IP EXEMPTIONS TO COMPETITION LAWS TO BE REMOVED: RESTRICTIONS IN LICENCES TO BE SUBJECT TO COMPETITION AND CONSUMER ACT 2010

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IN BRIEF

- Federal Parliament is debating the Treasury Laws Amendment (2018 Measures No. 5) Bill 2018 (Bill), which seeks to repeal section 51(3) of the *Competition and Consumer Act 2010* (CCA).
- The Bill is expected to pass during this session of Parliament (by 6 December 2018).
- Section 51(3) of the CCA presently provides an exemption from most of the competition law prohibitions for certain types of transactions involving intellectual property (IP).
- The current exemption covers conditions in licences or assignments of IP rights in patents, registered designs, copyright, trademarks and circuit layouts.
- Once passed, commercial transactions involving IP rights will be subject to the same competition laws as all other transactions involving other types of property and assets.
- The repeal will apply retrospectively but IP owners will have six months to review existing licences and agreements.
- It is important for brand owners to consider their key licensing arrangements and the possible competitive implications of those arrangements.

WHY REPEAL SECTION 51(3)?

There has been a long-standing controversy surrounding the exemption.

The rationale for the section was to resolve the perceived conflict between certain IP rights that grant IP owners exclusive or monopoly rights, and the prohibition of anti-competitive conduct in competition law. There was also a concern that, without such an exemption, there was a risk of R&D/innovation being stifled due to the competition laws placing constraints on IP owners' abilities to commercially exploit their IP rights. The potential for anticompetitive conduct as part of the exploitation of IP rights was dealt with by ensuring that commercialisation of IP rights were still subject to the prohibition against misuse of market power.

The report of the Harper Review into National Competition Policy (March 2015) criticised the above rationale on the basis that some IP licensing or assignment activity does give rise to competition concerns that should be addressed by the CCA. The pharmaceutical and IT/telecommunication sectors were identified as particular areas of concern.

The Explanatory Memorandum to the Bill states that IP rights and competition are no longer thought to be in 'fundamental conflict'. IP rights do not, in and of themselves, have significant competition implications. Rather, competition concerns arise in those cases where there are few substitutes or where the aggregation of IP rights may create market power.

In this regard, the repeal of the exemption, while removing some comfort that existed for IP owners, may be less significant than it appears because IP owners were always subject to the misuse of market power provisions of the CCA in any case. In many instances, licence conditions would not be prohibited as they do not have the purpose or effect of 'substantially lessening competition', which is the test for illegality in all but the automatic or per se offences under the CCA.

It was therefore recommended by the Harper Review that the exemption be repealed. This view was supported by a number of earlier reviews. In particular the *Review of Intellectual Property under the Competition Principles Agreement* (2000) chaired by Professor Henry Ergas concluded that the scope of the exemption was unclear, as was the extent to which it was relied upon in practice. Those findings were reinforced by the Productivity Commission's *Intellectual Property Arrangements Inquiry Report* (December 2016), which also recommended the repeal of the exemption.

The repeal will align Australia with other comparable jurisdictions. As noted by the Harper Review, the United States, Canada and Europe do not provide an exemption from competition laws for conditions of IP transactions.

The Harper Review also noted that section 51(3) could be replaced by more limited 'class exemptions', to provide a safe harbour for certain IP licensing and assignments. Safe harbour protections are common in many jurisdictions, including Europe, the United States, Canada and New Zealand, and are seen as an important means of increasing efficiency in IP dealings. Changes to the CCA that came into effect in November 2017 provide a mechanism for such class exemptions.

It will be interesting to see whether the ACCC moves quickly following the repeal to engage with industry and develop a class exemption for certain IP licensing conditions.

WHAT CAN BUSINESSES EXPECT?

Once the Bill is passed, section 51(3) of the CCA, and the equivalent provisions in the Competition Code enacted in each of the States and Territories, will be repealed.

The new law will operate retrospectively and apply to licences granted, assignments made and contracts, arrangements or understandings entered on, after, or before commencement of the Bill.

However, businesses will have six months from the day the Bill receives the Royal Assent to review existing IP arrangements to ensure compliance with the competition provisions of the CCA.

If necessary, businesses can apply to the Australian Competition and Consumer Commission (ACCC) for authorisation of restrictions/conditions in licences (for both existing and prospective licences), or as stated above, work with the ACCC to develop safe harbours under a class exemption.

From a practical perspective, IP owners need to consider the key or core licensing arrangements over the next six months and consider the competition law implications of conditions/restrictions in these licences.

For more information about the content of this Insight, or assistance with compliance on your competition law obligations, please contact a member of the K&L Gates Competition and Consumer Law team or a member of the K&L Gates Intellectual Property or Technology Transactions teams.

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