

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE****Licensing of IP rights and competition law – Note by Australia****6 June 2019**

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<http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm>

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Introduction

1. Intellectual property rights will soon be fully subject to competition law in Australia, following the recent repeal of a limited exemption in section 51(3) of the *Competition and Consumer Act 2010* (Cth) (CCA). The repeal, which comes into effect on 13 September 2019, will mean that competition law will apply to conduct involving intellectual property rights in the same way as it does to other types of conduct.
2. The limited exemption in section 51(3) of the CCA has been carried through several iterations of Australian competition law, including the *Trade Practices Act 1965* (Cth), the *Restrictive Trade Practices Act 1971* (Cth), the *Trade Practices Act 1974* (Cth), and the current CCA.
3. Prior to the repeal, there had been very few cases involving alleged breaches of competition law in which section 51(3) was raised as a defence. The ACCC had only pursued two such cases, one of which was settled out of court.¹ The other was ACCC v Pfizer, in which the ACCC alleged, among other things, that Pfizer's bundled supply of an atorvastatin product to pharmacies was anticompetitive (see case study).
4. The remainder of this paper discusses the recently repealed limited exemption, which was formerly contained in section 51(3) of the CCA.

1. Rationale and scope of section 51(3) of the CCA

5. Section 51(3) exempted intellectual property-related conduct from the application of competition law because the 'prevailing view at the time the exemption was enacted was that IP rights and competition policy were in fundamental conflict'.²
6. The National Competition Council's 1999 report on its *Review of Section 51(2) and 51(3) of the Trade Practices Act 1974* (the **Report**) stated that:

*Assertions of conflict between competition law and intellectual property laws arise from the use of the term 'monopoly' to describe intellectual property rights. Sometimes intellectual property laws are described as granting a legal monopoly in the sense of being exclusive rights free from interference from other parties. At other times, intellectual property laws are described as granting an economic monopoly in the sense of providing monopoly profits. At its simplest, the conflict is said to arise from competition laws seeking to promote competition and intellectual property laws guaranteeing protection against competition.*³

¹ <https://www.accc.gov.au/media-release/accc-settles-with-seven-network-and-golden-west-network-on-darwin-and-regional-wa>

² Productivity Commission, *Intellectual Property Arrangements*, inquiry report, December 2016, p.445.

³ National Competition Council, *Review of Section 51(2) and 51(3) of the Trade Practices Act 1974*, final report, March 1999, p.157.

7. However, the Report argued that ‘the perceived conflict between competition laws and intellectual property laws stems from a misunderstanding of "markets" and "monopolies"’, noting:

The existence of a monopoly depends on whether substitution between products or by producers is feasible and whether the intellectual property owner can raise prices by reducing output. Intellectual property laws do not create monopolies in markets because viable substitutes to products made using intellectual property are normally available. Only in rare cases will the use of intellectual property rights through licensing, marketing or selling products result in the holder of the intellectual property rights gaining a monopoly position in a particular market.⁴

8. However, despite the prevailing view at the time of its introduction, the section only ever offered a limited exemption from competition law. Firstly, it only exempted conduct that might constitute a contravention of the competition laws by reason of:

- 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, or
- inclusion of certain provisions in contracts, arrangements, or understandings in relation to other trade marks (not certification trade marks) between registered proprietors or registered users of the trademark.

9. 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.

10. Secondly, conduct that contravened the following prohibitions on restrictive trade practices was not included in the exemption:

- conduct engaged in by a corporation with substantial market power for the purpose, or with the effect or likely effect, of substantially lessening competition (section 46 of the CCA)
- conduct engaged in by a corporation with substantial market power in a trans-Tasman market for a proscribed purpose (section 46A of the CCA), and
- engaging in resale price maintenance (section 48 of the CCA).

11. Intellectual property-related conduct was always subject to these prohibitions, which have changed their scope slightly over the years.⁵

⁴ National Competition Council, *Review of Section 51(2) and 51(3) of the Trade Practices Act 1974*, final report, March 1999, pp.157-8.

⁵ For example, amendments to section 46 of the CCA in November 2017 introduced a ‘substantial lessening of competition’ test into the misuse of market power prohibition, replacing the previous focus on whether or not a firm had engaged in misuse of market power for a proscribed purpose.

12. Finally, conduct relating to other types of intellectual property not mentioned in section 51(3), such as confidential information or trade secrets, was not subject to the exemption.

2. Changing attitudes to intellectual property rights and competition law

13. Over the last 20 years, section 51(3) has been considered by a number of reviews, including:

- National Competition Council's 1999 report on its Review of Section 51(2) and 51(3) of the Trade Practices Act 1974
- Intellectual Property and Competition Review Committee's 2000 report on its Review of Intellectual Property Legislation under the Competition Principles Agreement (the Ergas Report)
- Australian Law Reform Commission's 2004 report on Genes and Ingenuity – Gene Patenting and Human Health
- Australian Law Reform Commission's 2013 report on Copyright and the Digital Economy
- House of Representatives Standing Committee on Infrastructure and Communications' 2013 report on its Inquiry into IT pricing
- Competition Policy Review Panel's 2015 final report (the Harper Review), and
- Productivity Commission's 2016 final report into Intellectual Property Arrangements.

14. The first three reviews recommended the amendment of section 51(3), while the latter four reviews recommended the repeal of the section altogether.

15. However, this situation was complicated by the fact that some of these reviews also recommended that other amendments be made to Australia's competition laws, which would have had an impact on the exposure of intellectual property-related conduct to prohibitions on anti-competitive practices.

16. Most notably, the Harper Review recommended that vertical supply arrangements, which could include some kinds of intellectual property licensing, be more broadly exempted from prohibitions on cartel conduct, and therefore not prohibited under the CCA unless they had the purpose, effect, or likely effect of substantially lessening competition.⁶

17. The Australian Competition and Consumer Commission (ACCC), the independent statutory agency tasked with the enforcement of the CCA, opposed this recommendation, arguing that *'broadening the exemption for vertical restrictions...may create a loophole for firms to establish (vertical) contractual arrangements which serve little purpose other than to ensure substantively horizontal agreements are technically excluded from the cartel*

⁶ Competition Policy Review Panel, *Final Report*, March 2015, pp.58.-9, 364-5.

provisions'.⁷ Nevertheless, the recommendation was supported by the Productivity Commission in 2016,⁸ but to date it has not been implemented by the Australian Parliament.

3. The repeal of section 51(3) of the CCA

18. The Australian Parliament repealed section 51(3) in the first quarter of 2019,⁹ noting:

*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 implications arise in those cases where there are few substitutes or where the aggregation of IP rights may create market power.*¹⁰

19. The Government made particular mention that the Competition Policy Review Panel's 2015 final report and the Productivity Commission's 2016 final report into *Intellectual Property Arrangements* had both recommended the repeal of section 51(3).

20. The repeal will take effect from 13 September 2019, and will apply to a licence granted, an assignment made, or a contract, arrangement or understanding entered into on, before, or after that date. This delayed commencement 'will give individuals and businesses time to review existing arrangements to ensure they comply with the competition provisions of the CCA'.¹¹

21. Following the repeal of section 51(3), conduct involving intellectual property rights will be subject to Australia's competition laws in the same manner as other conduct. The following provisions, previously the subject of the exemption in section 51(3), will now apply to conduct involving intellectual property rights:

- 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).

22. The ACCC is preparing guidelines to set out its understanding of the law for the general guidance of intellectual property rights holders, legal practitioners, and business advisers. These guidelines will outline how the ACCC proposes to investigate and enforce

⁷ Australian Competition and Consumer Commission, *Submission to Competition Policy Review Draft Report*, November 2014, p.41.

⁸ PC, inquiry report, p.457.

⁹ The section was repealed by the *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (Cth), which passed both Houses of Parliament on 18 February 2019 and received Royal Assent on 12 March 2019.

¹⁰ *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (Cth), Explanatory Memorandum, para 4.4.

¹¹ *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (Cth), Explanatory Memorandum, para 4.11.

Part IV in relation to conduct involving intellectual property rights. They will also provide hypothetical examples to illustrate conduct that the ACCC is likely or unlikely to contravene Part IV.

23. However, the guidelines are an indication only of the ACCC's likely approach. Businesses may also be subject to action by private parties for alleged contraventions 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.

24. Where holders of IP rights contend that the public benefits of restricting use of those rights outweigh the anticompetitive detriments, the provisions of the CCA provide for an authorisation process which provides for legal protection in those circumstances.

Box 1. Case study - ACCC v Pfizer Australia Pty Ltd

[2015] FCA 113 (25 February 2015) - [2018] FCAFC 78 (25 May 2018)

In 2015 The ACCC alleged misuse of market power and exclusive dealing in relation to Pfizer's supply of atorvastatin to pharmacies in the lead up to the expiry of its patent.

The ACCC alleged that Pfizer offered, to pharmacies, significant discounts and rebates on previous sales of Pfizer's Lipitor, conditional on pharmacies acquiring a minimum volume of up to 12 months' supply of Pfizer's generic atorvastatin product. The offers were made at a time before Pfizer would lose patent protection for the Atorvastatin molecule, and when suppliers of generic medicines were unable to make competing offers of the product to pharmacies.

The ACCC alleged that by engaging in this conduct, Pfizer misused its market power for the purpose of deterring or preventing competitors in the market for atorvastatin from engaging in competitive conduct in contravention of s46 of the CCA, and exclusive dealing for the purpose of substantially lessening competition in contravention of s47 of the CCA.

Pfizer raised section 51(3) as a defence to the alleged contravention of section 47 of the CCA.

Relevantly, section 51(3) of the CCA previously provided that imposing or giving effect to conditions of a license granted by a licensee or owner of a patent would not contravene section 47 in circumstances where the condition relates to the patented invention or articles made by the use of that invention.

Pfizer submitted that in supplying Atorvastatin to pharmacies, it was acting as a licensee of the Atorvastatin patent granting a sub-licence for the use of the patent to the pharmacies. It argued that the condition on which it had offered discounts, rebates or credits on sales of Atorvastatin to pharmacies, was a condition of the sub-licence and related to the invention to which the Atorvastatin patent related and/or articles made by use of that invention.

At trial and on appeal, the ACCC's applications regarding s46 and 47 were dismissed. However, Pfizer's defence of the s47 allegations under section 51 (3) was also dismissed.

The Full Court of the Federal Court of Australia upheld the primary judge's finding, based on a "collateral advantage" test, that the conditions of supply imposed by Pfizer were conditions by which Pfizer sought to obtain advantages that went beyond the rights afforded to it as the patent licensee. The Full Court was persuaded that s51(3), which determines the scope of restrictions that a patentee can impose on the use of a patent, is focused on the invention and articles (products) made from the use of the invention, and that licensing should not tie in "collateral obligations or advantages". The Full Court found that the conditions imposed by Pfizer did not deal with "the subject matter of the intellectual property itself, the atorvastatin tablets", but instead imposed restrictions on the pharmacies' ability to purchase atorvastatin from Pfizer's competitors*.

*[2018] FCAFC 78 (25 May 2018), 597-606.