

## READY OR NOT, COMPETITION LAW EXEMPTIONS FOR IP RIGHTS ARE ABOUT TO BE REPEALED

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**Antitrust, Competition & Trade Regulation Alert**

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### IN BRIEF

- The repeal of the exemptions relating to the licensing and assignment of intellectual property (IP) rights from certain competition law provisions in Australia will soon take effect.
- From **13 September 2019**, IP-related arrangements and transactions will be subject to liability under competition law prohibitions, particularly:
  - cartel conduct
  - exclusive dealing (including exclusive licences) and other restrictions that have the purpose or effect of substantially lessening competition.
- The ACCC has released Draft Guidelines to assist with the transitional process for IP rights holders which identify the types of conduct that are likely to raise competition law concerns and set out the ACCC's compliance and enforcement principles in this space.
- There is likely to be significantly more regulatory attention paid to the arrangements surrounding IP rights in the aftermath of the repeal.

Businesses are strongly advised to review their IP arrangements for exposure to competition law risks in the lead-up to 13 September 2019.

### WHAT WERE THE PREVIOUS EXEMPTIONS FOR ARRANGEMENTS RELATING TO IP RIGHTS?

Section 51(3) of the *Competition and Consumer Act 2010* (CCA) provided that the conditional licensing or assignment of certain IP rights, including patents, registered trademarks, registered designs or copyright, were exempt from the prohibitions on cartel conduct, exclusive dealing and other anti-competitive agreements. The exemption was limited to where the conditions imposed "relate to" the subject matter of the relevant IP right.

The exemption applied to conditions that could amount to cartel conduct (such as pricing restrictions and output restrictions), exclusive dealing (through the grant of exclusive licences), concerted practices (that could potentially arise from competitors sharing information) and other arrangements that substantially lessen competition.

In practice however, the effect, scope and reach of the section 51(3) exemptions had not been extensively tested.

## WHAT WILL THE KEY RISKS AFTER 13 SEPTEMBER 2019 BE?

Upon the repeal of section 51(3) taking effect on 13 September 2019, IP-related transactions and arrangements will be subject to the full array of prohibitions against anti-competitive conduct. This includes prohibitions on resale price maintenance and misuse of market power which were not previously subject to the exemptions.

Although the ACCC's Draft Guidelines highlight that the existing exemptions are likely to be limited in scope, its repeal will still materially heighten the risks under competition law for a number of commonly imposed conditions in IP-related dealings.

### Cartel conduct risks

With respect to cartel conduct, the licensing or assignment of IP rights between competitors (cross-licensing) will likely amount to cartel conduct where the following conditions are imposed:

- Price restrictions with the purpose or likely effect of fixing or maintaining prices
- Territorial restraints with the purpose of directly or indirectly allocating markets
- Output restrictions with the purpose of directly or indirectly restricting production, capacity or supply.

### Exclusive dealing risks

With respect to exclusive dealing, licences granted under the condition of exclusivity (i.e. the rights holder is prevented from granting additional licences) will be prohibited where they have the purpose or likely effect of substantially lessening competition.

### Other anti-competitive conduct risks

With respect to anti-competitive agreements prohibited under section 45 of the CCA, the ACCC's Draft Guidelines indicate that conditions which sought to "gain advantages collateral to" the IP rights were not "related to" those rights. Accordingly, conditions of this nature have never had the benefit of the section 51(3) protections where they had the purpose or effect of substantially lessening competition.

The types of conditions "collateral to" IP rights which remain vulnerable following the repeal include:

- Time restrictions which restrain behaviour beyond the expiration of the IP right licensed or assigned
- 'Grant-back' provisions requiring the exclusive licensing back to the original rights holder of any improvements generated through the licensee's use of the IP rights
- 'No challenge' provisions preventing challenges to the validity of the IP rights underpinning a licence.

The Draft Guidelines identify that there is unlikely to be any additional risk attaching to agreements authorising the use of a certification trade mark (CTM), given that ACCC approval would have already been granted before any CTM was registered.

**It is important to note** that the repeal of the IP exemptions can apply retrospectively. Any 'effect' given to arrangements entered into **before or after** 13 September 2019 will attract liability under the CCA.

The processes of Authorisation and Notification remain available for businesses to obtain legal protection for conduct which might otherwise breach the CCA, although Authorisation cannot be obtained retrospectively.

## **HOW WILL THE ACCC APPROACH COMPLIANCE AND ENFORCEMENT?**

Businesses may be able to draw some comfort from the compliance and enforcement principles contained in the ACCC's Draft Guidelines.

The ACCC makes clear its view that the licensing or assignment of IP rights usually encourages and promotes competition, by enabling those rights to be better exploited than they would have been otherwise.

In considering whether an IP licence or assignment falls foul of competition law, the ACCC has stated that intellectual property rights are not in and of themselves determinative of market power and further, that gaining or extending existing market power is not of itself prohibited. A lack of effective competitive constraints is central to the ACCC's consideration of market power.

Finally, the ACCC has emphasised that with respect to all competition law provisions other than cartel conduct and resale price maintenance, the conditional licensing of IP rights is only problematic where the conditions have the purpose, effect or likely effect of substantially lessening competition.

Understanding how the ACCC approaches the "substantially lessening of competition" test is necessary to manage risk and ensure compliance with the CCA.

The recent Harper Review of competition laws indicated that the industries likely to be most affected by the repeal are those heavily reliant on IP rights, including the pharmaceutical, biotechnology, and telecommunications industries.

## **WHAT SHOULD BUSINESSES DO NEXT?**

The ACCC has indicated that its immediate focus will be to ensure that businesses are aware of the changes to their competition law obligations. However, the significant penalties for breaches of competition laws should serve as a caution and incentive for businesses to assess their own compliance.

The maximum penalties for competition law breaches are: the greater of AUD10 million, 3 x the value of the benefit or 10% of annual turnover, per contravention. In addition, breaches of cartel conduct laws can attract jail sentences.

In response to the removal of the IP exemptions, we strongly recommend that businesses:

- carefully consider their existing IP licensing and assignment arrangements and agreements for competition law risks. These risks are, as identified by the ACCC, likely to extend to reasonably commonplace commercial arrangements, including 'grant-back' provisions and cross-licensing arrangements

- consider whether an application for Authorisation or Notification should be lodged to obtain legal protection for potentially problematic arrangements that result in public benefits.

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

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