrictions and quality restrictions, the Committees agree with the observation by Justice O'Bryan (speaking extra-curially) that a key question in assessing purpose under subsection 45AD(3) will be whether the purpose is the "purpose of enhancing production and supply or the purpose of restricting or limiting production or supply. That may depend on whether the licensee would otherwise have the right to produce or supply at all".[12]

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[10] See, eg, CCA s 45AD(9).
[11] Ibid s 45AD(11).
[12] Justice O'Bryan, 'The Repeal of s 51(3) of the Competition and Consumer Act 2010 (Cth)' (Speech, LESANZ Breakfast Meeting, 10 April 2019).

32. Indeed, how a provision is framed and thus interpreted may be critical to the analysis. Consider for example the following clause:

Licensor grants Licensee a licence to exploit the Patent in the defined Territory.

33. On its face, such a clause appears to have a purpose of *enabling* production on a limited basis rather than limiting production.

34. The same grant however could be drafted as follows:

1. Licensor grants Licensee a licence to exploit the Patent.

2. The rights granted to the Licensee under this Agreement are limited to the Territory.

35. The Committees are concerned that Clause 2 above could be interpreted by the ACCC as falling within the purpose condition set out in paragraph 45AD(3)(a). Such a reading, however, appears contrary to the legislative intention expressed in subsection 45AD(11).

36. Further, it appears likely – or at least possible – that a permissive construction would be adopted by the Courts so that conduct which does not appear to be cartel conduct in the commonly understood meaning of that expression does not trigger the significant consequences attaching to the cartel provisions. There is a fundamental difference between (on the one hand) competitors agreeing to limit their competitive behaviour in an area where they both can otherwise compete and (on the other) a situation where either or both cannot otherwise compete to the extent of the existence of an IP right. Given that the latter would still subject to the competition test, there is much to be said to ensuing pro-competitive conduct is not caught up in the *per se* provisions, with its attendant transaction costs and potential chilling effect.

Exemptions and carve-outs from the cartel provisions

37. The Draft Guidelines would also benefit from a more detailed explanation of how certain exemptions to cartel conduct apply to IP licensing arrangements. The Draft Guidelines at paragraph 3.9 list the exemptions to the cartel conduct prohibitions. The Committees consider it important that the Draft Guidelines explain the conduct that would allow businesses to rely on the exemptions, including, most relevantly, those exemptions relating to joint ventures (in sections 45AO and 45AP of the CCA) and exclusive dealing (in section 45AR of the CCA). The particular issues raised by the current legislative framework are discussed in further detail below.

Joint venture exception

38. The Committees note that the prescriptive nature of the joint venture defence contained in sections 45AO and 45AP means that it may be unsuited to collaborative arrangements involving intellectual property. For example, a research collaboration for the purposes of developing technology (such as a diagnostic test or method of treatment) may not fall within the exception, as it may not relate to the "production of goods" (as required by subparagraph (b)(i) of sections 45AO and 45AP). To the extent the joint venture is not otherwise for the acquisition or supply of goods or services then this could expose a pro-competitive collaboration between research institutions to the cartel prohibitions.

39. The Committees cannot identify any policy basis for the omission of “services” from subparagraph (b)(i) of sections 45AO and 45AP. In the absence of appropriate justification, the Committees consider that it should be rectified at some point; pending legislative reform, however, the Committees suggest that the ACCC implement an interim remedy using its class exemption powers.

Exclusive dealing

Overly prescriptive nature of exclusive dealing provisions

40. The types of exclusive dealing described in section 47 are notoriously specific. As such, many types of conduct which appear to constitute the type of conduct described as exclusive dealing do not, in fact, fall within the precise demands of the section.

41. For example, the Committees note that section 47 may not capture common franchising arrangements. This is because the restrictions placed on the franchisee will not always relate to a “re-supply”[13] (as per paragraphs 47(2)(e) and (f)). At paragraph 85 below, the Committees set out a form of franchise that may not fall within the specific terms of section 47. This means that some franchising arrangements may therefore be considered under the cartel provisions. If the franchisees are granted some form of territorial exclusivity (as is often the case) and the franchisor operates some company-owned stores, then the parties may be at risk of contravening the cartel provisions.

42. Franchise arrangements may also trigger the dual characterisation issue, discussed below.

43. The Committees note that the current proposed class exemption for franchisees applies only to collective bargaining, which would not be apt in these circumstances.

The potential for dual characterisation

44. The Committees note that intellectual property is particularly open to dual characterisation, as per the High Court’s decision in *Visy Paper v ACCC* [2003] HCA 59.

45. A grant of a licence from Firm A to Firm B, allowing Firm B to commercialise specific technology, may also involve the provision of commercialisation or distribution services by Firm B to Firm A. Likewise, as discussed in our comments on Example 8 (see paragraph 74), the grant of a copyright licence by a rights holder may also involve the provision of distribution services by the licensee. This raises the question of whether any restriction the IP licence holder wants to impose is a condition of their grant (supply) of rights or their acquisition of goods or services. All potential characterisations of the transaction might not fall within section 47 and therefore take the benefit of the exclusive dealing exemption.

46. As discussed in our comments on Example 8, the addition of plausible factual information could mean that the licensee and licensor are considered competitors. This in turn could result in a pro-competitive or competitively neutral form of exclusive dealing also amounting to a form of cartel conduct.

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[13] The Committees note that a franchisor may supply raw materials and other inputs that are transformed within the meaning of section 4C of the CCA. Nonetheless, if the franchisee is prevented from trading at all using the trade mark under which the franchise operates, then this restriction extends well beyond anything which may have been supplied by the franchisor such as to fall within the terms of paragraphs 47(2)(e) and (f) of the CCA.

Inappropriate application of per se prohibitions

47. In the Committees' view, it is problematic that the licensing of intellectual property rights may be prohibited on a *per se* basis. Rather they should be subject to the competition test. This is because the licensing of intellectual property rights is presumptively pro-competitive[14] – as such, only in unusual circumstances would such conduct substantially lessen competition. To this end, it must be remembered that:

> *The rationale for per se rules is to avoid a burdensome inquiry into actual market conditions in situations where the likelihood of anticompetitive conduct* ***is so great as to render unjustified*** *the costs of determining whether the particular case at bar involves anticompetitive conduct.*[15]

48. The Committees make this point to underline the necessity for further consideration of the Harper Review's recommendation regarding a general provision concerning vertical restraints (Recommendation 27), and extracted at paragraph 5 of this submission.

49. Particularly in the case of franchising, given the widespread use of exclusive territories, the frequency with which franchisors operate company-owned stores and the scope of the current draft class exemption, the Committees suggest that the ACCC:

    (a) provide a clear public statement to the effect that it does not consider such arrangements contravene the cartel provisions (with an accompanying explanatory text);[16] or

    (b) issue a class exemption to cover the grant of territory-based franchises, such exemption to come into effect on or before 13 September 2019.

50. In the meantime, the Committees reiterate their continued support for the full implementation of the Harper recommendation in respect of vertical restraints.

The application of the competition test to IP arrangements

51. The Committees believe it would also be helpful if the Draft Guidelines gave more detailed general guidance or examples on when licensing arrangements may be regarded as having the purpose, effect or likely effect of substantially lessening competition in a market. The Draft Guidelines at paragraph 2.7 state that "Sections 45, 46 and 47 of the CCA are subject to a 'substantial lessening of competition' threshold test". It would be useful for the Draft Guidelines to include a list of factors which may be relevant to any assessment of whether the "substantial lessening of competition" threshold test will be satisfied, as the ACCC has done in respect of its Draft Guidelines on misuse of market power.[17] For example, the analysis of examples 4 to 9 in the Draft Guidelines could be assessed with reference to these factors and would include:

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[14] U.S. Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (12 January 2017) [2.0], [2.3] <https://www.ftc.gov/system/files/documents/public_statements/1049793/ip_guidelines_2017.pdf>.

[15] *Jefferson Parish Hospital District No. 2 v Hyde*, 466 US 2 (1984), n25 [emphasis added].

[16] Such statement, of course, would not preclude private actions.

[17] Australian Competition and Consumer Commission, *Guidelines on Misuse of Market Power* (August 2018) <https://www.accc.gov.au/system/files/Updated%20DraftGuidelines%20on%20Misuse%20of%20Market%20Power.pdf>.

(a) the level of competition in the relevant market (e.g. with reference to the extent to which substitutes are available for the relevant good or service) and the degree of market power held and exerted by any participants in the market;[18]

(b) the nature and height of barriers to entry into the market;

(c) the nature and degree of vertical integration in the market, e.g. whether the licensee operates across the functional levels of the market; and

(d) the capacity of the contract, arrangement, understanding, or specified licensing arrangements to foreclose competition in the market.

52. In the meantime, the Committees endorse the observation in the Harper Review that a licence subject to quality, quantity or territorial restrictions would not substantially lessen competition and

> *would not contravene the CCA. Without the licence, the licensee would have been unable to commercialise the IP right; therefore, the conditional licence does not restrict the level of competition that would have existed but for the licence.*[19]

53. As an illustration of how examples have been used to assist IP owners and practitioners in other jurisdictions, the United States Department of Justice and Fair Trade Commission in their Antitrust Draft Guidelines for the Licensing of Intellectual Property[20] explain that pooling arrangements are unlikely to be anti-competitive unless firms outside the pool cannot compete in markets for goods incorporating the licensed technologies, and the pooled participants possess market power in those markets.

Section D: Comments on examples

Example 1: Market sharing

54. The Committees note that, in the ACCC's view, subsection 51(3) would never have applied to this arrangement – as such, the example does not serve to illustrate the difference created by the repeal.

55. Moreover, the example cited does not – in our experience – reflect the settlements typically reached in these circumstances. A more likely outcome would be a cross-licensing arrangement. Such an arrangement *would* previously have been protected by subsection 51(3), but – given its repeal – would now be subject to analysis under Part IV.

56. As both parties manufacture "similar equipment", one can assume that they are competitors for the purposes of the cartel provisions. Consequently, arrangements with respect to price or market sharing are likely to constitute cartel conduct. Other arrangements would more likely be subject to the competition test, which would of course require consideration of the counterfactual. The Committees would be

[18] Further, the Committees note that while the exemption in subsection 51(3) of the CCA did not apply to the misuse of market power prohibition in section 46 of the CCA, that does not mean that an assessment of market power is irrelevant for the purposes of other sections of the CCA and, in turn, the Draft Guidelines. In particular, whether a firm or firms together possess market power will be an important determinant of whether a particular arrangement will substantially lessen competition in a market.
[19] Harper Report, 109.
[20] U.S. Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (12 January 2017) at [55].

interested to understand how the ACCC would construct a counterfactual in such circumstances – this would require considerably more detail regarding the proceedings, and the scope of the underlying patents and the potential outcome of the proceedings – including the prospect that neither party would have the right to exploit its intellectual property rights in respect of its equipment or an improved version of its own base technology.

Example 2: Price restrictions

57. In the Committees' view, the core conduct described would never have been protected by subsection 51(3). There is clearly a contract, arrangement or understanding between competitors which has the purpose or likely effect of fixing, controlling or maintaining prices. The relevant conduct occurs at the horizontal level, with any vertical conduct merely the implementation of that upstream contract, arrangement or understanding. While there may be a technical argument to suggest that the licensing arrangements – which otherwise may amount to a "giving effect" to the cartel provision – would previously have been protected by subsection 51(3) and are no longer, the Committees note:

    (a) plant breeders rights were never clearly protected by subsection 51(3) (as referred to in footnote 3 in the Draft Guidelines); and

    (b) as the "making" of the cartel provision would clearly fall outside the scope of subsection 51(3), any protection in relation to "giving effect" to the cartel would be illusory. The parties would still be exposed to substantial penalties and/or criminal prosecution in relation to the making of that provision.

58. As such, the example given does not serve to illustrate the practical impact on licensing arrangements created by the repeal of subsection 51(3).

Example 3: Output restrictions

59. In the Committees' view, the example is premised on an unlikely arrangement. It seems very unlikely that Firm B – as "a major steel manufacturer" – would agree to constrain its production in order to meet the condition of a smaller competitor; equally, it is unclear why Firm A would seek to impose this restraint.

60. A more likely scenario, however, would be Firm A licensing its technology to Firm B, on condition that Firm B produce a specified maximum quantity of product *using that technology*.

61. First, it is clear that such conduct would previously have been protected by subsection 51(3).

62. As the law currently stands, this conduct falls outside section 47 and would therefore fall for consideration under the cartel provisions. The first question is therefore whether the parties are competitors in the relevant sense. Subsection 45AD(4) relevantly provides that the competition condition is satisfied where the parties are or are likely to be in competition with each other in relation to "the production of [the relevant] goods in trade or commerce" (paragraph (f)). In the Committees' view, the parties would likely be considered competitors.

63. As such, a second question arises as to whether the purpose condition is satisfied. The Committee consider that in the more likely scenario set out in paragraph 60, a key factor in assessing the purpose of the parties would be that production is being

permitted, and thus competition enhanced, even if the licence restricts the maximum quantity Firm B can produce using Firm A's technology. Firm B is free to produce any volume of steel using its own (or third party) processes. Accordingly, the Committee considers the better view is that this licence restriction should not constitute a cartel provision within the meaning of subsection 45AD(3).

Example 4: Time restrictions

64. Once again, the example cited does not fall squarely within subsection 51(3) – as the ACCC notes, the conduct after 2020 would not have been exempted (as it extends beyond the period of IP protection). As such, the ACCC could have considered the conduct – presumably by reference to the competition test – only for the period post-2020.

65. The absence of subsection 51(3), however, means that the entire 15 year period of the licence is subject to consideration. The Committees would be interested to understand how the ACCC would construct the counterfactual in such circumstances, as that will clearly determine the legality or otherwise of the licence. The Committees consider that, prima facie, the appropriate counterfactual is a scenario in which no licence is granted at all – given that an IP owner is under no obligation to license third parties.[21]

66. To the extent that the facts pointed towards an alternative construction of the counterfactual, the Committees note that the protection for circuit layouts is akin to copyright (i.e. it protects copying but not independent creation). As such, there is limited if any scope to harm competition via the licensing or otherwise of such intellectual property.

Example 5: Grant-back provisions

67. The Committees are not convinced that this conduct would have previously fallen outside the scope of subsection 51(3). Nonetheless, the Committees agree that the scenario as drafted does indeed fall for consideration under section 45. Whether the parties are "at risk" of contravening this provision, however, depends entirely on the construction of the counterfactual. Surely, here, the counterfactual is no licence being granted by Firm A at all; at worst, it would mean Firm A grants the licence but Firms B and C do not assign their improvements to Firm A. Any assignment, however, is by definition a bare transfer: in the scenario as drafted, ownership continues to reside with a single entity, but another entity is entitled to use the IP. As such, it seems unlikely that the conduct could amount to a substantial lessening of competition.

Example 6: Output restrictions

68. Should a scenario such as that described occur, the Committees agree with the ACCC that subsection 51(3) would not have been relevant – at least to the extent that it relates to the "making" of the contract, arrangement or understanding. While there may be an academic interest in how the repeal of subsection 51(3) affects the analysis of any "giving effect" to claim, the Committees query the practical relevance of the example.

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[21] Except to the extent that one of the special statutory regimes – such as the compulsory patent licensing regime – applies, or in the very rare case where the refusal to grant a licence may amount to a misuse of market power.

69. Should the ACCC consider this example helpful, however, the Committees consider it essential to discuss how the counterfactual would be framed. As it stands, there is no consideration of the potential market power attaching to Firm A's patent (including whether there are any competitors supplying substitutable technology); the competitive impact of the reduction in Firm C's capacity to supply; the effect of the increased royalty on Firm B's sales; and the existence of actual or potential competitors to Firms B and C.

Example 7: Exclusive dealing

70. The Committees agree that, following expiry of the patent in question, subsection 51(3) would not have protected the conduct. Again, appropriate analysis requires a clear indication of how the counterfactual would be framed.

Example 8: Exclusive dealing

71. The scenario described is in fact the main means by which films are distributed globally. While the conduct would indeed fall for consideration under section 47, it seems extremely unlikely that the parties would be "at risk" of contravening that section – as such, this example does not provide helpful guidance to parties seeking to ensure compliance with the law.

72. To show that the conduct had the likely effect of substantially lessening competition would require demonstrating that the film in question was so extraordinary that it effectively gave rise to substantial market power on the part of Firm B (and thus, that denial of distribution rights to competing distributors would cause harm to the competitive process).[22] The market definition necessary to support such a finding seems implausible.

73. Even if the film in question did give rise to substantial market power, the ACCC would still need to consider the future without the conduct. The Committees note that, once again, the ACCC has made no attempt to frame the counterfactual. The helpfulness of the Draft Guidelines is severely undermined by general statements to the effect that the competition test applies when such statements are not accompanied by any attempt to apply that test to the facts provided.

74. The Committees further note that this example illustrates well the potential for dual characterisation: here, Firm A could be considered to be supplying distribution services to Firm B on condition that Firm B not license potential competitors to Firm A (see discussion above at paragraph 44ff). If in the past Firm B has distributed its own films from time to time, the Committees seek the ACCC's views as to whether it considers the cartel provisions would apply.

Example 9: Third line forcing

75. The Committees consider the reference to third line forcing anachronistic and confusing, and suggest the example be deleted. If the example is to be retained, all references to third line forcing should be deleted, except to the extent that readers are reminded that third line forcing is now subject to the competition test. A counterfactual should then be put forward, along with the various factors that would be relevant to the

[22] While the finding of substantial market power is not an element of section 47 of the CCA, in the absence of substantial market power, this type of arrangement is highly unlikely to have the effect or likely effect of substantially lessening competition.

ACCC's assessment of whether the proposed conduct would have the purpose or likely effect of substantially lessening competition.

Additional examples

76. The Committees consider there are other scenarios for which guidance from the ACCC would be extremely helpful. These are outlined below.

Collaborative research arrangements

Example 1

77. Firms A, B and C enter into a research collaboration agreement pursuant to which each firm licenses the others to use its existing patent rights relating to the treatment of a particular disease. Each of the parties agrees to collaborate exclusively with one another in conducting further research into the development of an improved method of treatment.

78. Consider the scenario where each of the firms are research organisations only, such as universities; in other words, they do not commercialise. Such organisations would not be competitors in relation to the supply of commercial products; nonetheless, they obviously have complementary skills and interests, which is why they have chosen to collaborate.

79. The Committees would be interested to understand the ACCC's views with respect to the application of the cartel provisions. The Committees note the following questions:

    (a) Should the firms be regarded as "competitive with each other" with respect to research in the relevant field?

    (b) If yes, does the conduct amount to cartel conduct?

    (c) Would the joint venture exception serve to protect this conduct (and, if so, how)? (See the discussion above at paragraph 38ff.)

    (d) Alternatively, is it the case that such conduct is only permissible under the auspices of an authorisation?

Example 2

80. Two research organisations agree to collaborate on the development of a pharmaceutical compound which has potential application in respect of two quite different diseases. The development agreement includes a cross-licence in respect of each party's relevant background intellectual property. In addition, the organisations agree that all intellectual property rights in the results will be jointly owned, but Research Organisation A shall have the exclusive right to commercialise any research results in respect of Field 1 and Research Organisation B shall have the exclusive rights to commercialise the research results in respect of Field 2.

81. The Committees seek the ACCC's views in respect of the same questions above at paragraph 79.

Co-existence arrangements

82. Firm A applies to register a trade mark in respect of certain goods (say, beer). Firm B opposes the application, on the basis that Firm A's trade mark is substantially identical

with or deceptively similar to Firm B's trade mark which is registered in respect of similar goods (say, wine). Firm A asserts that it has been using its trade mark for some time, going back to before Firm B registered its trade mark. Although the goods the subject of Firm A's application and Firm B's registration are "similar" within the meaning of the *Trade Marks Act 1995* (Cth), they are not substitutable in a competition law sense.

83. In order to resolve their dispute, the parties enter into a co-existence agreement. Under that agreement, each party agrees to exclude the goods made by the other party from the specification for their trade mark. Firm A agrees that it will not offer for sale or sell wine under Firm A's trade mark (or Firm B's trade mark, or any similar mark), and Firm B agrees that it will not offer for sale or sell beer under Firm B's trade mark (or Firm A's trade mark, or any similar mark). They further agree not to challenge each other's trade mark in the future or to assist any other person to do so. On this basis, Firm B withdraws its opposition to Firm A's application.

84. The Committees would appreciate the ACCC's view of the potential application of the cartel provisions to such an agreement.

Franchising

85. Firm A grants a franchise to Firm B (including a licence with respect to key trade marks) in respect of a gym. Firm B is entitled to operate the franchised business from a designated address only. Firm B is also granted an exclusive territory, outside of which it is not permitted to actively promote its business. There are many gyms operating under the franchise in question, including several that are owned and operated by Firm A.

86. The Committees would appreciate the ACCC's guidance with respect to the following:

    (a) please confirm whether the ACCC considers section 47 would apply to such an arrangement and, if so, on what basis (and to what extent); and

    (b) if section 47 does not apply, please provide guidance as to the ACCC's likely consideration of such arrangements under the cartel provisions.

Concerted practices provisions

87. Given the new prohibition concerning concerted practices, the Committees would appreciate guidance from the ACCC as to the application of this prohibition to a scenario involving intellectual property. As an example, how would the analysis proceed if the firms the subject of the collaborative research example above (see paragraph 77ff) did not grant any kind of exclusivity to each other but as a matter of practice exchanged results and key findings between each other?

88. The Committees note that arrangements giving rise to concerns under the concerted practices provisions are unlikely to have triggered subsection 51(3). Pending the issuing of revised IP licensing guidelines, however, the Draft Guidelines provide a useful forum for the ACCC to explain its views.

Annexure A: Block Exemptions in the EU

1. In the EU, there are two specific block exemptions that apply to intellectual property, namely:

   (a) The Technology Transfer Block Exemption Regulation of 2014, which applies to “technology transfer agreements” between competitors and which provides that Article 101(3) of the Treaty on the Functioning of the European Union does not apply to technology transfer agreements in the following circumstances:[23]

      (i) where the technology transfer agreements are between competitors whose combined share of the relevant markets does not exceed 20% and the agreements do not contain severely anti-competitive restrictions; and

      (ii) where the technology transfer agreements are between non-competitors whose individual share of the relevant markets does not exceed 30% and does not contain severely anti-competitive restrictions.

   (b) The Commission Regulation (EU) No 1217/2010, which provides a block exemption which covers agreements relating to the joint carrying out of research and development. The exemption is subject to conditions, including that the research and development agreement must stipulate that:[24]

      (i) all parties have full access to the final results of the joint research, including any resulting IP rights and know-how, for the purposes of further research and development;

      (ii) each party must be granted access to any pre-existing know-how if it is indispensable to the exploitation of the results of the joint research.

2. The Commission Regulation No 330/2010 also provides a block exemption for certain vertical agreements.[25]

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[23] *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* [2014] OJ L 93/17 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0316&from=EN>.
[24] Ibid.
[25] Ibid.