

10 February 2023

By email: [ipguidelines@comcom.govt.nz](mailto:ipguidelines@comcom.govt.nz)

Dear Commissioner

### **Submission on draft guidelines: Application of Competition Law to Intellectual Property Rights**

- 1 Duncan Cotterill thanks the Commerce Commission (the **Commission**) for the opportunity to submit on the draft guidelines on the Application of Competition Law to Intellectual Property Rights (**Guidelines**).
- 2 Duncan Cotterill's responses to the questions posed by the Commission are set out further below.

### **Framing of the Draft Guidelines and examples provided**

- 3 We welcome the Commission's Guidelines as an opportunity to create certainty for businesses in the context of the repeal of the intellectual property exceptions, thereby encouraging competition between businesses.
- 4 We agree with the Commission's view that intellectual property law and competition law are complementary.
- 5 There is however a possible tension between the two legal regimes (which we discuss further below). Currently, the draft Guidelines do not sufficiently recognise the circumstances in which conduct relating to intellectual property is both a valid exercise of those important rights and compliant with the requirements of the Act - even by businesses who hold a position of substantial power role in their relevant market(s).
- 6 We also query whether the Guidelines have been drafted in a way that gives an unnecessarily restrictive impression to businesses of the implications of the Commerce Act 1986 (**Act**) for the exercise of intellectual property rights and related matters. The Guidelines focus on actions and behaviour that the Commission considers is likely to breach the Act, rather than also discussing situations that are unlikely to breach the Act. The Guidelines also does so in a way that suggests that those actions and behaviours are very likely to breach the Act, when there are many scenarios in which those actions and behaviours will not breach that Act.
- 7 As a result, we are concerned the Guidelines as currently drafted may lead to overly cautious decision-making by market participants. This could have an unnecessary chilling effect and reduce competition in relevant markets.
- 8 Further, we understand the intellectual property exceptions in the Act, as they currently apply, to be largely untested and potentially misunderstood by many to have a broader application than what may necessarily be the case. In fact, much of the Guidelines state matters as they currently stand but the Guidelines could be read as stating that these issues arise from the changes to the law. As a result, the framing of the Guidelines and the examples provided may overstate the impact of the changes to the law.
- 9 In our view it would be best for the Commission to confirm its position on the impact of the upcoming repeal of the intellectual property exceptions in the Act.

- 10 We therefore submit that businesses using the Guidelines to ensure their activities comply with the Act would benefit from the Commission including further detail:
- 10.1 Addressing the scope and application of the intellectual property exceptions in the Act prior to repeal;
  - 10.2 Outlining the Commission's high-level expectations of the impact of the repeal of the intellectual property exceptions;
  - 10.3 To further emphasise when breaches the Act would depend on the circumstances of each individual case (by way of examples); and
  - 10.4 As to when conduct relating to intellectual property is less likely to contravene the Act (by way of examples).

### ***Useful insights from the Australian experience***

- 11 In 2019 the Australian Competition & Consumer Commission (**ACCC**) released guidelines on the repeal of a similar exception in the Competition and Consumer Act 2010 (Cth) (**Australian Law**) (**ACCC Guidelines**).
- 12 The ACCC Guidelines take care to clarify how the ACCC applies its analysis under the relevant statutory test and outlines clearly its view of behaviours that were:
- 12.1 previously permitted by the now-repealed exceptions and which remain unlikely to contravene the relevant provisions of Australian Law; and
  - 12.2 previously exempt conduct that could now be subject to the provisions of Australian Law.
- 13 As the Commission notes, questions of competition law are inherently fact-specific and require a careful analysis of complex questions of law. Specific legal advice should always be sought by businesses when required and the Commission's Guidance rightly includes an important reminder to businesses that the Guidance is not legally binding and cannot bind the Courts.
- 14 Nonetheless, in our experience businesses have a good understanding of the markets they operate in and display a willingness to comply with the Act.
- 15 We encourage the Guidance made available by the Commission for businesses to include detailed examples and instructional guidance, similar to the approach adopted effectively by ACCC. In our view this is likely to encourage local and overseas businesses wishing to pursue new opportunities in New Zealand.
- 16 The issues raised by the repeal of the intellectual property exceptions are complex and relevant in a number of use-cases. In the following sections, we focus on a couple of areas mentioned in the Guidelines to better demonstrate our above concerns with the Commission's draft Guidelines.

### **Refusals to license intellectual property**

- 17 The draft Guidelines appear to suggest that, as a result of the new section 36 test that is soon to come into force, a holder of intellectual property rights who has substantial market power would likely have to grant licenses for the use of that intellectual property to everyone who wanted them..
- 18 We query whether this is the correct position. It would seem at odds with the underlying principles to force a person to authorise another person to use their intellectual property because of their market power, i.e. this would arguably override the purpose of having an exclusive intellectual property right (and only in circumstances where a business had successfully commercialised that intellectual property right, e.g. by making it available to the benefit of consumers).

- 19 A possible answer to this situation may be the statutory exceptions set out in section 43 (i.e. that nothing in Part 2 of the Act applies in respect of any act, matter, or thing that is, or is of a kind, specifically authorised by any enactment or Order in Council made under any Act).
- 20 For example, section 10 of the Trade Marks Act 2002 provides the owner of a registered trade mark with (among other things) the exclusive right to use the trade mark and to authorise other persons to use the trade mark. Arguably, the right to authorise other persons to use the trade mark includes the right to decide whether to authorise other persons to use their trade mark and therefore section 43 would override some of the statements in the Guidelines about exclusive dealing.
- 21 The Guidelines would be a more useful tool for businesses with some clarification on the extent (or not) that section 43 of the Act and the various intellectual property rights conferred under other enactments/Orders in Council or Acts operate together to provide an clarity on the type of conduct which the Commission does will not consider likely as potentially harming competition.

### **Settlement of intellectual property disputes**

- 22 Paragraph 90 lists examples of settlement agreements that have the potential to harm competition. However, we submit that the balance of this section of the Guidelines is weighted too heavily towards the likelihood of these agreements harming competition, without giving sufficient recognition to the point that agreements of this nature may be fine in a variety of circumstances. This could act to disincentivise new market participants.
- 23 For example, paragraph 90.3 identifies agreements that result in one or both of the parties exiting a market or ceasing to engage in competitive behaviour as being an example of settlement agreements that may harm competition.
- 24 We agree with the Commission that intellectual property law and competition law are complementary. However, due to the broad nature of the Act, we would welcome clarification in the Guidance as to how the Commission will apply the Act to ensure that intellectual property rights holders are not prevented from enforcing intellectual property rights because of their market power. This clarification has not previously been required because the existence of the intellectual property exceptions deemed certain behaviours as acceptable under the Act, in recognition of this possible tension between the two complementary regimes.
- 25 If the Commission acknowledges the ability of parties to enforce their rights in this way, which is really no more than the exercise of their statutory rights, we query why parties would not be able to enter into a settlement agreement of the same effect, particularly as judges generally have the expectation that parties should seek to resolve disputes between themselves and avoid court action where possible.
- 26 If it is clear that, through enforcing intellectual property rights in the court, one party would end up exiting a market or ceasing to engage in competitive behaviour, this scenario should become the counterfactual, and therefore parties agreeing to do that through a settlement agreement wouldn't breach the Act.
- 27 We encourage the Commission to ensure the Guidelines work through the counterfactual assessment more thoroughly to outline the circumstances in which settlement agreements of this nature will be viewed as not in contravention of the Act. The Guidelines could also discuss whether settlement agreements could be permissible in circumstances where they may have the same result as if the parties were to engage in litigation to resolve the matter.
- 28 It would also be helpful for businesses if this section of the Guidelines referred to the relationship between settlement agreements and the section 30 cartel provisions and the possibility of applying for clearance as a way to get certainty where the compliance of a provision with the requirements of section 30 of the Act is unclear.

**Responses to questions posed by the Commission:**

29 We direct the Commission to our submission above, which address additional points. In addition, we answer the Commission's specific questions as follows:

How would you use these guidelines in your organisation?

30 We take the Commission's existing guidelines into account when advising our clients and will similarly use the Guidelines to inform our advice to clients.

What challenges do you consider your organisation may face because of the removal of the exceptions?

31 None. Our clients could face a degree of uncertainty from the removal of the exceptions, which may inform their decision making.

Have the Draft Guidelines affected your assessment of conduct in relation to intellectual property, or how you would advise clients?

32 As mentioned in our submission above, we welcome additional information from the Commission. Our view of the upcoming repeal of the exceptions remains that businesses will face challenges in applying the law and should seek specialist guidance where appropriate.

Is there any other information that the Commission could provide to support compliance with the Commerce Act regarding conduct in relation to intellectual property (for example fact sheets, webinars, attendance at industry conferences)?

33 Yes, all those suggestions we welcome. We also welcome expanded Guidelines and additional commentary from the Commerce Commission.

**About Duncan Cotterill**

34 Duncan Cotterill is a full service law firm with expertise in both Intellectual Property and Competition Law.

35 Our Intellectual Property team works with a wide range of creative clients whose ideas, brands and products are successful in local, national and international markets. We deliver strategic advice which helps them profit through identifying intellectual property opportunities and protecting their intellectual property rights.

36 Our Competition and Antitrust team advise on the full range of competition and antitrust matters, providing guidance on cartel issues, mergers and acquisitions, through to representation in Commerce Commission clearances, investigations and enforcement matters.

We thank the Commission for the opportunity to consult.

Yours sincerely

