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| Guidelines on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth)  |
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| June 2019 |

# Purpose of these Guidelines

These Guidelines reflect the approach that the Australian Competition and Consumer Commission (**ACCC**) will take from 13 September 2019, following the repeal of subsection 51(3) of the *Competition and Consumer Act 2010* (Cth) (**CCA**).

These Guidelines set out the ACCC’s current understanding and interpretation of the law following the repeal. The Guidelines are for the general guidance of legal practitioners and business advisors, and should not be used as a substitute for legal advice.

Intellectual property rights holders, legal practitioners, and business advisers should refer to the following ACCC publications for further information:

[*Certification trade marks – the role of the ACCC*](https://www.accc.gov.au/system/files/Certification%20Trade%20Marks.pdf), 2011

[*ACCC immunity and cooperation policy for cartel conduct*](https://www.accc.gov.au/system/files/884_ACCC%20immunity%20and%20cooperation%20policy%20for%20cartel%20conduct_PRINT_FA3.pdf), September 2014

[*Exclusive dealing notification guidelines*](https://www.accc.gov.au/system/files/Exclusive%20Dealing%20Notification%20Guidelines.pdf), November 2017

[*Guidelines on concerted practices*](https://www.accc.gov.au/system/files/Updated%20Guidelines%20on%20Concerted%20Practices.pdf), August 2018

[*Guidelines on misuse of market power*](https://www.accc.gov.au/system/files/Updated%20Guidelines%20on%20Misuse%20of%20Market%20Power.pdf), August 2018

[*Guidelines for authorisation of conduct (non-merger)*](https://www.accc.gov.au/system/files/Guidelines%20for%20Authorisation%20of%20conduct%20%28non-merger%29.pdf), March 2019

The ACCC is responsible for investigating and enforcing the anti-competitive conduct prohibitions of the CCA. This includes the power to commence court proceedings. Businesses may also be subject to court proceedings brought by private parties for alleged contraventions of the anti-competitive conduct prohibitions of the CCA.

Australian courts are ultimately responsible for interpreting the CCA, determining if a provision has been contravened, and determining what, if any, penalty or other orders should be imposed. Following any relevant court decisions, the ACCC will consider and amend its approach and these Guidelines as appropriate.

1. Introduction

Prior to its repeal, subsection 51(3) of the CCA provided a limited exemption for some conduct relating to intellectual property rights from certain anti-competitive conduct prohibitions in Part IV of the CCA. On 13 September 2019, this exemption will cease to apply.

In these Guidelines, the ACCC:

* sets out the general principles that will guide its approach to compliance and enforcement of the anti-competitive conduct prohibitions of the CCA to conduct involving intellectual property rights
* outlines the types of conduct that are or will now be subject to the CCA’s anti-competitive conduct prohibitions, and
* provides examples to illustrate conduct that the ACCC considers is likely to contravene those provisions.

## The repeal of subsection 51(3) of the CCA

Following the repeal of subsection 51(3), conduct involving 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 conduct.

The following prohibitions, previously the subject of the exemption, will apply to conduct involving intellectual property rights from 13 September 2019:

* cartel conduct (Division 1 of Part IV)
* making or giving effect to a contract, arrangement, or understanding, or engaging in a concerted practice, for the purpose, or with the effect or likely effect, of substantially lessening competition (section 45), and
* engaging in exclusive dealing for the purpose, or with the effect or likely effect, of substantially lessening competition (section 47).

The Treasury Laws Amendment (2018 Measures No. 5) Act 2019 (Cth) provides a six-month grace period, with the new legislation entering into effect on 13 September 2019.

From 13 September 2019, the cartel prohibitions and sections 45 and 47 will apply to:

* a licence granted, an assignment made, or a contract, arrangement, understanding or concerted practice entered into on or after 13 September 2019
* a licence granted, an assignment made, or a contract, arrangement, understanding or concerted practice entered into before 13 September 2019 in relation to:
* conditions imposed, or provisions included, on or after 13 September 2019, and
* conditions imposed, or provisions included, before 13 September 2019,

where that licence, assignment, contract, arrangement, understanding, or concerted practice would previously have been exempt under subsection 51(3). Where conduct was not exempt under subsection 51(3), the CCA will continue to apply as before.

The ACCC will enforce the cartel prohibitions and sections 45 and 47 in respect of:

* the granting of licences, the making of assignments or the entering into of contracts, arrangements, understandings or concerted practices on or after 13 September 2019, or
* the giving effect to, on or after 13 September 2019, conditions in licences, assignments, contracts, arrangements, understandings or concerted practices, even where entered into before 13 September 2019.

However, the ACCC would be concerned should parties grant licences, make assignments or enter into contracts, arrangements, understandings or concerted practices during the six month grace period that, but for the operation of subsection 51(3), would raise concerns under the CCA.  The ACCC will have regard to any such action when assessing its enforcement options for conduct occurring on or after 13 September 2019.

## The scope of subsection 51(3) of the CCA

The exemption provided by subsection 51(3) was expressly limited and its precise scope was uncertain.

First, it only exempted the following conduct that might otherwise have constituted a contravention of Part IV:

* imposing or giving effect to a condition of a licence or assignment for particular kinds of intellectual property rights, to the extent that the condition related to the subject matter of the relevant intellectual property right
* inclusion in contracts, arrangements, or understandings authorising the use of a certification trade mark of a provision in accordance with the approved rules, or giving effect to such a provision,[[1]](#footnote-1) or
* inclusion of certain provisions in contracts, arrangements, or understandings in relation to other trade marks (not certification trade marks) between registered proprietors and registered users of the trade mark.[[2]](#footnote-2)

Conduct that did not fall within these categories, including anti-competitive conduct by omission, such as refusal to deal, or licence and assignment conditions that did not ‘relate to’ the subject matter of the intellectual property right, was not subject to the exemption.

Second, conduct that contravened the following anti-competitive conduct prohibitions was not exempt:

* misuse of market power (section 46)
* conduct engaged in by a corporation with substantial market power in a trans-Tasman market for a proscribed purpose (section 46A), and
* engaging in resale price maintenance (section 48).

Finally, conduct relating to other types of intellectual property not mentioned in subsection 51(3), such as confidential information or trade secrets, was not exempt.[[3]](#footnote-3)

1. General principles

This section set outs the general principles that will guide the ACCC’s approach to compliance and enforcement activities related to intellectual property rights and the anti-competitive conduct prohibitions in Part IV of the CCA.

## Intellectual property rights do not always create substantial market power

Intellectual property rights do not necessarily, of themselves, confer substantial market power on a firm. Market power comes from a lack of effective competitive constraint.

Even where ownership of an intellectual property right is a key determinant of a firm’s market power, this will not of itself contravene the anti-competitive conduct prohibitions of the CCA. The CCA does not prohibit a firm from gaining market power or from extending existing market power.

## Licensing or assignment of intellectual property rights usually encourages competition

The licensing or assignment of intellectual property rights is usually helpful to the competitive process. It enables intellectual property to be exploited to a greater extent, than would occur if those rights were not licensed or assigned, therefore encouraging competition. Licensing or assigning intellectual property rights often increases production, geographic distribution, and the rate at which new products are introduced to the market.

The licensing or assignment of intellectual property rights can also be helpful to the competitive process if it enables the licensee to engage in commercial activity that would otherwise be closed to it, or which the licensee could only engage in by duplicating or ‘inventing around’ existing intellectual property rights.

## Purpose, effect or likely effect of substantially lessening competition

However, in some cases, licensing or assignment of intellectual property rights can have anti-competitive consequences, including where the licencing or assignment has the purpose, effect or likely effect of substantially lessening competition.

Sections 45, 46, and 47 of the CCA are subject to a ‘substantial lessening of competition’ threshold test. Conduct that does not have the purpose, effect, or likely effect of substantially lessening competition in a relevant market will not contravene sections 45, 46, or 47.

Competition is not a static situation but a process expressed in the form of rivalrous behaviour. Competition is assessed by looking at both market structure and strategic behaviour. When assessing whether conduct substantially lessens competition, the ACCC focuses on the impact of the conduct on the competitive process.

‘Lessening competition’ means that the process of rivalry is diminished or lessened, or the competitive process is compromised or impacted. ‘Lessening competition’ extends to ‘preventing or hindering competition’.[[4]](#footnote-4) ‘Substantially’ means meaningful or relevant to the competitive process. It is a relative concept and does not require an impact on the whole market.[[5]](#footnote-5)

A market has a product and geographic dimension and is “the field of actual and potential transactions between buyers and sellers among whom there can be a strong substitution… if given a sufficient price incentive.”[[6]](#footnote-6)

The ACCC’s starting point for assessing market definition is to identify:

* the goods or services supplied or acquired by the relevant firm and their close product substitutes (product market), and
* the geographic region in which the relevant firm supplies or acquires the goods or service and close geographic substitutes (geographic market).

The ACCC also considers the functional dimensions of the market (the different levels in the supply chain such as the production, wholesale, or retail functional level). This is particularly relevant where some firms in the relevant market are vertically integrated. Sometimes there is a focus on the timeframe over which substitution possibilities should be assessed.

When assessing the effect or likely effect of conduct on competition, the ACCC may undertake a ‘with or without test’. This compares the likely state of competition ‘with’ the relevant conduct, to the likely state of competition ‘without’ the conduct, to isolate the effect of the conduct on competition.

1. Application of competition law to intellectual property

This section discusses the intellectual property related conduct to which the anti-competitive conduct prohibitions apply, either because the ACCC considers that subsection 51(3) is unlikely to have ever exempted it or because subsection 51(3) has now been repealed.

## Cartel conduct

Four main types of cartel conduct are prohibited, regardless of the effect on competition:

* Price fixing, which occurs when competitors agree on pricing rather than competing against each other.
* Output restrictions, which occurs when competitors agree to prevent, restrict or limit the volume or type of particular goods or services available. Output restrictions reduce the available supply of particular goods or services and so increase the price.
* Market sharing, which occurs when competitors agree to divide or allocate customers, suppliers, or territories among themselves rather than allowing competitive market forces to work. Market sharing restricts competition, forces prices up, and reduces choice on price and quality for consumers and other businesses.
* Bid rigging, also referred to as collusive tendering, which occurs when two or more competitors agree they will not compete genuinely with each other for tenders, allowing one of the cartel members to ‘win’ the tender. Participants in a bid rigging cartel may take turns to be the ‘winner’ by agreeing the manner in which they submit tenders, including by some competitors agreeing not to tender. Bid rigging leads to uncompetitive tender processes that can result in organisations paying higher prices or receiving lower quality goods or services.

There are both civil and criminal prohibitions for corporations and individuals for making or giving effect to contracts, arrangements, or understandings containing cartel provisions. For further information on when the ACCC is likely to seek criminal sanctions for cartel conduct, please refer to the factors listed in the [*Memorandum of Understanding between the CDPP and ACCC regarding Serious Cartel Conduct*](https://www.cdpp.gov.au/sites/default/files/MR-20140910-MOU-Serious-Cartel-Conduct.pdf) (August 2014).

Only provisions in contracts, arrangements, or understandings between competitors which related to the intellectual property rights set out in subsection 51(3)(a) were ever exempt from the cartel prohibitions.

All other provisions in contracts, arrangements or understandings between competitors have always been, and following the repeal continue to be, subject to the cartel prohibitions. Conditions “which [sought] to gain advantages collateral to”[[7]](#footnote-7) the intellectual property rights were also not covered by the exemption.

For example, market sharing dispute settlements that did not involve a licence or assignment of intellectual property rights were never exempt.

**Example 1: Market sharing**

Firm A is a manufacturer of core sampling equipment used in mining projects across Australia and owns patents relating to its equipment. Firm B also manufactures similar equipment for use across Australia and owns patents relating to its equipment. Firms A and B become involved in a patent infringement and validity dispute.

In order to avoid lengthy and expensive litigation, Firms A and B come to a settlement. Part of their agreement is that Firm A will only sell its equipment to mining projects in Western Australia and South Australia, while Firm B will only sell its equipment in the rest of Australia.

*Assessment*

The settlement agreement does not license or assign any intellectual property rights between Firms A and B, and so the exemption in subsection 51(3)(a) did not apply.

Furthermore, Firms A and B are, or but for the settlement agreement would be, competitors, and the settlement agreement has the purpose of allocating the geographical areas in which the firms’ goods are supplied.

The ACCC considers that the firms’ conduct is likely to contravene the cartel provisions.

The prohibitions against cartel conduct now apply to all conditions of a licence or assignment, including any that relate to the subject matter of an intellectual property right.

The ACCC considers that the following examples of provisions in contracts, arrangements, or understandings between competitors are likely to be prohibited cartel conduct:

* Territorial restraints, which are conditions that restrict the territories in which firms can supply goods, including as part of a cross-licensing arrangement. Under section 45AD, market allocation provisions only constitute cartel provisions where they have the purpose of directly or indirectly allocating markets. If a condition of a licence or assignment has the effect or likely effect, but not the purpose, of allocating markets, then it is not a prohibited cartel provision.
* Price restrictions, which are conditions that restrict or influence the prices that a licensee or assignee can charge. Under section 45AD, price restrictions constitute cartel provisions where they have the purpose, or have or are likely to have the effect, of directly or indirectly fixing, controlling or maintaining or providing for the fixing, controlling or maintaining of prices.
* Output restrictions, which are conditions that restrict the output of a licensee, assignee, licensor or assignor. Under section 45AD, output restrictions only constitute cartel provisions where they have the purpose of directly or indirectly restricting output. If a condition of a licence or assignment has the effect or likely effect, but not the purpose, of restricting output, then it is not a prohibited cartel provision.

**Example 2: Price restrictions**

Firms A, B, and C each own plant breeder rights relating to new varieties of banana plant. They compete to license their rights to farmers.

One year, the banana industry is affected by particularly bad weather that damages many crops. In light of the industry’s difficult financial position, Firms A, B, and C agree that each of them will set their prices somewhere below a specified low price, so that banana farmers may still be able to purchase from them.

Firms A, B, and C agree that they will return to independently setting their prices the following year.

*Assessment*

The ACCC considers that Firms A, B, and C are likely to be engaging in cartel conduct with the purpose or effect of fixing, controlling, or maintaining the price of the plant breeder rights that the firms license in competition with each other.

Prior to its repeal, subsection 51(3) may have protected Firms A, B, and C from liability for giving effect to a cartel provision in this example. This is because the price may be considered a condition of the firms’ licences to the farmers, which ‘related to’ the intellectual property rights at issue. This conclusion is dependent on plant breeder rights being covered by subsection 51(3) (see footnote 3 above for further discussion).

However, the firms would still have risked contravening the prohibition on making a cartel provision, since their initial agreement to cap their prices was not itself a condition of their licences to the famers, and so would not have been exempted by subsection 51(3).

Following the repeal of subsection 51(3), the ACCC considers that Firms A, B, and C may be at risk of contravening the prohibitions on (i) making a cartel provision (through making their agreement to cap prices), and (ii) giving effect to a cartel provision (through implementing that agreement by capping prices in their licences).

Finally, given the possible benefit that the firms’ actions may have for the banana industry, the firms should consider whether authorisation of their conduct may be available. Whether authorisation is granted will depend on whether the conduct results in a net public benefit.

**Example 3: Output restrictions**

Firm A is a steel manufacturing company that owns a patent over a particular method of producing high-strength, low-weight steel. Firm A is a small manufacturer, so it decides to license its method to Firm B as well. Firm B is a major steel manufacturer.

Firm A wants to make it a condition of the licence that Firm B only produce a specified maximum amount of steel over the life of the licence. The two firms come to an agreement about that maximum amount, include the restriction in the licence, and proceed to behave in accordance with that agreement.

*Assessment*

The ACCC considers that Firms A and B are likely to be contravening the cartel provisions.

The two firms appear to be competitors for the supply of the relevant kind of steel and the relevant licence condition appears to have the purpose of restricting Firm B’s output.

Prior to its repeal, subsection 51(3) may have protected Firms A and B from liability for giving effect to a cartel provision in this example. This is because Firm B’s specified maximum output may be considered a condition of Firm A’s licence to Firm B, which ‘related to’ the intellectual property rights at issue.

However, the firms would still have risked contravening the prohibition on making a cartel provision, since their initial agreement to restrict Firm B’s output was not itself a condition of Firm A’s licence to Firm B, and so would not have been exempted by subsection 51(3).

Following the repeal of subsection 51(3), the ACCC considers that Firms A and B may be at risk of contravening the prohibitions on (i) making a cartel provision (through making their agreement to restrict Firm B’s output), and (ii) giving effect to a cartel provision (through implementing that agreement).

There are a number of exemptions to the cartel conduct prohibitions, including:

* Conduct notified under a collective bargaining notice (section 45AL)
* Authorised conduct (section 45AM)
* Contracts, arrangements, or understandings between related bodies corporate (section 45AN)
* Joint venture conduct (sections 45AO and 45AP)
* Conduct relating to resale price maintenance (section 45AQ)
* Conduct relating to exclusive dealing (section 45AR)
* Dual listed company arrangements (section 45AS)
* Acquisitions of shares or assets (section 45AT), and
* Collective acquisitions (section 45AU).

The operation of these exemptions is complex and not covered by this Guideline. Businesses should seek legal advice before relying on them.

Intellectual property rights holders, legal practitioners, and business advisers can find out more about cartel conduct at [www.accc.gov.au](http://www.accc.gov.au). If you consider that you might be engaging in cartel conduct, you should also refer to the [*ACCC immunity and cooperation policy for cartel conduct*](https://www.accc.gov.au/system/files/884_ACCC%20immunity%20and%20cooperation%20policy%20for%20cartel%20conduct_PRINT_FA3.pdf).

## Contracts, arrangements, understandings and concerted practices

Section 45 of the CCA prohibits a corporation from making or giving effect to a contract, arrangement, or understanding, or engaging in a concerted practice, for the purpose, or with the effect or likely effect, of substantially lessening competition.[[8]](#footnote-8)

Conduct that does not have the purpose, effect, or likely effect of substantially lessening competition in a relevant market will not contravene section 45.

Contracts, arrangements, understandings or concerted practices which did not relate to, or “which [sought] to gain advantages collateral to”[[9]](#footnote-9), the intellectual property rights set out in subsection 51(3)(a) have never been exempt and were already subject to section 45. The repeal of subsection 51(3) will not affect either the application of the CCA to, or ACCC’s approach when investigating, these types of conduct.

The ACCC considers that the following examples all involve a licensor seeking to gain an advantage that is collateral to the relevant intellectual property rights, and therefore that section 45 already applies, and following the repeal of subsection 51(3) will continue to apply to:

* ‘Time restrictions’, which are conditions that seek to restrain a licensee’s behaviour beyond the time scope of the intellectual property rights given to the licensor (for example, where conditions restrain a licensee’s behaviour after a licensor’s patent has expired).
* ‘Grant-back’ provisions, which are conditions that require a licensee to assign or grant an exclusive licence back to the original licensor for any improvements generated through the licensee’s exploitation of intellectual property rights.
* ‘No challenge’ provisions are conditions that prohibit a licensee from challenging the validity of the intellectual property rights that underlie the licence.

**Example 4: Time restrictions**

Firm A is a semiconductor chip research and development corporation. In 2010, it licensed a particular circuit layout to Firm B, a major chip manufacturer in Australia, for 15 years for use in the manufacture of semiconductor chips for on-sale to other firms. Firm B agreed to abide by certain costly quality requirements for the duration of its licence.

*Assessment*

Circuit layout rights are only protected for 10 years from their first commercial exploitation, so Firm A’s rights over the circuit layout it has licensed to Firm B will only extend to 2020. By entering into an agreement that restricts Firm B’s behaviour until 2025, 5 years following the expiry of the circuit layout rights, Firm A is imposing a condition that does not relate to the intellectual property rights at issue, or is collateral to them.

As a result, the ACCC considers that the conduct after 2020 would not have been exempted by subsection 51(3), and so the repeal will not change the application of the CCA to, or the ACCC’s approach when investigating, this conduct.

**Example 5: Grant-back provisions**

Firm A is a research institution that owns patents relating to touchscreen technology. Firm A separately licenses its patents to Firms B and C for manufacture and commercialisation. A condition of each of those licences is that Firms B and C assign back to Firm A any improvements that they make during the licence term. Upon assignment, Firm A agrees that it will automatically license those improvements back to either Firm B or C respectively, and will not license the improvements to any other firm.

*Assessment*

The ACCC considers that Firms A, B, and C are at risk of contravening section 45 of the CCA.

The grant-back condition in the licence agreement seeks to confer on Firm A an advantage (ownership of improvements) that does not relate to, that is, it is collateral to, the intellectual property rights that are the subject of the licence (the touchscreen patents). As a result, the ACCC considers that the conduct would not have been exempted by subsection 51(3).

While grant-backs can encourage competition, in this instance, given that Firm A has agreed to license the improved processes only to B or C, this agreement may have the effect of foreclosing competition. If the grant back conditions had the purpose, effect or likely effect of substantially lessening competition, Firms A, B, and C may have contravened section 45 by making the licences and giving effect to the relevant conditions.

Where a condition of a licence or assignment relates to the subject matter of the intellectual property right and may previously have been exempt under subsection 51(3), section 45 will now apply.

The ACCC considers that the following examples of contracts, arrangements, understandings or concerted practices are likely to contravene section 45 where they are for the purpose, or have the effect or likely effect, of substantially lessening competition in a relevant market.

## Exclusive dealing

**Example 6: Output restrictions**

Firm A is an Australian research and development corporation that owns a patent relating to transmission systems used in mining vehicles. It licenses the patent to Firms B and C for manufacture of the transmission systems and on-sale of the systems to other firms. Firms B and C are the two major manufacturers of transmission systems for mining vehicles in Australia.

Firm B agrees to pay Firm A licensing fees that are 20 per cent more than Firm C. In return, Firm A agrees to make it a condition of Firm C’s licence that Firm C abide by more stringent quality requirements than Firm B. Firms C accepts the quality requirements however Firm C does not know that these requirements are higher for it than they are for Firm B.

The effect of the more stringent quality requirements on Firm C is that Firm C is only able to produce substantially fewer transmission systems than it would be able to produce if it had the same quality requirements as Firm B.

*Assessment*

The ACCC considers that Firms A and B are at risk of contravening section 45 of the CCA.

While Firms A and B are not competitors, and so the conduct will not fall within the cartel provisions, their agreement may have the purpose, effect, or likely effect of substantially lessening competition by imposing such conditions on Firm C.

Prior to its repeal, subsection 51(3) may have protected Firm A from liability for giving effect to the agreement in this example. This is because the quality requirements imposed on Firm C may be considered a condition of Firm A’s licence to Firm C, which ‘related to’ the intellectual property rights at issue.

However, Firms A and B would still have risked contravening the prohibition on making the agreement, since their initial agreement to restrict Firm C’s output was not itself a condition of Firm A’s licence to Firm B or Firm C, and so would not have been exempted by subsection 51(3).

Following the repeal of subsection 51(3), the ACCC considers that Firms A and B may be at risk of contravening the prohibition on making an agreement that substantially lessens competition (through making their agreement to restrict Firm C’s output), and Firm A may be at risk of contravening the prohibition on giving effect to that agreement (through making those quality requirements part of Firm A’s licence to Firm C).

Section 47 of the CCA prohibits a corporation from engaging in exclusive dealing which has the purpose, effect or likely effect, of substantially lessening competition.[[10]](#footnote-10)

Section 47 sets out a number of instances that constitute exclusive dealing. In general, exclusive dealing occurs when a corporation trading with another imposes restrictions on the other’s freedom to choose with whom, in what, or where they deal.

Broadly, exclusive dealing includes:

* The supply of goods or services on the condition that the buyer also acquire goods or services from a particular, unrelated, third party or the refusal to supply because the buyer will not agree with that condition. This conduct is known as third line forcing.
* Acquiring goods or services on condition that the supplier accepts some restriction on their freedom to supply to third parties.
* The supply of goods or services, or the supply at a particular price or discount, on condition that the buyer will not acquire, or will limit the acquisition of, goods or services from a competitor of the supplier. This includes if the buyer will not re-supply, or will only re-supply to a limited extent, goods or services acquired from a competitor.
* The refusal to supply goods and services because the purchaser has dealt in a competitor’s products, or failed to accept some restrictions on the right to re-supply.

The conduct in the following examples risks contravening section 47, to the extent that it was engaged in for the purpose or had, the effect or likely effect, of substantially lessening competition.

**Example 7: Exclusive dealing**

Firm A is a multinational chemicals manufacturer, operating in Australia. Firm A’s patent on a highly profitable fertiliser product, is set to expire in six months.

Firm A is concerned that once its patent expires, other companies will enter the market with fertiliser products that use the same chemical compounds. Firm A enters into a supply agreement with Firm B, Australia’s largest home improvement retailer, for the fertiliser on the condition that Firm B will not stock a generic fertiliser product from any other competitor after their patent expires. Firm B enters the supply agreement, as it is concerned that any generic fertiliser product may not sell as well as Firm A’s fertiliser, due to Firm A’s reputation as a high quality manufacturer.

*Assessment*

The ACCC considers that Firm A may be at risk of contravening section 47 of the CCA. Firm A has supplied its good on the condition that Firm B would not acquire goods or services from a competitor to Firm A, or re-supply a competitor to Firm A’s products, after Firm A’s patent expires.

This conduct is unlikely to have been exempt under subsection 51(3) prior to the repeal, as Firm A is imposing a condition that does not relate to the intellectual property rights at issue.

Section 47 prohibits exclusive dealing that has the purpose, effect, or likely effect of substantially lessening competition in a relevant market. In assessing this conduct, the ACCC would examine a variety of factors including any competitive constraints on Firm A, and the market for the relevant fertiliser products in Australia.

**Example 8: Exclusive dealing**

Firm A is a film distribution corporation, specialising in acquiring licences to independent Australian films for distribution to cinemas around Australia. Firm B owns the copyright to an independent Australian film.

Firm B agrees to license the film to Firm A for distribution. Firm A insists that the licence agreement contain a provision that prevents Firm B from licensing that film to any other distributors in Australia.

*Assessment*

The ACCC considers that Firm A may be at risk of contravening section 47 of the CCA. Firm A would be acquiring, or offering to acquire goods or services, from Firm B on the condition that Firm B will not supply goods or services to any party other than Firm A. By refusing to acquire the licence to distribute the film unless Firm B agrees to an exclusive licensing arrangement, Firm A risks engaging in exclusive dealing.

Prior to its repeal, subsection 51(3) may have exempted Firm A from liability for giving effect to the agreement in this example. This is because the agreement preventing Firm B from licensing the film to another distributor may be considered a condition of Firm B’s licence to Firm A, which ‘related to’ the intellectual property rights at issue.

Following the repeal, the ACCC would consider whether Firm A’s conduct would be likely to have the purpose, effect, or likely effect of substantially lessening competition.

**Example 9: Third line forcing**

Firm A is a technology developer, specialising in personal electronic products. Firm A’s most successful product, PhoneOne, is the market leader in smartphone sales in Australia. Firm A is considering an exclusive licensing arrangement for the patent of the PhoneOne to Firm B, which requires Firm B to manufacture the product and sell it to retailers across Australia.

Firm C is a plastics manufacturer. Firm C approaches Firm A and offers a financial benefit if Firm A requires Firm B to acquire the plastic components for the manufacture of PhoneOne from Firm C. Firm A agrees and grants the licensing agreement to Firm B on the condition that Firm B acquire the plastic components necessary to produce the PhoneOne from Firm C.

*Assessment*

The ACCC considers Firm A may be at risk of contravening third line forcing provisions, to the extent that Firm A is attempting to sell its exclusive licence on the condition that Firm B also acquires goods from Firm C.

This conduct is unlikely to have been exempt under subsection 51(3) prior to the repeal, as Firm A is imposing a condition in its licensing agreement with Firm B that does not relate to the intellectual property rights at issue.

In assessing this conduct, the ACCC would examine the market for smartphones, for plastic mobile phone components in Australia and any other relevant factor. The ACCC would further assess the counterfactual without the relevant conduct, which in this instance may be that Firm B could acquire its plastic components from any provider.

PhoneOne being the highest selling smartphone in Australia would make it more likely that this conduct could have the requisite anti-competitive purpose, effect or likely effect.

1. The ACCC’s approach to enforcement

In deciding whether to take enforcement action, the ACCC focuses on matters that will, or have the potential to, harm the competitive process or result in widespread consumer detriment. The ACCC cannot pursue all the complaints it receives and directs its resources to matters that are likely to provide the greatest overall benefit for competition and consumers.

Further information about how the ACCC prioritises matters is set out in our annual Compliance and Enforcement Policy and Priorities. The latest version is always available on our website at [www.accc.gov.au](http://www.accc.gov.au).

1. Certification trade marks

A certification trade mark (**CTM**) indicates to consumers that a product bearing the mark meets a particular standard, such as being of a particular quality, manufactured in a particular location or by a particular process, made from particular materials or ingredients, or suited to a particular task.

## The ACCC’s role

Businesses wishing to register a CTM must apply to the Registrar of Trade Marks and propose rules that will govern the use of the CTM. ACCC approval is required before a CTM can be registered.

The ACCC will only approve a CTM application if it is satisfied that:

* the attributes required of those assessing whether products may use the CTM are sufficient to enable the assessor to competently assess whether goods and/or services meet the certification requirements, and
* the proposed CTM rules would not be to the detriment of the public and are satisfactory having regard to the principles of competition, unconscionable conduct, and consumer protection.

For further information, intellectual property rights holders, legal practitioners, and business advisers should refer to [*Certification trade marks – the role of ACCC*](https://www.accc.gov.au/system/files/Certification%20Trade%20Marks.pdf) (2011).

## The repeal of subsection 51(3)(b)

The exemption in subsection 51(3)(b) previously applied to making or giving effect to a provision in an agreement authorising the use of a CTM, where that provision was otherwise in accordance with the ACCC-approved rules for that CTM.

The repeal of subsection 51(3) removes this exemption, meaning that sections 45 and 47, and the cartel provisions, now apply to agreements authorising the use of CTMs in the same way as they apply to other conduct.

However, the ACCC does not consider that the repeal will expose agreements authorising the use of a CTMs to additional risk. The ACCC assesses the competition impacts of the proposed CTM rules and does not approve the rules unless satisfied that they would not be to the detriment of the public.

In making this assessment, the ACCC analyses whether the CTM rules would require or encourage CTM users to engage in anti-competitive conduct, such as cartel conduct, anti-competitive agreements, or exclusive dealing. Consequently, the ACCC does not foresee a scenario where it would approve CTM rules and later take action against parties conducting themselves in accordance with those rules.

Conduct relating to CTMs not in accordance with the ACCC-approved rules was never subject to the exemption provided by subsection 51(3).

1. Authorisation, notification & class exemptions

## Authorisation

Where businesses are concerned that proposed conduct would or might contravene the anti-competitive conduct prohibitions of the CCA, they can seek authorisation from the ACCC.

If parties obtain authorisation from the ACCC, they receive statutory protection from legal action under the CCA for that conduct. That is, for the duration of the authorisation, the party or parties to whom the authorisation applies will be able to engage in the proposed conduct without risk of the ACCC, or third parties, taking legal action against them for a contravention of the relevant anti-competitive conduct prohibitions of the CCA.

The ACCC does not have the power to grant authorisation for conduct engaged in before the authorisation is granted.

Broadly, the ACCC may grant authorisation where proposed conduct is likely to result in a net public benefit (i.e. where the likely public benefit resulting from the conduct outweigh the likely public detriment).

Authorisation is a public process. The application and supporting submission will be available on the ACCC’s public register and provided to interested parties for their comment or response. Applicants and interested parties providing documents and submissions to the ACCC may request that confidential information be excluded from the public register. All public responses are made available on the public register. The ACCC’s draft and final determination, including the reasons for the decision, are also publicly available.

The ACCC must issue its final determination either granting or dismissing an application within six months of receiving a valid application, unless extended with agreement by the applicant. The ACCC may consider non-contentious applications under a streamlined process.

Further detailed information on the authorisation process is available in the ACCC’s [*Guidelines for authorisation of conduct (non-merger)*](https://www.accc.gov.au/system/files/Guidelines%20for%20Authorisation%20of%20conduct%20%28non-merger%29.pdf) (March 2019). Parties can also contact the ACCC to obtain more information about authorisation or the authorisation process.

## Notification

Notification is an alternative process to authorisation that is available where parties propose to engage in small business collective bargaining, exclusive dealing or resale price maintenance.

Upon the notification coming into force, the notified conduct is protected from legal action unless the ACCC objects to the notification. Broadly, the ACCC may only object to a collective bargaining notification if the benefit to the public likely to result from the notified arrangements would not outweigh the public detriment likely to result (i.e. there is no net public benefit).

Following valid lodgement of the notification, protection from legal action for the conduct commences at different times for different types of notifications. Further detailed information on the notification process is available in the ACCC’s notification guidelines at [www.accc.gov.au](http://www.accc.gov.au).

## Class exemptions

The ACCC has the power under section 95AA of the CCA to issue a class exemption that specifies that one or more provisions of Part IV do not apply to the kind of conduct set out in the class exemption. A class exemption may be limited to a person of a specified kind, such as participants in a particular industry. In effect, it provides a ‘safe harbour’ allowing businesses to engage in conduct of the specified kind without risk of contravening the relevant provisions of Part IV.

The ACCC will identify kinds of conduct that may appropriately be the subject of a class exemption. While businesses do not apply for a class exemption, they may wish to suggest options to the ACCC. The ACCC will consider such suggestions taking account of other organisational priorities.

The register of class exemptions currently under consideration is available on the ACCC’s website at [www.accc.gov.au](http://www.accc.gov.au).

1. Sanctions

## Sanctions in the CCA

If a court determines that a person has contravened, attempted to contravene, or been involved in the contravention of an anti-competitive conduct prohibition of the CCA, the court may make orders including but not limited to:

* Requiring a person to pay a pecuniary penalty
* Requiring a person to pay damages, refund money, or return property
* Requiring a person to undertake community service
* Restraining a person from engaging in certain conduct
* Declaring that a person has contravened the CCA, or
* Disqualifying an individual from managing a corporation.

A court may impose a pecuniary penalty on a corporation for each contravention of an anti-competitive conduct prohibition of the CCA up to the greatest of:

* $10 million
* three times the value of the benefit obtained by the corporation as a direct or indirect result of the contravening conduct, or
* 10 per cent of the annual turnover of the corporation during the 12 month period following the contravening conduct.

A court may impose a pecuniary penalty on an individual of up to $500,000 for each contravention of an anti-competitive conduct prohibition of the CCA. For individuals found guilty of a criminal cartel offence, a court may impose a sentence of up to 10 years in jail and/or a fine of up to $420,000 for each offence.

## Sanctions outside the CCA

Other state, territory, and Commonwealth laws may also apply to the licensing and assignment of intellectual property rights. For example, the ACCC notes that where a patent holder is held to have contravened an anti-competitive conduct prohibition of the CCA “in connection with the patent”, another person may apply to the Federal Court for an order requiring the patent holder to grant that person a compulsory licence. [[11]](#footnote-11) If a compulsory licence is granted, an interested person may also apply to the Federal Court for an order revoking the patent.[[12]](#footnote-12)

Obligations may differ between states and territories. You may also have additional obligations for various reasons. For example, if you are in receipt of government grants or tax concessions for related research and development.

If you are unsure about your legal obligations, or which laws apply to you, you should consider seeking legal advice.

1. Changes to the *Trade Marks Act 1995* (Cth) may not have been completely picked up by subsection 51(3). In accordance with section 10 of the *Acts Interpretation Act 1901* (Cth), the ACCC considers that subsection 51(3)(b) likely continued to exempt conduct in accordance with the certification trade mark scheme under the *Trade Marks Act 1995* (Cth). [↑](#footnote-ref-1)
2. Changes to the *Trade Marks Act 1995* may not have been completely picked up by section 51(3). Subsection 51(3)(c), which refers to the registered users scheme in the *Trade Marks Act 1955* (Cth), likely will not have continued to have effect after 1 January 1996, when that legislation was replaced by the *Trade Marks Act 1995* (Cth), which does not refer to registered users. [↑](#footnote-ref-2)
3. The ACCC notes the omission of plant breeder rights from the list of exempt intellectual property rights in subsection 51(3)(a). However, the ACCC also notes the High Court’s decision in *The Grain Pool of WA v The Commonwealth* [2000] HCA 14, where it was held that legislation establishing plant breeder rights was supported by section 51(xviii) of the Constitution on the basis that plant breeder rights fell within the term “patents of invention”. Given the repeal of subsection 51(3), the ACCC considers that it is unnecessary to express a view on whether plant breeder rights were ever covered by the exemption. [↑](#footnote-ref-3)
4. *Competition and Consumer Act 2010* (Cth), s 4G. [↑](#footnote-ref-4)
5. *Rural Press v ACCC* (2003) 216 CLR 53, at [41]. [↑](#footnote-ref-5)
6. *Re Queensland Cooperative Milling and Defiance Holdings Ltd* (1976) 8 ALR 481, at 517. [↑](#footnote-ref-6)
7. *Transfield v Arlo* (1980) 144 CLR 83, at 103. [↑](#footnote-ref-7)
8. A similar prohibition applies to ‘persons’ under the Competition Code, set out in Part 1 of Schedule 1 to the CCA. [↑](#footnote-ref-8)
9. *Transfield v Arlo* (1980) 144 CLR 83, at 103. [↑](#footnote-ref-9)
10. A similar prohibition applies to ‘persons’ under the Competition Code, set out in Part 1 of Schedule 1 to the CCA. [↑](#footnote-ref-10)
11. *Patents Act 1990* (Cth), section 133. [↑](#footnote-ref-11)
12. *Patents Act 1990* (Cth), section 134. [↑](#footnote-ref-12)