To:	Australian Competition and Consumer Commission (**ACCC**)
From:	The University of Melbourne
Subject:	26 July 2019
Date:	Submission RE: draft Guidelines on the repeal of sub-section 51(3) of the *Competition and Consumer Act 2010* (Cth) (**Act**)

Background

The Australian Government's National Innovation and Science Agenda recognises that innovation and collaboration are high priorities for the Australian Government and are key factors in its vision to build more profitable, sustainable and export-focused industries. Indeed, the Agenda recognises that and one of the Agenda's four (4) key pillars is "Working together" by increasing collaboration between industry and researchers.[1]

The Australian Government has instituted a number of initiatives to promote focus on translational research, and on creating stronger links between industry and researchers (typically affiliated with higher education providers such as universities).

One of the primary incentives for industry partners to collaborate with universities is that they are able to obtain a right to commercialise any intellectual property (**IP**) arising from their collaborations on an exclusive basis. Universities, often with the commercial assistance of industry partners, invest significantly into research and development (**R&D**) to generate IP in relation to which they seek patent or other protection, which, in turn, provides a period of market exclusivity as an incentive for their innovation.

The University of Melbourne is concerned that the draft Guidelines on the repeal of sub-section 51(3) of the Act, and the manner in which the Guidelines suggests the ACCC will interpret the Act in view of the repeal:

- will lessen R&D and innovation incentives by causing confusion in respect of the circumstances in which the University is able to grant exclusive IP licences or incorporate improvement grant-back provisions in agreements with industry partners; and

- will discourage industry partners from working with universities, on the basis that universities may not be able to grant exclusive licences to those industry partners to commercialise their IP, because that right may have to be shared with competitors who could 'free ride' off the University and industry partner's initial R&D investment.

In their current form, we consider that the draft Guidelines add a layer of confusion and uncertainty to the Australian IP innovation and commercialisation landscape.

Key Areas of Concern with Draft Guidelines

The University of Melbourne has had an opportunity to review and provide input into the LESANZ submission to the ACCC on the draft Guidelines, and it supports that submission in its entirety. In particular, the University seconds the point made in the LESANZ submission that the draft Guidelines do not sufficiently cover the intersection of the commercialisation of intellectual property and competition law and many of the examples and issues are not sufficiently developed or instructive. We also raise the following points for the ACCC's consideration, in the hope that these can be factored into the next iteration of the Guidelines:

[1] National Innovation & Science Agenda https://www.industry.gov.au/sites/g/files/net3906/f/July%202018/document/pdf/national-innovation-and-science-agenda-report.pdf (accessed 26 July 2019).

1. **Difficulty with Assessment of Substantially Lessening Competition**

   The ACCC rightly points out in Section 2.8 of the draft Guidelines that *"Competition is not a static situation…assessed by looking at both market structure and strategic behaviour."* This is particularly so in respect of novel and innovative IP, where the marketplace is difficult to define and, in the case of a successfully disruptive technology, very likely to change significantly from the time a licence to any IP is granted until the end of the period of statutory protection. If competition is to be assessed in the IP marketplace on an ongoing basis, it is not sufficiently clear from the draft Guidelines how IP owners and licensees should deal with current or future circumstances in which they have granted an exclusive licence to their IP. For example, what happens if, years after the commencement of that licence, the market for that IP has changed such that rivals have emerged and the continuation of the exclusive licence might be regarded as substantially lessening competition, even though that was not the case at the time the licence was entered into.

2. **Grant Back of Improvements**

   Example 5 of the draft Guidelines appears to suggest that, where improvements are made to IP by a licensee and those improvements are granted back to the licensor (the IP owner), that grant back is inherently at risk of contravening section 45 of the Act.

   "Improvements" is not a statutorily defined term. However, licences in the university and research sector commonly adopt a definition of improvements which recognises that they are incremental additions or modifications to underlying "background IP" which retain the essential characteristic of that background IP and do not include any IP that can be used without infringing that background IP. Put simply, such improvements do not stand alone from the IP they improve upon. It logically follows that the ownership of improvements should be bundled with their underlying background IP to avoid fragmentation. Where a university owns IP and licences it to a third party who creates improvements and assigns ownership of them back to that university:

   - in the event that a university is forced to terminate that licence for breach, it will retain ownership of the full bundle of licensed IP plus the improvements, meaning there is a simple, single repository for all of the relevant IP and improvements that may be required for any subsequent commercialisation activity;
   - if the licensee or any other third party wishes to purchase or take an assignment of the ownership of the IP, if the University owns the improvements they can be assigned also, increasing the chances of commercialisation; and
   - if the University is continuing to conduct research in connection with IP that it has licensed commercially, owning improvements made to that IP will encourage further research and innovation.

3. **Exclusive licences and consent to sub-licensing**

   It is common for IP licensors, including universities, to insist upon a right to consent to any sub-licensees proposed by their licensees. Typically, consent must not be unreasonably withheld, and the giving of that consent turns on key factors including the reputational and financial standing of the proposed sub-licensee.

   As a public institution and a statutory body, the University places a high level of importance on its ability to control whether it becomes affiliated with third parties that engage in reputationally questionable practices or suspected to be subject to the influence of foreign governments, or who otherwise do not reasonably appear capable of exploiting the University's IP in a responsible or financially stable manner.

   The draft Guidelines do not provide any clear insight into the ACCC's assessment of sublicensing in the context of exclusive licensing. In particular, it is not clear whether the ACCC would consider the refusal by a university to consent to a sub-licensee on reasonable reputational and/or financial grounds to be 'foreclosing competition' and therefore problematic under Australian competition laws, or whether a university's reasonable exercise of its judgment with respect to the suitability of sub-licensees would be likely to except or defend it from breaching the Act on that basis.

Conclusion

The University of Melbourne thanks the ACCC for the taking the time to consider this submission.

Please do not hesitate to contact Debra Tegoni, General Counsel, by phone on (03) 8344 2082 or by email to debra.tegoni@unimelb.edu.au if you have any questions or queries.