GUIDELINE

COMMERCE COMMISSION
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Te Komihana Tauhokohoko

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Guidelines on the Application of Competition Law to Intellectual Property Rights

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Purpose of these guidelines

1. The Commission recognises the importance of both intellectual property rights and competition in market economies to promote innovation, economic growth and consumer welfare. Intellectual property-related business practices may be pro-competitive or competitively neutral and licensing arrangements may contribute to the dissemination and utilisation of protected innovations and creations. Such arrangements may also contain restrictions that create, enhance or maintain market power and substantially reduce competition or facilitate cartels.[1]

2. To assist businesses to better understand the application of competition law to intellectual property rights, the Commission has prepared Guidelines that explain how the Commission assesses conduct relating to intellectual property under the Commerce Act 1986 (Commerce Act). We are doing this to help businesses and other parties dealing with intellectual property rights to assess whether their conduct complies with the Commerce Act.

3. Prior to 5 April 2023, the Commerce Act contained three limited exceptions for certain conduct in relation to intellectual property.[2] From 5 April 2023, these exemptions will be removed, meaning that all conduct relating to intellectual property will be capable of breaching the Act's provisions prohibiting anti-competitive conduct.[3]

4. The Guidelines are not law and are not intended to be legally binding. They do not replace legal advice. The specific facts of each case will determine how the Commerce Act applies and you should seek legal advice on the application of the Commerce Act to your circumstances.

5. These Guidelines also do not bind the courts. It is ultimately up to the courts to determine whether conduct breaches the Commerce Act.

6. We expect our approach will evolve over time. Changes to our approach and new case law may result in changes to the Guidelines.

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1 See the OECD *Draft Recommendation on Intellectual Property Rights and Competition*, 21 March 2023.

2 The exceptions were:

- Section 7(2) of the Commerce Act, which provided: "Nothing in this Act limits or affects any rule of law relating to breaches of confidence."
- Section 36(3) of the Commerce Act, which provided: "For the purposes of this section, a person does not take advantage of a substantial degree of power in a market by reason only that the person seeks to enforce a statutory intellectual property right … in New Zealand."
- Section 45(1) of the Commerce Act, which provided:
  Nothing in this Part, except sections 36, 36A, 37, and 38, applies—

  (a) to the entering into of a contract or arrangement or arriving at an understanding in so far as it contains a provision authorising any act that would otherwise be prohibited by reason of the existence of a statutory intellectual property right; or

  (b) to any act done to give effect to a provision of a contract, arrangement, or understanding referred to in paragraph (a).

3 Although s 45(1)(b) will be repealed, it will continue to apply during a further one-year transitional period in relation to any agreement that s 45(1)(a) applied to before its repeal, which agreement was reached before 5 April 2023.

How competition law applies to intellectual property generally

7 This section sets out the general principles that will guide the Commission's approach to conduct relating to intellectual property following the repeal of the exceptions.

8 These guidelines make no distinction between conduct that may have become unlawful following, and conduct that was unlawful before, the repeal of the exceptions.

Intellectual property law and competition law are complementary

9 Intellectual property law and competition law share a common purpose of promoting innovation and dynamic efficiency and enhancing consumer welfare.

10 Intellectual property law confers exclusive rights on rights holders, and this can provide an important incentive for parties to invest in innovation and commercialisation. The process of competition also encourages firms to innovate to provide better goods and services to consumers.

Standard competition analysis applies to intellectual property

11 The characteristics of intellectual property can differ from other property. However, these characteristics can be taken into account by standard competition analysis, and do not require the application of fundamentally different principles.

12 The Commission will therefore apply the same general competition law principles to the assessment of conduct involving intellectual property that it applies to conduct involving any other form of property when considering whether conduct may contravene the Commerce Act.[4]

13 In certain circumstances, particularly where there are few actual or potential substitutes available from independent firms, the exercise of intellectual property rights can substantially lessen competition. Whether the exercise of intellectual property rights is pro-competitive or harmful to competition depends on the circumstances.

Interaction between Commerce Act and other legislation affecting intellectual property

14 Part 2 of the Commerce Act applies to the exercise of statutory intellectual property rights conferred under other legislation, for example:

14.1 the Patents Act 2013;

14.2 the Designs Act 1953;

14.3 the Trade Marks Act 2002;

14.4 the Copyright Act 1994;

14.5 the Plant Variety Rights Act 2022; and

14.6 the Layout Designs Act 1994.

15 The amendments to the Commerce Act introduce obligations that are additional to any obligations that persons may have under those (and other) Acts.

4 This is consistent with the OECD *Draft Recommendation on Intellectual Property Rights and Competition*, 21 March 2023, which recommends "Apply[ing] the same competition principles to intellectual property rights as to other forms of property, while accounting for the unique characteristics of intellectual property rights."

Key competition law provisions in the Commerce Act

16 The key competition law provisions of the Commerce Act and reference to guidance on them are set out below.

Agreements that substantially lessen competition

17 Section 27 of the Commerce Act prohibits agreements that include a provision with the purpose, effect, or likely effect of substantially lessening competition in a market. It is illegal both to reach an anti-competitive agreement and to put such an agreement into effect.

18 Detailed information on the Commission's approach to section 27 can be found in the Commission's *Fact Sheet on Agreements that Substantially Lessen Competition*.[5]

Agreements between competitors that include a cartel provision

19 Section 30 prohibits agreements between competitors that include a 'cartel provision' unless an exception applies. A cartel provision is defined as a provision that fixes prices, restricts output, or allocates markets or customers. Conduct that contravenes section 30 need not substantially lessen competition. Cartel conduct is prohibited regardless of its effect on competition.

20 The Commerce Act provides three different exceptions to the cartel prohibition for cartel provisions in certain types of agreements. If an exception applies, then the cartel provision is generally lawful provided the provision does not have the purpose, effect, or likely effect of substantially lessening competition. The three exceptions cover, to various extents:

20.1 vertical supply contracts;

20.2 joint buying and promotion agreements; and

20.3 collaborative activities.

21 Detailed information on the Commission's approach to section 30 and the exceptions can be found in the Commission's *Competitor Collaboration Guidelines*.[6]

Misuse of market power

22 Section 36 prohibits a firm with a substantial degree of market power from engaging in conduct that has the purpose, effect, or likely effect of substantially lessening competition in a market.

23 Detailed information on the Commission's approach to section 36 can be found in the Commission's *Misuse of Market Power Guidelines*.[7]

Resale price maintenance

24 Sections 37 and 38 of the Commerce Act prohibit the practice of 'resale price maintenance' for goods, including goods that are partially or fully protected by intellectual property rights.

25 Resale price maintenance occurs when a supplier of goods or a third party (such as another of the supplier's customers) specifies a minimum price and/or takes certain actions to ensure that goods are resold at a specified price. Detailed information on the Commission's approach to sections 37 and 38 can be found in the Commission's *Fact Sheet on Resale Price Maintenance*.[8]

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5 This is available at https://comcom.govt.nz/__data/assets/pdf_file/0025/90961/Agreements-that-substantially-lesson-competition-Fact-sheet-July-2018.pdf.
6 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0036/89856/Competitor-Collaboration-guidelines.pdf.
7 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0023/295160/Draft-Misuse-of-Market-Power-Guidelines-October-2022.pdf.
8 This is available at https://comcom.govt.nz/__data/assets/pdf_file/0025/96181/Resale-price-maintenance-Fact-sheet-June-2022.pdf.

Our approach to prioritisation, investigation and enforcement

26 New Zealanders are better off when markets work well and New Zealanders receive the benefits of competition. We are committed to ensuring that New Zealand businesses and consumers understand the ways in which we exercise our powers and functions.

27 When determining whether and how to investigate a particular matter, we do not apply a rigid formula. Rather, we weigh all competing considerations and exercise our judgement. Much will depend on the circumstances of the case. For example, we take into account the known nature of any matter, whether there is a reasonable basis for suspecting that a breach of the laws we enforce may have occurred or be occurring, our published *Enforcement Criteria* and our competing priorities and current enforcement focus areas. We cannot investigate every possible breach of our laws, and not every situation requires investigation.

28 Our *Investigation Guidelines* describe our screening and prioritisation processes and what to expect during an investigation.[9] Details of the available enforcement responses, and the factors that we consider when choosing the most appropriate response, can be found in our *Enforcement Response Guidelines*.[10]

Authorisation

29 The Commerce Act recognises that competition is not an end in itself, but a means by which to promote the long-term interests of New Zealand consumers.[11] Where conduct involving intellectual property rights that might breach the Commerce Act gives rise to sufficient public benefit that it should be permitted, it may be authorised by the Commission (the public benefit test). Authorisation provides protection against legal action for authorised conduct that would otherwise breach the Commerce Act.

30 Further detailed information on the authorisation process is available in the Commission's *Authorisation Guidelines*.[12]

Clearance for collaborative activities

31 A party proposing to enter into an agreement containing a cartel provision that is part of a collaborative activity can apply for clearance for that agreement. This is a voluntary regime; there is no statutory requirement to seek clearance.

32 Where we clear an agreement, parties to the agreement will not contravene the cartel prohibition or the prohibition on agreements that substantially lessen competition. In essence, a clearance provides certainty that the agreement is lawful under the Commerce Act.

33 Further information regarding the clearance regime is available in the Commission's *Competitor Collaboration Guidelines*.[13]

34 The Commission does not have the statutory power to clear conduct that breaches (or may breach) sections 27, 36, 37 or 38 of the Commerce Act. However, as noted above, parties may seek authorisation for conduct that would otherwise breach the Commerce Act.

Acquisition of intellectual property rights

35 The Commission notes that section 47 of the Commerce Act prohibits the acquisition of shares or assets of a business where that would have the effect or likely effect of substantially lessening competition in a market. "Assets" under the Commerce Act includes intangible assets, including intellectual property rights.[14]

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9 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0028/89821/Competition-and-Consumer-Investigation-Guidelines-July-2018.pdf.
10 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0030/62589/Enforcement-Response-Guidelines-October-2013.pdf.
11 *Godfrey Hirst NZ Ltd v Commerce Commission* (2011) 9 NZBLC 103,396 (HC) at [46].
12 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0012/91011/Authorisation-Guidelines-December-2020.pdf.
13 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0036/89856/Competitor-Collaboration-guidelines.pdf.
14 Commerce Act 1986, s 2.

36 Further detailed information on the Commission's approach to mergers and acquisitions is available in the Commission's *Merger and Acquisition Guidelines*.[15]

Key concepts in assessing whether conduct may breach the Commerce Act

37 Key concepts mentioned elsewhere in this Guidance are identified and briefly described below.

38 For further information on the Commission's approach, please refer to the Commission guidance identified in paragraphs [16] to [34], above.

Markets

39 A market is a description of an area or space for transactions for a product or service.[16] It includes both actual and potential transactions. A market includes not only the products and services under analysis, but any other products or services that, as a matter of fact and commercial common sense, are substitutable for them.[17] The market seeks to capture the factors that directly shape and constrain the rivalry between firms supplying the relevant products or services.[18]

40 Generally, the more closely substitutable two products are, the closer the competition and the greater the competitive constraint between those products. When assessing the degree of substitutability, the dimensions that we are likely to consider include:

40.1 The products supplied and purchased (the product dimension);

40.2 The geographic area from which the products are obtained, or within which the products are supplied (the geographic dimension);

40.3 The level in the supply chain at which the firm in question operates (the supply chain level dimension);

40.4 The different customer types (the customer dimension); and

40.5 The time within which the market operates (the time dimension).

41 Our approach to market definition is set out in detail in our *Mergers and Acquisitions Guidelines*. We define markets in a way that best isolates the key competition issues under investigation. Market definition is not an exact science, and as noted above, it is not always possible or necessary to identify precise boundaries.

42 When considering the scope of a market to which an intellectual property right relates, the Commission acknowledges that the scope of the intellectual property right will not automatically be equated with the scope of the relevant market.[19]

Substantial market power

43 The prohibition in section 36 applies to any person or firm with substantial market power. Market power comes from a lack of effective competitive constraint. Any firm that is substantially unconstrained by competitive pressures has "substantial" market power. However, it is not necessary that a firm has a monopoly or is dominant in the sense of controlling the market in order to have substantial market power.[20]

15 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0020/91019/Mergers-and-acquisitions-Guidelines-May-2022.pdf.
16 *Commerce Commission v New Zealand Bus Ltd,* above n 14, at [123].
17 Commerce Act, s 3(1A).
18 *Commerce Commission v Air New Zealand Ltd* [2011] NZHC 1285 at [124].
19 See the OECD *Draft Recommendation on Intellectual Property Rights and Competition*, 21 March 2023, recommendation 4.
20 *Commerce Commission v Telecom Corporation of New Zealand Ltd* [2010] NZSC 111, [2011] 1 NZLR 577 at [33].

44 Intellectual property rights do not necessarily, of themselves, confer substantial market power on a firm.[21] Goods or services, protected by intellectual property rights, may be subject to a competitive constraint from other substitutable goods or services.

45 However, in some situations, ownership of an intellectual property right may be a key determinant of a firm's market power. For example:

45.1 Where intellectual property rights are incorporated into a government or industry standard, intellectual property rights may become essential to the standard, and licensing those rights may be necessary to effectively compete.[22] In such situations, the owner of the intelletual property right is likely to have a greater degree of market power than might otherwise have been the case;[23]

45.2 A pharmaceutical company may enjoy market power by virtue of holding the patent for the only approved drug for a particular disease or condition;

45.3 A company may enjoy market power where products or processes are not readily substitutable;

45.4 A collecting society[24] or patent pool[25] may enjoy market power because of the breadth of intellectual property rights to which the society has access; and

45.5 A developer may enjoy market power by virtue of being the first to patent a particular technology.

46 The Commerce Act does not prohibit a firm from obtaining or strengthening market power by developing a product or process that is superior to the product or process of its rivals. However, section 36 prohibits a firm that has substantial market power from engaging in conduct that has the purpose, effect, or likely effect of substantially lessening competition.

Substantial lessening of competition

47 Conduct that does not have the purpose, effect, or likely effect of substantially lessening competition in a relevant market will not contravene sections 27 or 36.

48 When assessing the effect or likely effect of conduct on competition, the Commission usually undertakes a 'with or without test'. This compares the likely state of competition 'with' the relevant conduct, to the likely state of competition 'without' the conduct, to isolate the effect of the conduct on competition.

49 Particularly in the context of restrictive or conditional[26] licensing arrangements there may be multiple potential 'without' scenarios. These may include:

49.1 A scenario in which there is no licence or assignment of intellectual property rights at all; and

49.2 A scenario in which the licence or assignment stands without its possibly anti-competitive provisions.

50 Similarly, in innovative or nascent markets, the Commission will consider whether it is likely that the relevant product or service would have been developed or improved if the company considered itself unable to engage in the investigated conduct.

51 The Commission will consider which scenario is the most likely, having regard to the relevant evidence (for example, internal documents detailing the reason for the licensing arrangements). In some situations, it may be the case that, absent conditions, the licensor would not grant a licence at all. In such circumstances, the Commission will compare the state of competition 'with' the restrictions in question against the likely state of competition where there is no licensing or assignment of intellectual property rights at all.

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21 See the OECD *Draft Recommendation on Intellectual Property Rights and Competition*, 21 March 2023, recommendation 5.

22 This would include so called 'standard essential patents' but could include other intellectual property rights. The potential for a refusal to license a standard essential patent to contravene the Competition and Consumer Act 2010 (Cth) was raised but ultimately not decided in *Samsung Electronics Co. Limited v Apple Inc.* [2013] FCA 1142.

23 *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012).

24 A collecting society is an organization that licenses and manages copyrighted works on behalf of copyright owners.

25 A patent pool is an organization that licenses and manages patent licenses on behalf of multiple patent owners.

26 For additional information, see section on restrictive licensing, from paragraph [69], below.

52 A lessening of competition means that the rivalry between firms has been diminished or lessened, or the competitive process has been compromised or impacted. A lessening of competition includes a hindering or prevention of the process of competition.[27] Hindering competition includes delaying it.[28]

53 Factors relevant to considering whether conduct involving intellectual property rights is likely to substantially lessen competition include:

53.1 Barriers to entry or expansion. Anti-competitive harm is more likely where entry or expansion in the market affected by the conduct is difficult.

53.2 The proportion of the market(s) affected by the conduct. If the conduct relates to intellectual property that comprises a market, or a substantial proportion of a market, it is more likely to result in anti-competitive harm.

53.3 The availability of substitutes to the intellectual property that the conduct affects. If there are sufficient alternatives, and the consumers or firms affected by the conduct can quickly and easily switch to them, anti-competitive harm is less likely to occur.

53.4 The duration of the conduct. The longer the duration of the conduct, the more likely anti-competitive harm is to occur.

54 In assessing whether conduct has, or is likely to have, the effect of substantially lessening competition, we will consider pro-competitive effects of the conduct in the relevant market. In practice, the Commission finds it helpful for parties to identify such pro-competitive effects to the Commission as early as possible in the investigation process.

55 Detailed information on the application of the substantial lessening of competition test may be found in the Commission's guidance on sections 27[29] and 36,[30] respectively.

'In competition'

56 The cartel prohibition in section 30 only applies where firms are in competition in relation to the goods or services that are the subject of the cartel provision. This is not limited to current competitors but can include potential or future competitors.

57 Firms are likely to be in competition where one firm's goods or services are substitutable for similar goods or services that are supplied by the other. This will include substitutable goods that the firms are likely to produce absent the agreement:

57.1 Where, but for the agreement, a firm is likely to produce the goods or services, or substitutable goods or services, or would be likely to obtain the capacity to do so, the parties are likely to be in competition.

58 Detailed information on the Commission's approach to section 30 can be found in the Commission's *Competitor Collaboration Guidelines*.[31]

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27 Commerce Act, s 3(2).
28 *Commerce Commission v Port Nelson Ltd* (1995) 6 TCLR 406 (HC) *(Port Nelson (HC))* at 434.
29 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0025/90961/Agreements-that-substantially-lesson-competition-Fact-sheet-July-2018.pdf.
30 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0014/311360/Misuse-of-Market-Power-Guidelines-March-2023.pdf
31 These are available at https://comcom.govt.nz/__data/assets/pdf_file/0036/89856/Competitor-Collaboration-guidelines.pdf.

Types of conduct that are unlikely to breach the Commerce Act

59 The Commission aims to distinguish between desirable vigorous competition, in which some competitors do better than others but which delivers good outcomes for consumers, and conduct that harms the competitive process and results in consumer harm.

60 It is not unlawful for a firm to compete strongly, even if that causes competitors to lose sales or even to exit. Competition is unlikely to be substantially lessened by:

60.1 Genuine innovation, including the offering of new products or better or more efficient ways of delivering existing products;

60.2 Conduct that improves efficiency and drives down costs and prices to consumers in the long run; and

60.3 Firms responding to competitive offerings in the market by sustainably improving the quality or price of their product.

61 Firms and advisors should reassess their position at appropriate intervals, and consider whether conduct remains unlikely to breach s 36 of the Commerce Act, for example where there have been significant changes in market dynamics and/or the firm's market power.

Examples

Types of conduct that are unlikely to substantially lessen competition

Ice wine is a type of dessert wine, made from grapes that freeze before being picked from the vine. Ice wine is commonly produced in countries like Germany and Canada that feature wine regions that face extremely cold winters; the natural climate of New Zealand's wine-growing regions makes the production of ice wine here difficult if not impossible.

Northland Wines is a New Zealand-based wine producer, with vineyards across the country. Its interest in wine-growing technology leads Northland Wines to invest heavily in research and development. Northland Wines invents a novel technology called Frosty Vine that can be applied to grapevines in New Zealand, freezing the grapes on the vine and allowing those grapes to be turned into ice wine.

Northland Wines successfully applies for patents covering the Frosty Vine technology. Northland Wines subsequently applies Frosty Vine across its vineyards, becoming New Zealand's only local producer of ice wine. Ice wine quickly becomes a well-known segment of the New Zealand wine market, with Northland Wines' ice wine products being stocked in supermarkets and bottle stores nationwide. Northland Wines' ice wine sells for a premium over other comparable dessert wines.

Southland Wines, a competing wine producer, asks Northland Wines for a licence to use the Frosty Vine technology but Northland Wines refuses. Southland Wines complains to the Commission that Northland Wines' conduct is an anti-competitive refusal to deal.

The Commission would most likely consider Southland Wines' complaint under Section 36 of the Commerce Act.

- The Commission would first consider the relevant "with and without" scenario, including whether Northland Wines is likely to have invested in research and development if it were not able to take the exclusive benefits of its innovation. If not, the Commission would be unlikely to find a substantial lessening of competition, since the appropriate "without" scenario would be that Northland Wines would not have developed the new technology.
- If the Commission considered that Northland Wines would have developed the wine in both scenarios, the Commission would also consider the scope of the relevant markets and, in particular, whether Northland Wnes has developed a new technology that has resulted in the creation of a new market segment in New Zealand. Northland Wines' Frosty Vine technology may be an essential input into the supply of ice wine in New Zealand, but it is not an essential input into the supply of wines (or dessert wines) more broadly. Accordingly, the scope of the relevant wine market(s) will be a key aspect of the Commission's analysis. The Commission would then consider whether Northland Wines has a substantial degree of market power in any relevant product market.
- The Commission would then consider whether Northland Wines' conduct had the purpose, effect or likely effect of substantially lessening competition. Without a licence to use Frosty Vine, other winemakers are still able to supply wines, including dessert wines, that compete with Northland Wines' ice wine products. Those other winemakers may be able to invest in innovations or efficiency gains, such as those that enable them to:
    - commence producing ice wine through alternative processes; or
    - increase competition in the supply of other types of wine including but not limited to dessert wines.
- Northland Wines' refusal to license Frosty Vine could raise issues over time if market dynamics were to shift such that ice wine became sufficiently desirable as to give rise to its own product market, or a substantial part of a product market.

Types of conduct that may harm competition

62 In this section, we identify conduct that has the potential to harm competition. However, as noted above,[32] not all conduct that harms competition will breach the Commerce Act. For example, to breach section 27 and 36 of the Commerce Act, conduct must have the purpose, effect or likely effect of 'substantially' lessening competition. Firms considering engaging in conduct that has the potential to harm competition should seek legal advice before proceeding.

63 Whether the exercise of intellectual property rights breaches the Act will depend on the circumstances. In assessing whether the exercise or commercialisation of intellectual property rights could harm competition, firms should consider:

63.1 The impact of the proposed method of enforcing or commercialising the intellectual property on competition in relevant upstream or downstream markets;

63.2 Whether there are alternative ways of enforcing or commercialising the intellectual property that would otherwise achieve the desired commercial outcomes and that would not potentially harm competition; and

63.3 Whether there are any aspects of the enforcement or commercialisation of the intellectual property that are not reasonably necessary (such as provisions that seek to leverage the intellectual property to gain a competitive advantage in other product and services markets).

Refusals to license intellectual property

64 Refusals to license intellectual property are likely to be treated the same way as a refusal to provide access to a service or physical input.[33] Generally speaking, licensors are free to refuse to license other firms and to limit the use of intellectual property to either themselves or to selected licensees.

65 However, in some circumstances, a refusal to license may harm competition. Where intellectual property forms the basis of, or substantially contributes to, a firm's substantial market power, a refusal to license may restrict competition from developing in downstream markets.[34] Competition is most likely to be harmed where licensing the intellectual property is a necessary input to effectively compete in the supply of another product or service, and it cannot be lawfully or efficiently replicated, bypassed, or obtained from another supplier. For example, where intellectual property rights are incorporated into a government or industry standard, the ability to obtain a license to use those intellectual property rights may become essential to effectively compete.[35]

66 A refusal to license may include a constructive refusal to license. For example, imposition of terms that no firm would reasonably accept, and/or a margin squeeze, could amount to a refusal to supply.[36]

67 A refusal to license may harm competition without completely foreclosing access to an essential input. For example, a refusal to license might raise rivals' costs significantly, thus reducing their ability to impose a competitive constraint and enabling a firm with substantial market power to increase its prices or reduce quality and innovation.

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32 See 'Key concepts in assessing whether conduct may breach the Act' section, at page 6, above.

33 Commerce Commission *Misuse of Market Power Guidelines* (October 2022) at [87]-[92].

34 *NT Power Generation Pty Ltd v Power and Water Authority* [2004] HCA 48; (2004) 219 CLR 90 at [85]. See also, Commerce Amendment Bill 2021 (9-1) (Explanatory note) at 1. The position in New Zealand and Australia is therefore different from that in the United States: *Federal Trade Commission v Qualcomm Inc.* 969 F.3d 974 (9th Cir 2020) citing *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP,* 540 U.S. 398 (2004) at 408.

35 This would include so called 'standard essential patents' but could include other intellectual property rights. The potential for a refusal to license a standard essential patent to contravene the Competition and Consumer Act 2010 (Cth) was raised but ultimately not decided in *Samsung Electronics Co. Limited v Apple Inc.* [2013] FCA 1142.

36 A price/margin squeeze is generally considered to occur when a vertically integrated firm with substantial market power sets prices in the upstream wholesale market in a manner that prevents efficient competitors from profitably operating in the downstream retail market.

68 Where a firm or group of firms have agreed to license their intellectual property on 'Fair Reasonable and Non-Discriminatory' (FRAND) terms that are based on the value of the patented invention,[37] and offer such terms to all prospective licensees, their conduct is less likely to harm competition.

Examples

Refusal to license

Firm A is the owner of several free-to-air television channels in New Zealand. It is the most viewed television broadcaster in the country. Firm A's advance television schedules are protected by copyright. Firm A also owns a TV guide that is popular with magazine consumers and which is available online.

Firm B is a rival magazine producer that wishes to publish a TV and movie magazine and subscription-based website that consolidates national television schedules, together with information about and reviews of content available on the various video streaming services nationally.

Firm A refuses to license its television schedules to Firm B. Even though advance television schedules are publicly available to a certain extent through Firm A's own website, Firm A threatens to sue Firm B to prevent it from availing itself of the website information and using it in its own publications.

The Commission would most likely assess whether Firm A's refusal to license has the purpose, effect, or likely effect of harm competition under section 36, of the Commerce Act. In particular, the Commission would consider:

- The scope of the relevant market, and, in particular, whether the provision of advance television schedules could form a product market of its own, and the extent to which the advance television schedules of other broadcasters would be included in the relevant product market.
- The extent to which the copyright over the television schedules gave Firm A a substantial degree of market power in the relevant product market.
- Whether Firm A's conduct had the purpose, effect, or likely effect of substantially lessening competition by foreclosing entry or expansion into the relevant market(s) for the provision of TV guides. The Commission would consider the extent to which Firm A's television schedules form an important input to Firm B's proposed product, and the extent to which an inability to access those television schedules would foreclose Firm B's entry into the market. The Commission would consider whether there were any substitutes for Firm B's television schedules, such as other television channel schedules and other magazine content.

37 The precise construction of FRAND terms may differ based on the context, but typically compensation is be tied to the actual patented invention and should not include the value of market power obtained from standardization.

Examples

Refusal to license

The telecommunications industry relies heavily on standardisation. Cellular and WiFi networks rely on thousands of patented technologies in order to work. Without the widespread use of standardised technologies, interconnectivity would not be possible.

Firm A owns a large portfolio of patents that govern connectivity between consumer devices and the 5G cellular network. Firm A's patents are Standard Essential Patents (SEPs) in respect of connectivity to the 5G network and as such Firm A has committed to the relevant Standard Development Organisation to license its patents on fair, reasonable and non-discriminatory (FRAND) terms.

Firm B is a new manufacturer of cellular connectivity modules that implement the relevant sections of the 5G standard. It manufactures cellular connectivity modules for use in a range of sectors, and has recently developed a new module that can effectively withstand heat and water without any effect on the receipt of the 5G signal.

Firm C is a consumer electronics manufacturer, which has developed a range of "smart home" products including fridges, dishwashers, ovens and small appliances. Firm C's new products require 5G connectivity to operate their "smart" features. Firm C has no expertise in manufacturing cellular connectivity modules, so Firm C seeks to use Firm B's new module in its products.

Firm B contacts Firm A seeking a licence for the relevant SEPs on FRAND terms so that it can commercialise its new module and sell it to Firm C (amongst others).

Firm A refuses Firm B's request. Instead, Firm A tells Firm B that it now requires end-users of its SEPs to apply for licences directly – that is, that Firm C must apply to Firm A for a licence. Firm A subsequently offers Firm C rates and terms that greatly exceed those in Firm A's previous licences for its SEPs to third parties.

Firm B complains to the Commission, alleging a refusal to deal by Firm A. Firm C also complains to the Commission, alleging a constructive refusal to deal by Firm A (on the grounds that the fees and rates set by Firm A are so high that no party would be reasonably willing to accept the terms).

In assessing Firm A's conduct, the Commission would consider:

- The extent to which the SEPs were an important input to the manufacture of the relevant devices, and whether it was possible to manufacture and sell the goods without the use of the patents (for example using substitute patents). If use of the patents is indeed required by the relevant industry standard to manufacture Firm B's modules and Firm C's devices, a refusal to license would have the potential to harm competition.
- The extent to which a refusal to license would affect incentives to invest and innovate in downstream markets that rely on use of the standard. For example, if, by refusing to offer a licence to Firm B and/or Firm C, Firm A reduces that firm's incentives to invest and innovate, then Firm A's conduct would have the potential to harm competition.
- The extent to which Firm A's fees and rates offered to Firm C constitute an anti-competitive constructive refusal to supply, with regard to whether firms in downstream markets would be foreclosed by the level of those fee and rates. If the proposed terms did substantially reduce the margin available to firms in other markets or were sufficiently high as to constitute a constructive refusal to license, then Firm A's conduct would have the potential to harm competition.
- On the other hand, if the terms offered by Firm A to licence seekers broadly amounted to FRAND terms, then they would be unlikely to harm competition. Such assessment would require the Commission to assess and understand industry practice in respect of the relevant SEPs.

Restrictive licensing of intellectual property

69 The licensing or assignment of intellectual property rights is usually pro-competitive. Licensing enables a greater number of firms to benefit from intellectual property in offering goods or services than would otherwise have access. An increase in the number of competitors can in turn increase production, geographic distribution, and the rate at which new products are introduced to the market.

70 A non-exclusive licence of intellectual property that does not contain any restraints on the competitive freedom of the licensor or the licensee is generally pro-competitive and unlikely to raise competition concerns.

71 In some circumstances, however, intellectual property licences may harm competition, generally due to imposition of restrictive terms and conditions. Licensing conduct that is at increased risk of harming competition includes (but is not limited to):

71.1 Exclusive licensing

71.2 Price and output arrangements

71.3 Field-of-Use, Customer and Territorial Restraints

71.4 Tying and bundling

71.5 No-challenge provisions

71.6 Grant-back provisions

71.7 Aggregation of intellectual property rights.

72 Each of these are dealt with in more detail from paragraph [74], below.

73 As noted above, in a number of situations involving licensing arrangements it may be the case that, absent the conditions, the licensor would not grant the licence at all rather than allowing a license without restriction. In considering whether conduct harms competition, the Commission will compare the state of competition 'with' the provisions in question against the likely state of competition in which there is no licensing or assignment of intellectual property rights at all. This may impact the Commission's assessment as to whether the conduct identified below harms competition.

Exclusivity provisions in licensing arrangements

74 Exclusivity provisions in licensing arrangements are relatively common and are typically entered into for the purpose of incentivising the development and/or commercialisation of the licensor's intellectual property. In some circumstances, it might be that a licensor or licensee will not be willing to enter into an arrangement in the absence of an exclusivity protection.

75 Exclusivity provisions in licensing arrangements may include provisions that:

75.1 Limit the competitive freedom of the licensor by restricting the licensor from licensing the intellectual property to others or manufacturing or distributing the product itself. Exclusive licensing arrangements of this type are a form of exclusive dealing.[38] In some circumstances, however, this type of licence may exclude rivals of the licensee from accessing a necessary input, thereby preventing them from competing in the relevant market or from gaining viable scale. Such licences are most likely to harm competition where the licensed IP constitutes an important input for which there are limited cost-effective substitutes.

75.2 Limit the competitive freedom of the licensee by restricting the licensee from licensing competing IP and/or producing, manufacturing or distributing competing licensed products. This form of exclusive arrangement may harm competition if the licensee constitutes an important customer or distribution channel for rivals of the licensor, for whom there are limited substitutes. Such an exclusive licence may have the purpose or effect of excluding competing licensors by foreclosing access to the customer or distribution network, thereby hindering and/or preventing those rivals from competing or establishing sufficient scale.

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38 Commerce Commission *Misuse of Market Power Guidelines* (March 2023) at [98]-[103].

76 Exclusivity provisions in licences can harm competition in some circumstances without completely foreclosing competitors. For example, exclusive licensing might raise rivals' costs (for example, if competitors are only able to continue to operate by using more expensive alternative intellectual property or distribution channels), reducing their competitive constraint and enabling a firm with substantial market power to maintain or increase its prices while maintaining or improving market share.

77 Exclusive licensing may also harm competition if the exclusivity also restricts the ability of licensees to develop and enter with their own competing technology.

Examples

Exclusive License (restraint on licensor)

There is an emerging market in the automotive industry for advanced AI safety software that processes data from car cameras, radar and other sensors to identify hazards (such as driver drowsiness and pedestrians), make complex decisions, and take action to avoid dangerous situations. This type of software is known as Advanced Driver Assistance System (ADAS) software. ADAS software may be sold to vehicle manufacturers separately, or as a complete ADAS system integrated with sensors such as cameras and radar.

Firm A has developed pioneering ADAS software which is widely accepted to be substantially more advanced than the software offered by its competitors. It has quickly become a must-have software for vehicle manufacturers wishing to offer vehicles with advanced safety features. AI technology is extremely complex, and new entry is very expensive and time-consuming. Meaningful competitors to Firm A's software are generally accepted to be several years away from coming to market.

Firm B is a developer and manufacturer of vehicle sensors. Firm A agrees to exclusively license its software to Firm B for use with Firm B's vehicle sensors.

Rival ADAS sensor manufacturers complain that the exclusive licensing arrangement has the effect of preventing them from offering complete ADAS systems including the software to OEMs. Rivals complain that this has hindered their ability to win contracts for ADAS sensors with vehicle OEMs.

The Commission would likely assess whether Firm A's exclusive licence with Firm B harms competition under Section 27 of the Act. In particular, the Commission would consider:

- The appropriate "with or without" scenario, including whether the parties would have entered into an agreement in the absence of the exclusivity provisions and the likely state of competition in that scenario.
- The Commission would consider whether Firm A's conduct had the purpose, effect, or likely effect of substantially lessening competition.
  - In considering whether Firm A had the purpose of substantially lessening competition, the Commission would consider evidence of Firm A's purpose (such as internal documents), including any business rationale put forward by Firm A for the conduct.
  - In considering the effect or likely effect on competition in the relevant payment processing market, the Commission would consider whether entry and expansion by competitors of Firm B had been foreclosed by Firm A's conduct. Firm A's software may constitute an important input for rivals of Firm B and so the licensing arrangement may restrict their ability to compete. The Commission will consider the proportion of OEM demand that requires delivery of ADAS software together with ADAS sensors. The Commission will also consider the substitutability of alternative ADAS software.

- Another important factor is the length of the restraint and the extent to which the technology provided by Firm A will provide Firm B with an advantage over its rivals during that time period. The longer the exclusivity period, the more likely it is that any effect on competition will be substantial.

Examples

Exclusivity provisions on licensing arrangements (restraint on licensee)

Firm A has developed innovative smart ear tags for livestock which monitor animals' health, location, and movement using sensors. These smart tag sensors are combined with software that continuously processes tag data and notifies farmers when animals may be unwell or in the wrong location.

Firm A licenses its smart ear sensors to Firm B to manufacture and commercialise. Firm B is a manufacturer of standard (non-smart) ear tags. Although standard ear tags are relatively easy to manufacture, Firm B is a trusted New Zealand brand and has significant market share. It is stocked in all rural supply stores.

The licence agreement includes an exclusivity provision which requires Firm B not to develop or enter into any licence agreement to manufacture or distribute competing smart ear tags.

The Commission would likely assess the licensing provisions under sections 27 and 30 of the Commerce Act. When assessing whether Firm A's licensing terms harm competition, the Commission would consider:

- The appropriate "with or without" scenario, including whether the parties would have entered into an agreement in the absence of the exclusivity provisions and the likely state of competition in that scenario.
- Whether in the absence of the agreement, Firm B was in the process of developing, or had plans to develop, its own smart tag technology that has been barred by the licence agreement. Such an agreement could potentially constitute a breach of section 30 of the Commerce Act.
- In considering whether such an agreement gave rise to a substantial lessening of competition under section 27 of the Commerce Act, the Commission would consider the importance of Firm B as a customer / manufacturer of smart tag technology and alternative routes to market for rivals of Firm A. If there are sufficient alternative customers, including the ability for rivals of Firm A to manufacture smart tags and distribute them to customers such as rural supply stores directly, the exclusive licence is less likely to harm competition.

Territorial, Field-of-Use, and Customer Restraints

78 A licensor may grant exclusive licences to licensees that are limited to certain geographic territories, identified fields-of-use,[39] or customer groups.

79 Such restrictions may be pro-competitive to the extent that they encourage the licensor to license its intellectual property where it otherwise would not do so or to charge lower prices for licences than the licensor otherwise would. In some circumstances, a licensor might choose not to license intellectual property, or to charge a higher price for the licence, if the licensee could operate in fields or geographic regions where it exploits the intellectual property itself.

80 However, where the licensee and licensor are otherwise actual or potential competitors, exclusivity clauses that have the purpose or effect of restricting the licensee (or licensors) to geographic territories, fields-of-use, or customer groups may be cartel provisions unless an exception under the Commerce Act applies.

81 In some circumstances, such clauses could also potentially harm competition for the same reason that a broader exclusive licence might harm competition – if the intellectual property constitutes an important input for which there are limited cost-effective alternatives (for example, standard essential patents), or the licensee is an important customer of competing intellectual property.

82 Where the restrictive provision relates to the licensed product only (i.e. does not exclude the licensee from selling substitutable products), and the licensee and licensor will continue to produce or sell substitutable products in competition with each other, it may be that the provision does not, in fact, have the purpose, effect, or likely effect of market allocation. Such arrangements will, however, require careful consideration in light of the specific circumstances in each case.

Tying and bundling / portfolio licensing

83 Tying occurs when a supplier sells one good or service on the condition that the purchaser buys another good or service from the supplier. In other words, product A is only available if the buyer also agrees to buy product B. 'Bundling' occurs when a supplier offers two or more products for a lower price if the products are purchased as a package.

84 The tying or bundling of licences for products or services that are protected by intellectual property can often be good for consumers and suppliers, but sometimes tying and bundling can harm competition. For example, if a firm has substantial market power in the licensing of product A, but faces competition in the licensing of B, then by tying the supply of A and B together the firm may be able to use its power in A to prevent other suppliers from competing effectively in the supply of B.

Pricing arrangements and restraints on output

85 Agreements as to the price at which products manufactured pursuant to a licence agreement will be sold can encourage entry, investment and innovation, by preserving the value of the intellectual property for the licensor and guaranteeing a margin for licensees. Output restraints may similarly preserve licensees' margins and their incentive to promote the protected intellectual property.

86 However, where the licensee and licensor are actual or potential competitors,[40] provisions having the purpose, effect, or likely effect of fixing prices or restricting output may constitute cartel provisions under section 30 of the Commerce Act unless an exception under the Commerce Act applies.

87 Such provisions may also harm competition when included in the licensing of intellectual property that enables firms to compete who were not previously actual or potential competitors. This could include a situation where a non-competing licensor enters into licence agreements including a set or minimum price, or output restriction, to multiple competing licensees.

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39 Examples may include identified technical applications, product markets, or industrial sectors.
40 See the section 'In Competition' for more detail on whether parties are competitors.

88 Licence agreements including the resale of licensed goods (for example, licensed merchandise) could also amount to resale price maintenance, which is prohibited under section 37 or 38 of the Commerce Act if they include a minimum price clause

Examples

Price restrictions

Firm A owns the broadcasting rights for a popular sport in New Zealand. Firm A grants a non-exclusive licence to broadcast matches to three New Zealand broadcasters. Each agreement included a clause imposing a minimum price to be charged to pay-per-view customers to access the content.

The Commission would likely consider Firm A's minimum price clauses under sections 27 and 30 of the Commerce Act.

In the first instance, the Commission would consider whether the agreements, taken together, amount to a horizontal agreement between the licensees to fix the price of pay-per-view content, coordinated and supervised by Firm A. If so, this could amount to a price-fixing agreement within the meaning of section 30 of the Commerce Act.

If the facts suggest that there was no collusive arrangement between the licensees, the Commission would assess whether Firm A's minimum price clauses have the purpose, effect, or likely effect of substantially lessening competition under section 27 of the Commerce Act. The Commission would consider:

- The appropriate "with or without" scenario, including whether the parties would have entered into the relevant agreements in the absence of the minimum price provisions and the likely state of competition in that scenario. The Commission would also consider the definition of the relevant market, including the extent to which the broadcasting rights for a single sport could constitute a relevant product market (or a significant proportion of one).
- In considering whether Firm A had the purpose of substantially lessening competition, the Commission would consider evidence of Firm A's purpose (such as internal documents), including any business rationale put forward by Firm A for the conduct.
- The Commission would also consider the effect or likely effect on competition in the relevant market. Although the relevant licensing agreements are of a vertical nature, the Commission might consider whether, taken together, the agreements have the potential to reduce intra-brand competition, meaning that consumers may pay more to access the content than would otherwise be the case.

No-challenge provisions

89 A no-challenge provision requires a licensee to agree as a condition of obtaining the licence not to challenge the validity of the licensor's patent or other intellectual property right(s). A termination right if the licensee challenges the underlying intellectual property right may also effectively operate as a no-challenge provision.

90 No-challenge provisions can have some competitive benefits by encouraging licensors to license intellectual property by disincentivising costly litigation against validly held intellectual property rights.

91 However, no-challenge provisions may harm competition when they have the purpose or effect of ensuring the continued existence of IP rights that would otherwise be challenged and set aside. Licensees may be the only individuals with a sufficient understanding of the intellectual property and economic incentive to challenge the validity of IP rights. The continued existence of IP rights that would otherwise be set aside preserves the monopoly of the licensor and has the potential to stifle competition and innovation. Whether a right would be successfully challenged will be a matter of fact to be determined in each case.

Grant-back provisions

92 A grant-back provision is an arrangement under which a licensee agrees to extend to the licensor of intellectual property the right to use the licensee's improvements to the licensed technology. A grant-back clause may encourage intellectual property owners to license out technology where the licensor would otherwise be concerned that they would be denied access to improvements developed with the aid of their own technology.

93 Grant-backs may adversely affect competition, however, if they substantially reduce the licensee's incentives to develop a competing technology while also contributing to the market power of the licensor by engaging in research and development for the licensor's technology. They may also reduce the incentives of the licensor to continue to improve their own technology. This is most likely to occur when the grant-back is exclusive to the licensor because only the licensor will benefit from any improvements to the technology.

94 A non-exclusive grant-back that allows the licensee to use improvements to the technology and license it to others will not result in competitive harm in most circumstances.

Aggregation of intellectual property rights

95 The owners of intellectual property rights may reach agreements to aggregate their intellectual property. This section outlines how the Commerce Act may apply to several common situations where intellectual property rights may be aggregated:

95.1 Cross-licensing and patent pooling; and

95.2 Collecting societies.

Cross-licensing agreements and patent pooling

96 Cross-licensing agreements give two or more parties the right to use each other's intellectual property. Patent pooling involves combining intellectual property from multiple owners which is then on-licensed to third parties as a pool rather than on a patent-by-patent basis.

97 Pools of complementary intellectual property are often pro-competitive because they make it easier to obtain licences for multiple complementary technologies, thereby lowering transaction costs and creating opportunities to bring innovative products to the market. Where the patents pooled are non-substitutable, and the contributing firms remain able to individually license their patents outside of the pool, the arrangement is less likely to harm competition without some additional restriction on the conduct of licensees or licensors.

98 However, patent pools have the potential to harm competition in some circumstances if, for example:

98.1 The pool consists of substitutable intellectual property with the effect that rival patent holders are shielded from competition;

98.2 The pool confers exclusive access to important intellectual property (for example, standard essential patents) alongside non-essential intellectual property, with the potential to exclude rival patent holders or competing pools for the non-essential intellectual property. In such situations, licensees are less likely to license a competing technology outside the pool if the pool already provides a substitute technology; or

98.3 The pool is used as a shield to disincentivise the challenge of patents that would otherwise be challenged and set aside, or to extend the market power conferred by intellectual property beyond the expiration of the intellectual property protection, by mixing intellectual property that would otherwise be challenged and set aside with other intellectual property.

99 Cross-licensing and patent pools can also give rise to an increased risk of collusion. Such agreements may fall within the scope of section 30 of the Commerce Act where they are used by competitors as a vehicle to collectively set prices or restrict output. Cross-licensing or patent pooling agreements may also harm competition where they operate between potential competitors and include clauses agreeing not to develop, or to delay developing, competing technologies that would rival the cross-licensed or pooled intellectual property.

Collecting societies

100 Another situation where intellectual property may be aggregated is through a collecting society. Collecting societies are organisations that license and manage copyrighted works on behalf of copyright owners. Collecting societies can improve efficiency in licensing for copyright owners who would otherwise need to individually negotiate licensing for content.

101 However, in some situations the aggregation of intellectual property rights may confer market power on collecting societies and with it the potential to foreclose competition, particularly to the extent that collecting societies can act as gatekeeper to the accessing of important copyright. A collecting society is more likely to have market power if it faces limited competition from other collecting societies or aggregation services (such as independent rights management or publishing companies) or from publishers directly.

102 Conduct by a collecting society, or the agreements under which they are created or maintained,[41] is less likely to harm competition where:

102.1 The arrangements do not prevent direct negotiation between copyright owners and users;

102.2 The output or licensing arrangements only include restrictions that are reasonably necessary to achieving the aims of the society and strike an appropriate balance between facilitating the administration of copyright and allowing flexibility in licensing as appropriate;

102.3 The licence fee for a blanket licence to use the collecting society's entire repertoire can be adjusted downwards to take account of any licences that are negotiated bilaterally between copyright holders and licensees; and

102.4 The licence fees and conditions for use of copyright are clear and readily available to users.

Examples

Collecting society (exclusive dealing)

Firm A centrally administers the licensing of public performance and broadcasting rights for music and music video recordings. Firms B, C and D are the major recording companies who own the copyright for recorded music and musical videos.

Firms B, C and D enter into agreements with Firm A granting the exclusive right to administer the licensing of, and payment for, the public performance and public broadcasting of music and music video recordings in New Zealand.

Firm E, a radio station, considers Firm A's licensing prices too high and wishes to negotiate directly with Firms B, C and D for the licensing of music. When it learns about the exclusive arrangement, it complains to the Commerce Commission.

The Commission would likely consider the exclusive licensing arrangements under section 27 of the Commerce Act. Section 3(5) enables the Commission to consider the effects of Firm A's agreements with Firms B, C and D on competition together. In assessing whether the provisions had the purpose, effect, or likely effect of substantially lessening competition, the Commission would consider:

- The appropriate "with" and "without" scenarios. The Commission would consider whether it would be feasible to enter into individual licensing arrangements with each of the participants to the agreements, given the transaction costs associated with doing so.
- If it would be feasible to enter into individual arrangements, the exclusivity provisions offer no opportunity for purchasers of copyright to play one supplier off against another as could be expected, absent the provisions. The exclusivity provisions grant a near monopoly to Firm A. Accordingly, it is possible that the exclusivity provisions harm competition.

41 Commerce Act, s 3(5).

Practices that extend the market power associated with patents beyond the expiry of the patent protection

103 Ordinarily, when a patent expires, generic versions of the product enter the market to compete with the original. The arrival of competitors pushes prices down. However, certain practices by the original patent holder have the potential to harm competition by maintaining market power enjoyed by the rights holder beyond the expiry of the patent protection, deterring new entry and/or stopping entrants from achieving sufficient scale. For example:

103.1 **Tying and bundling:**[42] As noted above, if a firm supplies patented products as well as products that are no longer protected by patents, tying and bundling practices may have the effect of shielding the unpatented product from competition by disincentivising the purchase of generic products that compete with the unpatented product, foreclosing competitors offering the generic product. This may have the effect of maintaining the price and market share of the unpatented product.

103.2 **Rebates:** The use of loyalty arrangements such as rebates by original rights holders may similarly impact generic entry, particularly where obtaining the benefit of the loyalty programme is conditional upon the purchaser limiting or refraining from purchasing rival products.

103.3 **Long-term agreements:** Firms may use market power associated with the holding of an intellectual property right to induce customers to enter into long-term supply or licensing agreements that extend beyond the term of the intellectual property protection, limiting the customer pool available to generic competitors and potentially extending higher prices past the patent protection.

103.4 **Pay-for-delay agreements:** Agreements between a patent-holding firm and a generic manufacturer in which the generic manufacturer agrees to refrain from or delay entering with the generic version of a drug following the expiration of the drug's patent may be considered an output restriction or market allocating cartel agreement within the meaning of section 30. Agreements that do not fall within the scope of section 30 may nevertheless substantially lessen competition on the basis that they would delay new entry, maintaining the price and market share of the patented product.

42 'Tying' involves linking intellectual property with other products or other intellectual property. For example, a firm may decide to only license its intellectual property in product A (the licensed product) if the customer also agrees to buy product B (the tied product). 'Bundling' occurs when a supplier offers two or more products for a lower price if the products are purchased as a package.

Examples

Practices that may extend the market power associated with patents beyond the expiry of the patent protection — Tying

Firm A is a company that develops and manufactures agrichemicals for large scale agricultural firms.

It has developed and patented an innovative new pesticide which has been proven to be substantially less impactful on beneficial insects such as honeybees than competing products. It quickly gains market share with agricultural firms that are keen to reduce their environmental impact.

Firm A is also active in the manufacture of other agrichemicals including fertiliser and herbicides, which have recently come off patent, triggering the entry of several generic products.

Firm A decides that it will only sell its new patented pesticide to customers that also agree to purchase its non-patented agrichemicals. A rival that manufactures a generic version of Firm A's herbicide product complains to the Commission.

The Commission would consider whether Firm A's conduct had the purpose, effect or likely effect of substantially lessening competition by foreclosing competing generic suppliers:

- In considering the effect or likely effect on competition, the Commission would consider:
    - The extent to which there are alternatives to the patented pesticide that are acceptable to customers. Where such alternatives are readily available, the tie is less likely to be anti-competitive. The Commission would also consider the extent to which customers of Firm A's rivals want to buy Firm A's patented product or substitutes of Firm A's product at all.
    - The extent and duration of Firm A's requirement to purchase its other agrichemicals. If the tie requires a high percentage of a customer's requirements to obtain the pesticide, and the duration of this requirement is significant, it is more likely to have an anti-competitive effect.
    - The extent to which competing generic suppliers will be deprived of sales by the tie, including the existence of alternative sales channels (for example, smaller and medium sized farming enterprises).

Examples

Practices that may extend the market power associated with patents beyond the expiry of the patent protection — Rebates

Firm A is a pharmaceutical company that researches, manufactures, and distributes new pharmaceutical compounds. Firm A's product Producta is used in emergency medicines to treat patients in cardiac arrest and is the best-in-class product in its category. Until recently, every medical facility has endeavoured to have Producta. However, the Producta patent has recently expired, triggering entry by several generic manufacturers. Producta is more expensive than the generic alternatives and its market share has been slipping, although the well-known brand name has maintained its share to some extent.

Firm A sets up a loyalty program in which it makes significant retrospective payments to distributors at the end of a financial year, so long as the distributors' purchases of Producta (as opposed to competing generic alternatives) remained above a particular percentage of their total requirements for the drug.

The Commission would consider whether Firm A's conduct had the purpose, effect, or likely effect of substantially lessening competition by foreclosing generic companies from entering or expanding.

- In considering whether Firm A had the purpose of substantially lessening competition, the Commission would consider evidence of Firm A's purpose (such as internal documents), including any business rationale put forward by Firm A for the conduct.
- In considering the effect or likely effect on competition, the Commission would consider:
  - The existence of alternative sales channels for generic manufacturers (for example, selling to customers directly rather than through distributors). If there are other viable routes to market, the loyalty scheme is less likely to harm competition.
  - The extent and duration of Firm A's loyalty scheme. If the loyalty scheme requires a high percentage of a customer's requirements to be met by Firm A, and the scheme is in place for a significant period of time, it is more likely to have an anti-competitive effect.
  - The extent to which distributors share in the proceeds of the higher price of Producta because of the rebates (rather than passing them along to customers), and the extent to which this deters distributors from dealing with generic manufacturers or acquiring new innovative products. This passes on the higher costs to consumers, while raising barriers to entry and expansion for generic manufacturers.

Settlement of intellectual property disputes

104 Settlements are an efficient means to avoid litigation and there are good public policy reasons to promote settlement of intellectual property disputes, including the significant efficiencies they may generate. Settlement agreements may result in one party gaining an advantage that is collateral to the relevant IP right. This does not inherently mean that the agreement reached will breach competition laws.

105 Competition law may, however, limit what parties can lawfully agree to. Competition law is more likely to be infringed when a settlement involves competitors. Agreements between competitors that have the purpose or effect of restricting how one or both parties will compete in the future require careful consideration. Parties who are uncertain whether a settlement agreement might breach competition can apply for an authorisation or a collaborative activities clearance.

106 Examples of settlement agreements that have the potential to harm competition include:

106.1 Agreements that restrict the supply, acquisition, or development of other products that compete, or would compete, with the product at the heart of the dispute, for example:

106.1.1 Pay-for-delay agreements, for example between a patent holding or generic manufacturer or between potential competitors, which delay the entry of one party into the market for a period of time in return for payments or other value transfers; or

106.1.2 Other agreements involving price-fixing, output restrictions or market allocation—for example, an agreement between horizontal competitors who settle a patent infringement dispute by withdrawing, restricting output or splitting the market.

106.2 Agreements in which an allegedly infringing party:

106.2.1 agrees to a restraint that is longer in duration than the remaining life of the intellectual property right at the heart of the dispute; or

106.2.2 agrees to a restraint on a product that is unrelated to the intellectual property right at the heart of the dispute.

106.3 Agreements in settlements of vexatious or frivolous litigation or litigation that otherwise constitutes an abuse of process. In limited circumstances, litigation that does not meet this standard may also harm competition. An example would be a settlement agreement where the alleged infringement is very unlikely to be made out or where the intellectual property right itself would likely have been set aside by a court.

Examples

Settlement of intellectual property dispute

Firms A and B are pharmaceutical research companies that independently and in competition with each other research new pharmaceutical compounds and manufacture and distribute them. Firm A is a particular leader in anti-cancer drugs with its best-selling drug, A1. The patent on A1 has not previously been challenged; it expires in two years.

Firm A considers that Firm B's first anti-cancer drug, B1, breaches Firm A's intellectual property rights. Firm A commences proceedings against Firm B seeking to restrain the sale of B1 and damages for the loss of sales of A1 over the period of sale.

Firm A and B enter into a settlement agreement in which:

- Firm B agrees to delay selling B1, and any other anti-cancer drugs, for the next five years.
- Firm A agrees to pay B its costs in developing B1.

When assessing whether the arrangement between Firm A and B harms competition, the Commission would consider:

- Whether the provisions have the purpose, effect, or likely effect of market allocation and/or output restriction. The Commission would consider the scope and duration of the settlement agreement, which appears on its face to go beyond any intellectual property right that Firm A might have. The IP right expires within two years, and because the settlement agreement requires Firm B to refrain from developing any other anti-cancer drugs, even those that do not infringe A1's patents.
- Whether the settlement pertained to a valid intellectual property dispute. If Firm A's litigation against Firm B was frivolous and therefore unlikely to succeed (eg, because B1 demonstrably did not infringe A1's patent), an agreement to delay entry by Firm B even for two years (the duration of A1's patent) could have the potential to substantially lessen competition.

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This is a guideline only and reflects the Commission's view. It is not intended to be definitive and should not be used in place of legal advice. You are responsible for staying up to date with legislative changes.

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Phone: 0800 943 600
Write: Enquiries Team, PO Box 2351, Wellington 6140
Email: contact@comcom.govt.nz
www.comcom.govt.nz