

**HARPER REPORT IMPLEMENTATION BREAKDOWN:**  
**REPEAL OF SECTION 51(3) OF *COMPETITION AND CONSUMER ACT 2010* (CTH)**  
**AND LACK OF PROPOSED SUPPLY/ACQUISITION AGREEMENT CARTEL**  
**EXCEPTION**

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**I Repeal of s 51(3) of CCA without a proposed competitor supply/ acquisition exception to cartel prohibitions**

1. The Treasury Laws Amendment (2018 Measures No. 5) Act 2019 (**TLA Act**) repeals s 51(3) of the *Competition and Consumer Act 2010* (Cth) (**CCA**); s 51(3) sets out exceptions for certain IP licensing conditions. The TLA Act provides for a six-month period after enactment before the repeal of s 51(3) operates.
2. The TLA Act does not include a supply/acquisition agreement excepting supply agreements between competitors from the application of the cartel prohibitions under the Act (**Competitor Supply/Acquisition Cartel Exception**). The lack of any accompanying supply/acquisition exception is inconsistent with Recommendation 27 of the *Competition Policy Review Final Report* (31 March 2015) (Harper Report).<sup>1</sup> Recommendation 27 is that the repeal of s 51(3) of the CCA be accompanied by a Competitor Supply/Acquisition Cartel Exception. The failure to create a Competitor Supply/Acquisition Cartel Exception when repealing s 51(3) is not addressed in the Explanatory Memorandum to the Treasury Laws Amendment (2018 Measures No. 5) Bill or the Second Reading Speech. This is remarkable and gives the cartel prohibitions an excessively broad reach. The Harper Report implementation process has broken down.
3. This critique sets out:

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<sup>1</sup> Available at <http://competitionpolicyreview.gov.au/>.

- the Harper Report recommendation (Recommendation 27) that s 51(3) be repealed if a Competitor Supply/Acquisition Cartel Exception is introduced, the ensuing proposal in the Exposure Draft Bill in October 2016 (s 44ZZRS), and the contrasting vertical supply exception under s 32 of the *Commerce Act 1986* (NZ) (Part II);
- a recap on why a Competitor Supply/Acquisition Cartel Exception is needed and overdue (Part III);
- spurious inputs of the ACCC on the relationship between the repeal of s 51(3) and the need for a Competitor Supply/Acquisition Cartel Exception (Part IV);
- the failure of the Explanatory Memorandum to the Treasury Laws Amendment (2018 Measures No. 5) Bill and the Second Reading Speech to address the relationship between the repeal of s 51(3) and the need for a Competitor Supply/Acquisition Cartel Exception (Part V);
- examples that, in the context of IP licensing, demonstrate the overreach of per se cartel prohibitions unless there is a Competitor Supply/Acquisition Cartel Exception (Part VI); and
- the breakdown in the Harper Report implementation process that is apparent from the TLA Act (Part VII).

## **II Harper Report Recommendation 27, proposed s 44ZZRS in Exposure Draft Bill (October 2016), and vertical supply exception in *Commerce Act 1986* (NZ)**

4. The Harper Report recommended (Recommendation 27) that the CCA be amended to exempt supply/acquisition agreements between competitors (including intellectual property licensing) from the cartel prohibitions:

An exemption should be included for trading restrictions that are imposed by one firm on another in connection with the supply or acquisition of goods or services (including intellectual property licensing), recognising that such conduct will be prohibited by s 45 of the CCA (or s 47 if retained) if it has the purpose, effect or likely effect of substantially lessening competition. ...<sup>2</sup>

[A]s is the case with other vertical supply arrangements, IP licences should be exempt from the per se cartel provisions of the CCA insofar as they impose restrictions on goods or services produced through application of the licensed IP. Such IP licences should only

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<sup>2</sup> Recommendation 27.

contravene the competition law if they have the purpose, effect or likely effect of substantially lessening competition.<sup>3</sup>

5. The Model Legislative Provisions appended to the Harper Report included an exemption for restrictions on supply or acquisition by competitors (s 45J). The Exposure Draft Bill in October 2016 included a similar exemption; the following section would replace the then s 44ZZRS (“**Exposure Draft s 44ZZRS**”):

**44ZZRS Restrictions on supplies and acquisitions**

(1) Sections 44ZZRF, 44ZZRG, 44ZZRJ and 44ZZRK do not apply in relation to making, or giving effect to, a contract, arrangement or understanding that contains a cartel provision to the extent that the cartel provision:

(a) imposes, on a party to the contract, arrangement or understanding (the acquirer) acquiring goods or services from another party to the contract, arrangement or understanding, an obligation that relates to:

(i) the acquisition by the acquirer of the goods or services;

(ii) the acquisition by the acquirer, from any person, of other goods or services that are substitutable for, or otherwise competitive with, the goods or services; or

(iii) the supply by the acquirer of the goods or services or of other goods or services that are substitutable for, or otherwise competitive with, the goods or services; or

(b) imposes, on a party to the contract, arrangement or understanding (the supplier) supplying goods or services to another party to the contract, arrangement or understanding, an obligation that relates to:

(i) the supply by the supplier of the goods or services; or

(ii) the supply by the supplier, to any person, of other goods or services that are substitutable for, or otherwise competitive with, the goods or services.

Note: A defendant bears an evidential burden in relation to the matter in subsection (1) (see subsection 13.3(3) of the Criminal Code and subsection (2) of this section).

(2) A person who wishes to rely on subsection (1) in relation to a contravention of section 44ZZRJ or 44ZZRK bears an evidential burden in relation to that matter.

(3) This section does not affect the operation of section 45 or 47.

6. One concern expressed about the Exposure Draft s 44ZZRS exemption was that it would not cover some vertical restrictions that would be exempt under the exclusive

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<sup>3</sup> *Competition Policy Review: Final Report (2015)*, 110.

dealing exemption in the current law.<sup>4</sup> However, that concern could be met by deleting the words after “goods or services” in the phrase “goods or services that are substitutable for, or otherwise competitive with”.<sup>5</sup> Another concern was that the Exposure Draft s 44ZZRS exemption would not cover situations where an obligation is imposed on a supplier that relates to the acquisition by the supplier, from any person, of goods or services.<sup>6</sup> That concern could be met by amending the provision to cover that situation.

7. More importantly, the Exposure Draft s 44ZZRS exception has not been drafted with IP licensing restrictions in mind and is seriously flawed in that respect. This is demonstrated by the failure of Exposure Draft s 44ZZRS to cover many kinds of IP licensing restrictions on a competitor that are pro-competitive or innocuous. See Examples 2 – 6 in Part VI below.
8. Contrast the exemption for “vertical supply contracts” under the *Commerce Act 1986* (NZ), s 32 of which provides:

**32 Exemption for vertical supply contracts**

- (1) Nothing in section 30 applies to a person who enters into a contract that contains a cartel provision, or who gives effect in relation to a cartel provision in a contract, if—
  - (a) the contract is entered into between a supplier or likely supplier of goods or services and a customer or likely customer of that supplier; and
  - (b) the cartel provision—
    - (i) relates to the supply or likely supply of the goods or services to the customer or likely customer, or to the maximum price at which the customer or likely customer may resupply the goods or services; and
    - (ii) does not have the dominant purpose of lessening competition between any 2 or more of the parties to the contract.

9. The NZ vertical supply contract exemption is subject to the requirement that the cartel provision in issue “not have the dominant purpose of lessening competition between any 2 or more of the parties to the contract.” By contrast, the Exposure Draft s 44ZZRS exception did not include such a requirement. By further contrast, the joint venture exemptions under s 45AO and s 45AP of the CCA require that “the joint venture is not carried on for the purpose of substantially lessening competition”. Some safeguard is necessary, as is evident from *H Lundbeck A/S and Lundbeck Ltd v European*

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<sup>4</sup> Law Council of Australia, Competition & Consumer Committee Business Law Section, Submission on Competition Law Amendments: Exposure Draft Consultation, 28 Oct 2016, 10-11.

<sup>5</sup> *Id.*, at 11.

<sup>6</sup> *Ibid.*

*Commission*.<sup>7</sup> The NZ safeguard is commendable but could be improved by making the dominant purpose referable to the purpose of the accused or defendant. As discussed elsewhere, it would be misguided to adopt a SLC purpose test of the kind that has emerged in the joint venture exemptions in s 45AO and s 45AP.<sup>8</sup>

10. The vertical supply exception under s 32 of the *Commerce Act* is drafted in wider and simpler terms than Exposure Draft s 44ZZRS and would probably apply to many IP licensing restrictions, including those of the kind set out in Examples 1 – 6 in Part VI below. The wording “relates to” in s 32 is unlikely to be interpreted restrictively; it appears to require no more than a relationship between the IP restriction and the supply or likely supply of the relevant goods.<sup>9</sup> If so, each of the IP restrictions in Examples 1 – 6 “relates to the supply or likely supply of the goods or services to the customer or likely customer” and would come within s 32.
11. There is still no specific exemption in the CCA for supply/acquisition agreements between competitors. The Exposure Draft s 44ZZRS was not adopted in the Competition and Consumer Amendment (Competition Policy Review) Bill 2017 that was enacted and came into effect on 6 November 2017. The Explanatory Memorandum to that Bill says that “the vertical trading restriction cartel exception was removed from this Bill, to be given further consideration and progressed in a future legislative package together with amendments to section 47”.<sup>10</sup> It remains unclear when, if ever, a further legislative package will emerge. The Government has failed to publish any plan for Harper Report implementation (see Part VII). Nor has any further draft Competitor Supply/Acquisition Cartel Exception been published for public consultation.

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<sup>7</sup> Case T-472/13 8 September 2016 (ECLI:EU:T:2016:449). See further R Subiotto & JF Diaz, “*Lundbeck v Commission*: Reverse Payment settlements as Restrictions of Competition by Object” (2017) 8 *Journal of European Competition Law & Practice* 27; B Fisse, “The Productivity Commission’s Recommendations on the Intellectual Property Exemption under the Competition and Consumer Act” (2017) 45 *ABLR* 260, 264-265.

<sup>8</sup> See B Fisse, “Australian Cartel Law: Biopsies” (2018) 25-26, at:

[https://www.brentfisse.com/images/Australian\\_Cartel\\_Law\\_Biopsies\\_050518\\_2.pdf](https://www.brentfisse.com/images/Australian_Cartel_Law_Biopsies_050518_2.pdf)

<sup>9</sup> Contrast CCA s 51(3), which requires a relationship between the IP condition and the relevant IP right.

<sup>10</sup> Para 15.57.

### III Recap why a Competitor Supply/Acquisition Exception is needed and overdue

12. Supply/acquisition agreements between competitors typically are pro-competitive or competitively neutral. Australian cartel law has yet to catch up with that reality.<sup>11</sup> By contrast, as noted above, a Competitor Supply/Acquisition Cartel Exception has been enacted in New Zealand.<sup>12</sup>
13. There are many examples where pro-competitive supply or acquisition agreements between competitors are caught by the CCA cartel prohibitions unless they are authorised.<sup>13</sup> For instance:
- Assume that XCO, an Australian manufacturer, agrees to supply Product D to YCO on condition that YCO agrees to supply Product E to XCO. YCO agrees to supply Product E to XCO on condition that XCO agrees to supply Product D to YCO. XCO and YCO compete against each other in the market for Product D, Product E and competing products. The reciprocal supply provisions are pro-competitive because they increase the ability of XCO and YCO to compete against major competitors in the market. Neither XCO nor YCO are prevented from deciding to acquire Product D or Product E from alternative sources at any time.
- Each reciprocal supply provision is a cartel provision, as defined by ss 45AD(3)(a)(iii) and (4). XCO and YCO compete with each other in relation to the relevant competing products. A substantial purpose of each provision is to restrict or limit the supply or likely supply of goods or services to a person (YCO or XCO) by a party to the contract (XCO or YCO) (s 45AD(3)(a)(iii)). It is irrelevant that the purpose is conditional: the purpose required to satisfy the purpose condition under s 45AD(3) may be conditional or unconditional. Nor can it be maintained that the ‘real’ or ‘ultimate’ purpose of each reciprocal supply provision is not a s 45AD(3) purpose but a purpose to ‘act in the best interests of the market’ or to ‘improve competition’: if the substantial purpose of a provision is to restrict the supply or acquisition of goods or services in the way prescribed by s 45AD(3)(a), it is irrelevant whether or not D believes that the restriction is in the best interests of the market or a way of improving competition.
14. The Harper Report therefore recommended that the CCA be amended to exempt supply/acquisition agreements between competitors (including intellectual property licensing) from the cartel prohibitions (Recommendation 27).
15. There are no current ACCC Guidelines on IP licensing<sup>14</sup> but, according to the Second Reading Speech on the Treasury Laws Amendment (2018 Measures No. 5) Bill 2018, the Commission “will issue guidance on the application of the competition law to

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<sup>11</sup> See C Beaton-Wells & B Fisse, *Australian Cartel Regulation* (2011), 8.6.

<sup>12</sup> *Commerce Act 1986* (NZ) s 32.

<sup>13</sup> Beaton-Wells & Fisse, *Australian Cartel Regulation*, 8.6.

<sup>14</sup> Contrast TPC, *Application of the Trade Practices Act to Intellectual Property* (1991).

intellectual property rights, as recommended by the Productivity Commission.”<sup>15</sup> Guidelines would not provide an exemption as recommended in Recommendation 27. There is no ACCC class exemption on IP licensing and, even if it did exist, it would be a complement to and not a substitute for an exemption of the kind recommended in Recommendation 27.<sup>16</sup>

16. It is unclear when, if ever, a Competitor Supply/Acquisition Cartel Exception will be included in a later Bill to Amend the CCA, or what form such an exemption would take.<sup>17</sup> The delay or abandonment is unfortunate in several major respects.
- Liability for cartel conduct often depends on whether or not an exemption under the CCA applies. It is often essential in practice to scan for exemptions that will save the day without the need to apply for authorisation. Authorisation is costly, bureaucratic, and limited to a public benefit test (the no-SLC limb of the test that applies to anti-competitive agreements under s 45 does not apply in relation to the per se cartel prohibitions).<sup>18</sup>
  - The exemption for exclusive dealing conduct (s 45AR) is limited in scope to exclusive dealing as defined in s 47 and does not apply in many situations where supply or acquisition agreements between competitors are not anti-competitive: See Examples 1 – 6 in Part VI below. Moreover, the Harper Report recommended that s 47 be repealed.<sup>19</sup>
  - The uncertainty and overreach occasioned by the decision of High Court in *ACCC v Flight Centre*<sup>20</sup> makes the introduction of a supply/acquisition exemption from per se cartel liability all the more important, especially in the context of dual distribution arrangements.<sup>21</sup>

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<sup>15</sup> Hansard, Senate, Thursday, 5 October 2018, 7630 at 7631. For a critique of the Productivity Commission’s recommendation about ACCC guidelines see B Fisse, “The Productivity Commission’s Recommendations on the Intellectual Property Exemption under the Competition and Consumer Act” (2017) 45 ABLR 260, 265-267.

<sup>16</sup> See further B Fisse, “The Productivity Commission’s Recommendations on the Intellectual Property Exemption under the Competition and Consumer Act” (2017) 45 ABLR 260, 268-269.

<sup>17</sup> Id, at 262-265.

<sup>18</sup> CCA s 90(8)(a). See further *Competition Policy Review: Final Report*, 398-399.

<sup>19</sup> Recommendation 33. The Government has not indicated where the Harper Report implementation is up to on s 47 today: see Part VI below.

<sup>20</sup> *ACCC v Flight Centre Ltd* [2016] HCA 49.

<sup>21</sup> See B Fisse, “The High Court decision in *ACCC v Flight Centre*: Crash Landings Ahead?” (2017) 45 ABLR 61, at 65-67.

#### IV Spurious inputs by the ACCC

##### ACCC submission to Treasury 5 October 2016

17. Part of the background to the non-adoption of the Exposure Draft s 44ZZRS in the Competition and Consumer Amendment (Competition Policy Review) Act 2017 is a submission made by the ACCC to Treasury on 5 October 2016.<sup>22</sup>
18. The ACCC submitted that Exposure Draft s 44ZZRS “has the potential to introduce inappropriately complex assessments into the application of the anti-overlap provision.” The words “goods or services that are substitutable for, or otherwise competitive with, the goods or services” would introduce a product market test that is unsuitable for jury determination in criminal cartel prosecutions. However, that concern could easily be met by deleting the words in question, as the Law Council of Australia recommended.<sup>23</sup>
19. The ACCC also submitted that the former s 44ZZRS (now s 45AR) is tied to s 47, which sets out “some distinct boundaries to the operation of the “anti-overlap”<sup>24</sup> provision” and is limited to the giving of effect to a cartel provision that amounts to exclusive dealing conduct as defined by s 47. In contrast, the proposed s 44ZZRS would be broader and less clear because it would apply to the extent that a provision in a supply or acquisition relationship “imposes ... obligations that relate to” that supply or acquisition.
20. The ACCC submission did not explore the applicability of the Exposure Draft s 44ZZRS exception to IP licensing restrictions. As discussed in [7] above, the Exposure Draft s 44ZZRS has not been drafted with IP licensing restrictions in mind and is seriously flawed in that respect. This is demonstrated by the failure of Exposure Draft s 44ZZRS to cover many kinds of IP licensing restrictions that are pro-competitive or innocuous. See Examples 2 – 6 in Part VI below.
21. The ACCC submission of 5 October 2016 sought, in a last resort, to postpone further consideration of the proposed s 44ZZRS until the Government had developed a

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<sup>22</sup> ACCC, Supplementary letter re: ACCC Submission to Exposure Draft Consultation on Competition Law Amendments, 5 October 2016, at: <https://www.accc.gov.au/system/files/ACCC%20Letter%20to%20Treasury%20-%20Submission%20on%20Harper%20Exposure%20Draft%20legis....pdf>.

<sup>23</sup> Law Council of Australia, Competition & Consumer Committee Business Law Section, Submission on Competition Law Amendments: Exposure Draft Consultation, 28 Oct 2016, 10-11.

<sup>24</sup> The notion of “anti-overlap” provisions is inapposite. The main purpose of a provision like s 45AR is not to avoid overlap but to exempt conduct that, in the general run of cases, is insufficiently anti-competitive to justify per se liability: B Fisse, “Competition, fairness and the courts” (2014) 30 Australian Bar Review 101 at 107.

proposal to further simplify the competition law, including whether to simplify s 47. Two responses may be made to this plea for postponement. First, simplification is a secondary concern to that of ensuring that substantive competition rules avoid overreach. The proposed s 44ZZRS sought to resolve a significant problem of overreach, an overreach since exacerbated by the decision of the High Court in *ACCC v Flight Centre*.<sup>25</sup> Secondly, although simplification was proposed in the Harper Report<sup>26</sup> and the Government Response to that Report,<sup>27</sup> it does not appear to be front-of-mind for the Government. The generally prescriptive CCA drafting style of the Exposure Draft Bill and the *Competition and Consumer Amendment (Competition Policy Review) Act 2017* suggests that simplification beyond minor tidy-up amendments may not happen, at least in the short- to mid-term.

### **ACCC submission to the Productivity Commission Inquiry into Intellectual Property Arrangements in Australia (Nov 2015)**

22. The ACCC submission to the Productivity Commission inquiry<sup>28</sup> advocated the repeal of s 51(3) and relied on the Harper Report without adequately reflecting Recommendation 27 of that Report.

23. The ACCC submission says this:<sup>29</sup>

... the removal of the exemption together with availability of the normal authorisation process for IP arrangements would provide the appropriate certainty and flexibility.

The Harper Review Panel (Panel) also proposed the repeal of section 51(3) in its 2015 final report, recommending that the assignment and licensing of IP rights be subject to the CCA in the same manner as transactions involving other property and assets. The Panel recommended that the repeal occur immediately, irrespective of the overarching review of IP recommended be conducted by the PC. The Panel also noted that the block exemption power that it recommended could be used to specify 'safe harbour' licensing restrictions for IP owners, as suggested by the ACCC. The ACCC supports such a power. [Footnotes omitted]

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<sup>25</sup> [2016] HCA 49.

<sup>26</sup> See especially Recommendations 23 and 27. See further The Hon S Rares J, "Competition, Fairness and the Courts" (2014) 39 Australian Bar Rev 79.

<sup>27</sup> At: <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/CPR-response>: '[t]he Government will develop a proposal to further simplify the remaining provisions of the CCA, following stakeholder consultation by the Treasury including with the ACCC, business groups and legal advisers'.

<sup>28</sup> ACCC submission to the Productivity Commission Inquiry into Intellectual Property Arrangements in Australia (November 2015), at: <https://www.accc.gov.au/system/files/ACCC%20Submission%20-%20PC%20inquiry%20into%20IP%20arrangements%20in%20Australia%20-%2030%20November.pdf>

<sup>29</sup> Id, at 14-15.

24. The slant of the ACCC submission is materially misleading. It omits reference to the fact that Recommendation 27 was not limited to the repeal of s 51(3) but required the enactment of a Competitor Supply/Acquisition Cartel Exception.

25. The Productivity Commission was not misled but followed Recommendation 27. This is the Productivity Commission's Recommendation 15.1:<sup>30</sup>

[t]he Australian Government should repeal s. 51(3) of the Competition and Consumer Act 2010 (Cth) at the same time as giving effect to recommendations of the (Harper) Competition Policy Review on the per se prohibitions.

In the view of the Productivity Commission, "reforming per se provisions in the CCA along the lines suggested by the Competition Policy Review would address legitimate concerns that socially valuable activities are not impeded."<sup>31</sup>

**V Failure of Explanatory Memorandum and Second Reading Speech to address Recommendation 27 and need for a Competitor Supply/Acquisition Cartel Exception**

26. The Explanatory Memorandum to the Treasury Laws Amendment (2018 Measures No. 5) Bill 2018 makes no mention of the fact that the Harper Report and the Productivity Commission Report both recommended that a Competitor Supply/Acquisition Cartel Exception be enacted if s 51(3) is to be repealed.

27. The explanatory text under the heading "Context of amendments" states in part that:

4.3 The Productivity Commission's (Commission) Intellectual Property Arrangements Inquiry Report (December 2016) and the Competition Policy Review (March 2015) recommended subsection 51(3) of the CCA be repealed because the rationale for the exemption has largely fallen away. The Report notes that the number of arrangements that are affected by removal of the exemption is likely to be small.

This statement omits any reference to the recommendation of the Productivity Commission and the Harper Report that a Competitor Supply/Acquisition Cartel Exception be enacted if s 51(3) is to be repealed. The statement is a forlorn attempt to paper over a large gap.

28. The explanatory text under the heading "Detailed explanation of new law" states in part that:

4.11 The delayed commencement will give individuals and businesses time to review existing arrangements to ensure they comply with the competition provisions of the

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<sup>30</sup> Productivity Commission, Report, *Intellectual Property Arrangements* (23 September 2016, published by the Government on 20 December 2016) at:

<http://www.pc.gov.au/inquiries/completed/intellectual-property#report>

<sup>31</sup> Id, at 443.

CCA. If necessary, they can apply to the Australian Competition and Consumer Commission for authorisation of their existing arrangements under Part VII of the CCA. This statement omits any reference to the recommendation of the Productivity Commission and the Harper Report that a Competitor Supply/Acquisition Cartel Exception be enacted if s 51(3) is to be repealed. The statement is another forlorn attempt to paper over a large gap.

29. The Second Reading Speech (Senator M Cash) commits the same pretence:<sup>32</sup>

Schedule 4 to this Bill repeals subsection 51(3) of the Competition and Consumer Act 2010. The Productivity Commission recommended repealing subsection 51(3) in its 2016 Intellectual Property Arrangements Inquiry Report. The 2015 Competition Policy Review also recommended repealing subsection 51(3).

Subsection 51(3) exempts licensing or assignment of intellectual property from most of the prohibitions on anti-competitive conduct in the Competition and Consumer Act. The Productivity Commission found that the rationale for the exemption has largely fallen away, as intellectual property rights and competition are no longer thought to be in fundamental conflict. Intellectual property rights do not, in and of themselves, have significant competition implications.

The measure will ensure that commercial transactions involving intellectual property rights, including the assignment and licensing of such rights, will be subject to the prohibitions on anti-competitive conduct in the Competition and Consumer Act.

The Australian Competition and Consumer Commission will issue guidance on the application of the competition law to intellectual property rights, as recommended by the Productivity Commission. ...

30. The Opposition did not oppose the repeal of s 51(3) despite the lack of any proposal to enact a Competitor Supply/Acquisition Cartel Exception. Consider what the Hon Dr A Leigh, MP said:<sup>33</sup>

Schedule 4 makes changes to the Competition and Consumer Act, removing the exemption for conditional licensing or assignment of intellectual property rights, such as patents, registered designs, copyright and eligible circuit layout rights, from prohibitions on restrictive trade practices. The Productivity Commission's Intellectual property arrangements inquiry report and the Harper review recommended that this subsection be repealed, largely because the rationale for the exemption has fallen away. The number of arrangements that are affected by removal of the exemption is likely to be small. Intellectual property rights do not of themselves have significant competition implications, and indeed the repeal of subsection 51(3) brings Australia into line with jurisdictions such as the United States, Canada and Europe, which do not provide an exemption from competition law for

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<sup>32</sup> Hansard, Senate, Thursday, 5 October 2018, 7630 at 7631.

<sup>33</sup> Hansard, House of Representatives, Wednesday, 17 October 2018, 10354.

conditions of intellectual property transactions. In those jurisdictions, and in ours following the passage of this bill, intellectual property assignments and licences and their conditions will be assessed under competition law in the same way as we assess other commercial transactions.

These glosses miss the point. They fail to reflect Recommendation 27 of the Harper Report or Recommendation 15.2 of the Productivity Commission. Repealing s 51(3) without a Competitor Supply/Acquisition Cartel Exception means that, putting aside the costly, limited and bureaucratic possible escape route of authorisation, per se liability under the cartel prohibitions will extend to commonplace IP licensing restrictions that are pro-competitive or innocuous. See Examples 1 – 6 in Part VI below.

## **VI Examples demonstrating overreach of per se cartel prohibitions in context of IP licensing unless there is a Competitor Supply/Acquisition Cartel Exception**

31. The examples set out below demonstrate the overreach of per se cartel prohibitions in the context of IP licensing unless there is a suitably drafted Competitor Supply/Acquisition Cartel Exception. Examples 1 – 3 illustrate situations where the s 51(3) exception would or would be likely to apply. Examples 4 – 6 illustrate situations where the s 51(3) exception would not apply or would be unlikely to apply but where per se liability is unwarranted because the anti-competitive effects are non-existent or uncertain in the absence of case-by-case assessment.
32. These examples are hardly exceptional or surprising. They spell out what Recommendation 27 of the Harper Report took to be almost self-evident. They are consistent with: Recommendation 15.1 of the Productivity Commission's Report, *Intellectual Property Arrangements* (2016);<sup>34</sup> the recommendation of the Ergas Report in 2000 that IP licensing conditions be excluded from per se liability;<sup>35</sup> and the literature on the competition effects of IP licensing conditions.<sup>36</sup>

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<sup>34</sup> See [25] above.

<sup>35</sup> Australia, Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement*, Final Report (September 2000) 215.

<sup>36</sup> See eg US DOJ & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* (2017); American Bar Association, *Intellectual Property and Antitrust Handbook* (2007); H Hovenkamp, M Janis, M Lemley, C Leslie & M Carrier, *IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law* (3<sup>rd</sup> ed 2016); RD Anderson & NT Gallini (eds), *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* (1998); SD Ackerman (ed), *The Interface Between Intellectual Property Rights and Competition Policy* (2007); RJ Gilbert, "Competition Policy for Intellectual Property" in P Buccirosi (ed), *Handbook of Antitrust Economics* ((2008) ch 14; GK Leonard & RO Mortimer, "Antitrust Implications of Pharmaceutical Patent Litigation Settlements" in GK Leonard & LJ Stiroh (eds), *Economic Approaches to Intellectual Property, Litigation, and Management* (2005) ch 17.

**Example 1 – territorial restriction**

33. A and B manufacture batteries for e-vehicles. A is based in California, B in Geelong. A plans to establish a manufacturing base in Australia unless it can obtain sufficient revenue by licensing its patented technology to a manufacturer that already has a manufacturing plant in Australia. A licenses its patented technology to B on terms that satisfy A's commercial strategy. A condition of the licensing agreement is that B will not export batteries that it manufactures using A's patents unless A consents in writing in advance (the "Non-Export Provision").
34. An IP licensing condition of this kind is not unusual and will not necessarily be anti-competitive.<sup>37</sup>
35. The patent licence in this example contains a cartel provision. The purpose condition under s 45AD(3)(a)(iii) applies: the Non-Export Provision has the substantial purpose of restricting or limiting the supply of goods made by the use of A's patents in a market in Australia.<sup>38</sup> The competition condition under s 45AD(4) applies: but for the patent licensing agreement with B, A is a likely competitor of B in Australia in relation to the supply of batteries for e-vehicles.
36. The current s 51(3) exception is likely to apply in this example. A territorial restriction of this kind probably "relates to" A's patents within the meaning of the subsection.<sup>39</sup>
37. The exclusive dealing exception under s 45AR would not apply. The condition imposed by A is not an exclusive dealing condition as defined by s 47. For instance, the condition does not fall within s 47(2) or (4).
38. There is no joint venture between A and B and hence the joint venture exceptions under s 45AO and s 45AP will not apply.
39. The Non-Export Provision would be covered by the Exposure Draft s 44ZZRS exception (see subsection (1)(a)(iii)).
40. There is the limited and bureaucratic possibility of authorisation. The test for authorisation in relation to cartel prohibitions is whether the public detriment of the

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<sup>37</sup> See TPC, *Application of the Trade Practices Act to Intellectual Property* (1991) 22-23; American Bar Association, *Intellectual Property and Antitrust Handbook* (2007) 170-174.

<sup>38</sup> One of several purposes is sufficient if it is a substantial purpose: CCA, s 4F(1)(a). The better view is that a substantial immediate purpose is sufficient to satisfy the purpose condition under s 45AD(3): see "Australian Cartel Law: Biopsies" (2018) 11-13, at: [https://www.brentfisse.com/images/Australian\\_Cartel\\_Law\\_Biopsies\\_050518\\_2.pdf](https://www.brentfisse.com/images/Australian_Cartel_Law_Biopsies_050518_2.pdf).

<sup>39</sup> TPC, *Application of the Trade Practices Act to Intellectual Property* (1991) 22. For an incisive analysis of the s 51(3) "relates to" test see F Hanks, "Intellectual property rights and competition in Australia" in SD Ackerman (ed), *The Interface Between Intellectual Property Rights and Competition Policy* (2007) 315, at 322-324.

cartel provision is sufficient to outweigh any public detriment. It is insufficient to show that the cartel provision does not have the purpose, effect or likely effect of substantially lessening competition in a market.

**Example 2 –field of use restriction**

41. A devises a new resin for use in fibreglass and supplies fibreglass products using this resin in several fields, namely boats, planes, and swimming pools. It has strong distribution and marketing channels in the fields of boats and planes, but not in that of swimming pools. B is a competing supplier in all three fields but has a particularly strong position in the field of swimming pools. A decides to maximise the value of its patented formula for the new resin by licensing the patent to B in the field of swimming pools (“Field of Use Provision”).
42. An IP licensing condition of this kind is not unusual and will rarely be anti-competitive. The orthodox view is that:
  - (a) patent owners may grant licences extending to all uses or limited to use in a defined field; and
  - (b) the possibility of anti-competitive effects should be tested by assessing the competition effects, not by resorting blindly to per se liability.<sup>40</sup>
43. The patent licence in this example contains a cartel provision. The purpose condition under s 45AD(3(a)(iii) applies: the Field of Use Provision has the substantial purpose of restricting or limiting the supply of goods made by B with the use of A’s patent in a market in Australia. The competition condition under s 45AD(4) applies: A is a competitor of B in relation to the supply of swimming pools.
44. The current s 51(3) exception is likely to apply in this example. A field of use restriction of this kind “relates to” A’s patent within the meaning of the subsection.
45. The exclusive dealing exception under s 45AR will not apply. The condition imposed by A is not an exclusive dealing condition as defined by s 47. For instance, the condition does not fall within s 47(2) or (4).
46. There is no joint venture between A and B and hence the joint venture exceptions under s 45AO and s 45AP will not apply.

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<sup>40</sup> American Bar Association, *Intellectual Property and Antitrust Handbook* (2007) 175-178.

47. The Field of Use Provision would not be covered by the Exposure Draft s 44ZZRS exception. The drafting of Exposure Draft s 44ZZRS does not cover a field of use restriction such as this.
48. There is the limited and bureaucratic possible solution of authorisation: see [40] above.

**Example 3 – quality restriction**

49. A and B compete in the market for building cladding products. A supplies “SafeClad” cladding materials. A has a registered trademark for SafeClad materials. B is contracted to distribute SafeClad cladding materials in Australia. The contract licenses the use of the trademark SafeClad by B. One condition is that B will not use the SafeClad trademark on any cladding materials unless the materials have been tested by an independent testing lab and have passed the exacting “X-FLAM” anti-flammatory safety standard specifications specified by A in the licensing agreement (the “Anti-Flammatory Provision”).
50. An IP licensing condition of this kind is hardly uncommon and will rarely be anti-competitive. Such a provision is intended to ensure that the IP owner’s brand reputation is not damaged by the use of a defective or unsafe product.<sup>41</sup>
51. The patent licence in this example contains a cartel provision. The purpose condition under s 45AD(3)(a)(iii) applies: one substantial purpose of the Anti-Flammatory Provision is to restrict or limit the supply of goods bearing the with the SafeClad mark in Australia. The competition condition under s 45AD(4) applies: A is a competitor of B in relation to the supply of building cladding products.
52. The current s 51(3) exception will apply in this example: see s 51(3)(c).
53. The exclusive dealing exception under s 45AR will not apply. The condition imposed by A is not an exclusive dealing condition as defined by s 47. For instance, the condition does not fall within s 47(2) or (4).
54. There is no joint venture between A and B and hence the joint venture exceptions under s 45AO and s 45AP will not apply.
55. The Anti-Flammatory Provision would not be covered by the Exposure Draft s 44ZZRS exception. The drafting of Exposure Draft s 44ZZRS does not cover an IP licensing restriction such as the Anti-Flammatory Provision.
56. There is the limited and bureaucratic possible solution of authorisation: see [40] above.

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<sup>41</sup> TPC, *Application of the Trade Practices Act to Intellectual Property* (1991) 25.

**Example 4 – removal of blocking patent restriction**

57. A and B compete in the market for smartphone chip technology in Australia. Each holds a patent that blocks the other from using market-leading smartphone chip technology in their smartphones. A licenses its blocking patent to B and B licenses its blocking patent to A. The licences are non-exclusive. They are unrestricted except that the parties agree not to commence litigation for infringement of each other’s blocking patent (“Non-Litigation Provision”) during the term of the reciprocal licensing agreement. A and B wish to avoid any further distraction and cost from continuing to litigate their respective patent claims.
58. IP licensing conditions imposed in settlement of IP disputes may be anti-competitive but often are pro-competitive.<sup>42</sup> The Non-Litigation Provision here is efficient and not a “naked” anti-competitive restraint.<sup>43</sup>
59. However, the cross-licensing agreement in this example contain a cartel provision. The purpose condition under s 45AD(3(a)(iii) applies: one substantial purpose of the Non-Litigation Provision is to restrict the supply of smartphone chip technology by A and B by constraining A and B from fully exploiting their respective patent rights. The competition condition under s 45AD(4) applies: A is a competitor of B in relation to the supply of smartphone chip technology in Australia.
60. The current s 51(3) exception does not appear to apply in this example: the non-litigation provision may not “relate to” the underlying patents in the sense required by the subsection. The view has been expressed that:<sup>44</sup>
- Conditions prohibiting a licensee from challenging the owner’s intellectual property rights do not relate to the subject matter of the licence. Furthermore, they give an owner a collateral advantage by entrenching the owner’s statutory rights by contract.
61. The exclusive dealing exception under s 45AR will not apply. The condition imposed by A is not an exclusive dealing condition as defined by s 47. For instance, the condition does not fall within s 47(2) or (4).
62. There is no joint venture between A and B hence the joint venture exceptions under s 45AO and s 45AP will not apply.

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<sup>42</sup> See further H Hovenkamp, M Janis & M Lemley, “Anticompetitive Settlement of Intellectual Property Disputes” (2003) 87 Minnesota Law Review 1719.

<sup>43</sup> See further TK Cheng, “Antitrust Treatment of the No Challenge Clause” (2016) 5 Journal of Intellectual Property & Entertainment Law 437.

<sup>44</sup> TPC, *Application of the Trade Practices Act to Intellectual Property* (1991) 27.

63. The Non-Litigation Provision would not be covered by the Exposure Draft s 44ZZRS exception. The drafting of Exposure Draft s 44ZZRS does not cover an IP licensing restriction such as a no-challenge provision.

64. There is the limited and bureaucratic possible solution of authorisation: see [40] above.

**Example 5—grant-back restriction**

65. A and B compete in a market for the development of certain kinds of cancer-removal technology. A has a killer patent for a leukaemia-related technology and licenses the technology to B on condition that B grant a non-exclusive licence back to A of further leukaemia-related discoveries by B (“Grant-Back Provision”).

66. A non-exclusive licence of this type is pro-competitive absent unusual circumstances.<sup>45</sup>

67. The licensing agreement in this example contains a cartel provision. The purpose condition under s 45AD(3(a)(iii)) applies: one substantial purpose of the Grant-Back Provision is to restrict B’s choice of to whom it will supply the service of a patent licence to use a further discovery. The competition condition under s 45AD(4) applies: A is a competitor of B in relation to the supply of patent-licences for leukaemia-related technology.

68. The current s 51(3) exception will not apply in this example. The Grant-Back Provision relates to future discoveries. It does not relate to the patent that A licenses to B.<sup>46</sup>

69. The exclusive dealing exception under s 45AR will not apply. The condition imposed by A is not an exclusive dealing condition as defined by s 47.

70. There is no joint venture between A and B and hence the joint venture exceptions under s 45AO and s 45AP will not apply.

71. The Grant-Back Provision would not be covered by the Exposure Draft s 44ZZRS exception unless the further discovery was “substitutable for, or otherwise competitive with” the IP license; the further discovery may not necessarily meet that requirement. The drafting of Exposure Draft s 44ZZRS does not adequately cover an IP licensing grant-back provision in all situations where such a provision is unlikely to be anti-competitive.

72. There is the limited and bureaucratic possible solution of authorisation: see [40] above.

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<sup>45</sup> See American Bar Association, *Intellectual Property and Antitrust Handbook* (2007) 226-232.  
<sup>46</sup> TPC, *Application of the Trade Practices Act to Intellectual Property* (1991) 27.

**Example 6—anti-cloning restriction**

73. Apple and Microsoft entered into a cross-licensing agreement. The agreement covered technical and design patents and also sought to prevent verbatim copying of products by means of an anti-copying provision (“Anti-Cloning Provision”).<sup>47</sup>
74. IP licensing conditions of this kind seem a normal incident of industrial self-protection. They are hardly a “naked” restraint that warrants per se liability.
75. In Australia, the Anti-Cloning Provision is a cartel provision. The purpose condition under s 45AD(3(a)(iii) applies: a substantial purpose of the Anti-Cloning Provision is to prevent the parties from supplying copies of each other’s technology. The competition condition under s 45AD(4) applies: the parties are competitors in the relevant market/s for the kinds of computer technology affected by the cross-licensing agreement.
76. The current s 51(3) exception probably will not apply in this example: the Anti-Cloning Provision does not appear to “relate to” the underlying patents in the sense required by the subsection.
77. The exclusive dealing exception under s 45AR will not apply. The condition imposed by the parties is not an exclusive dealing condition as defined by s 47. For instance, the condition does not fall within s 47(2) or (4).
78. There is no joint venture between A and B and hence the joint venture exceptions under s 45AO and s 45AP will not apply.
79. The Anti-Cloning Provision would not be covered by the Exposure Draft s 44ZZRS exception. The drafting of Exposure Draft s 44ZZRS does not cover an IP licensing restriction of this kind.
80. There is the limited and bureaucratic possible solution of authorisation: see [40] above.

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<sup>47</sup> “Apple and Microsoft cross-license deal includes ‘anti-cloning’ protections going back to 1997” The Verge, Aug 13, 2012, 279, at: <https://www.theverge.com/2012/8/13/3239977/apple-and-microsoft-cross-license-agreement-includes-anti-cloning>.

## VII Conclusion: Breakdown in Harper Report implementation process

81. The Harper Report implementation process has broken down. The repeal of s 51(3) in the TLA Act without any apparent proposal for introducing a Competitor Supply/Acquisition Cartel Exception is inconsistent with Recommendation 27 of the Harper Report. Examples 1 – 6 of commonplace IP licensing restrictions in Part VI above demonstrate the overreach of per se cartel prohibitions unless there is a suitably drafted Competitor Supply/Acquisition Cartel Exception.
82. One cause of the breakdown is that the Government has never published a Harper Report implementation plan.<sup>48</sup> As a result, the implementation process has become piecemeal and haphazard. Moreover, work on outstanding areas, including a Competitor Supply/Acquisition Cartel Exception and the repeal of s 47,<sup>49</sup> seems to have been left largely up to the ACCC as an internal exercise without public visibility or consultation. That approach is inconsistent with the approach professed by the Chairman of the Commission in 2011:<sup>50</sup>

I believe it is appropriate that the ACCC publicly express its views, but I also believe that the best laws will be ones that reflect debate amongst all parties. Indeed, the best laws may well not be the ones that fully reflect the views of the ACCC.

83. Given the delay that has occurred in implementing the Harper Report (it is now almost 4 years since the Report was published, and 39 months since the Government's Response to the Report), the uncertainty that surrounds recommendations yet to be implemented,<sup>51</sup> and the unfinished work seemingly consigned to a secret ACCC process, it is high time that the Government announced its intentions by publishing a Harper Report Implementation Update. The Update should include details about what exactly the Government proposes to do about a Competitor Supply/Acquisition Cartel Exception and the repeal of s 47.
84. The vertical supply exception under s 32 of the *Commerce Act* (NZ) is hardly the last word on the subject of a Competitor Supply/Acquisition Cartel Exception but does at least provide a better starting point than Exposure Draft s 44ZZRS. Perhaps a superior Australian model may emerge from a Harper Report Implementation Update of the

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<sup>48</sup> Not the same as the *Government response to the Competition Policy Review* (24 November 2015) at: <https://treasury.gov.au/publication/government-response-to-the-competition-policy-review/>

<sup>49</sup> *Competition Policy Review: Final Report*, Recommendation 33.

<sup>50</sup> R Sims, "Future Directions", 27 August 2011, Gold Coast, 8 at:

<https://www.accc.gov.au/speech/accc-future-directions>.

<sup>51</sup> See Part II and Part IV above.

kind advocated above. But the misrepresentation of Recommendation 27 in the Explanatory Memorandum and the Second Reading Speech suggests that a Competitor Supply/Acquisition Cartel Exception may drop off the legislative agenda, without justification and despite obvious practical need.