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Commerce Commission  
PO Box 2351  
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New Zealand

## **Submissions on Commerce Commission Draft Guidelines on the Application of Competition Law to Intellectual Property Rights**

### **INTRODUCTION**

These submissions have been prepared by the New Zealand Intellectual Property Attorneys Inc, previously known as New Zealand Institute of Patent Attorneys, Inc (**NZIPA**).

NZIPA is an incorporated body representing most trans-Tasman patent attorneys registered and practising in New Zealand.

The current membership of NZIPA comprises 172 Fellows, 3 Honorary, 10 Students, 10 Non-resident, 28 Associates and 2 Retired.

### **BACKGROUND**

In April 2019, the NZIPA commented on a Discussion Paper proposing to amend the Commerce Act 1986 (the Act).

At that time, the Act contained three provisions that restrict the Act from applying to certain conduct relating to Intellectual Property (IP). These IP-related provisions are:

- Section 45
- Section 36(3)
- Section 7(2) and 7(3).

The Discussion Paper set out a proposal to repeal the IP-related provisions.

NZIPA submitted that the IP-related provisions should not be repealed. NZIPA expressed a desire to retain the status quo. NZIPA observed that the current IP-related provisions have not been shown to be causing any problem.

The Ministry of Business, Innovation and Employment (MBIE) is recorded as the administering agency for the Commerce Amendment Act 2022 (the Amendment Act). The Amendment Act, on commencement, will repeal the IP-related provisions.

The Parliamentary Economic Development, Science and Innovation Committee (the Committee) examined the precursor to the Amendment Act, the Commerce Amendment Bill, and recommended that it be passed with some amendments.

The report of the Committee contains a section setting out a differing view of the New Zealand National Party. This section notes that the two key provisions are the changes to an effects-based test under Section 36 and the repeal of intellectual property safe harbours. National stated that it remained concerned about the effect on pro-competitive behaviour that these changes could have, and the potential for resulting detrimental outcomes for consumers.

NZIPA shares the same concerns and remains opposed to these changes. The NZIPA has nevertheless reviewed the Draft Guidelines on the Application of Competition Law to Intellectual Property Rights (Draft Guidelines) and provides the following comments.

## GENERAL COMMENTS ON THE GUIDELINES: SETTLEMENT OF INTELLECTUAL PROPERTY DISPUTES

Patent attorneys operate in the global arena across all sectors of industry to assist businesses in their key markets to use intellectual property (IP) systems for strategic advantage. Patent attorneys are qualified to, and regularly do, advise on all intellectual property rights including patents, trade marks, designs, and copyright.

The Draft Guidelines acknowledge at [88] that settlements are an efficient means to avoid litigation.

For IP rights to have any value, IP owners must be able to protect their rights from infringement or violation by third parties. IP litigation is the process by which IP owners protect their IP rights. However, IP litigation can be a costly, complex and drawn-out process. Settlement offers a means of not only solving the dispute effectively in a cost- and time-efficient manner, but also potentially allows the parties to obtain interests other than cessation of infringement and compensation for losses.

NZIPA acknowledges that competition law may, however, limit what parties can lawfully agree to. 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<sup>1</sup> have the potential to be anti-competitive as do restrictions that are longer in duration than the remaining life of the IP right.<sup>2</sup>

But whereas such agreements require only the application of the Commerce Act to the determination of their anti-competitive status, the Draft Guidelines also include examples of agreements which arguably require the application of IP law before any assessment of anti-competitive behaviour can be made.

### QUESTIONS OF INFRINGEMENT AND VALIDITY – [90.2.2] AND [90.4]

At [90.2.2] and [90.4] the Draft Guidelines refer to infringement. Specifically:

- at [90.2.2] the Draft Guidelines give as an example an agreement to a restraint on a product that “appears unlikely to infringe the intellectual property right at the heart of the dispute”;
- at [90.4] the Draft Guidelines give as an example an “agreement that contains no valid dispute, including where infringement is improbable”.

At [90.4], the Draft Guidelines also refer to validity in terms of agreements that “contain no valid dispute ... where the intellectual property right is invalid”.

The terms “infringement” and “invalid” have specific meanings under IP law that require the application of IP litigation to resolve.

Parties to an infringement action will have differing and opposite views on the question of infringement. Invalidity is often a central question to the issue of infringement: for an IP right to be infringed, it must be valid. For this reason, whether or not there is an infringement of a valid IP right is for the Court to decide. Significant evidence preparation is required to settle questions of infringement and validity, and for patent matters, that evidence often concerns highly technical subject matter with expert disagreement.

As noted above, settlement agreements are entered into for the purposes of avoiding costly IP litigation. However, reading 90.4, it is entirely possible to imagine the following scenario. An agreement is entered into between Party A and Party B. The agreement ends costly IP litigation. Party C, who is put out by the agreement, then issues proceedings arguing that the agreement should never have been entered into because it is anti-competitive. In support, Party C argues either (a) infringement was improbable and so there was no need for any agreement to be entered into, or (b) the IP right at the heart of the matter is invalid. To properly determine these proceedings will not only require the application of the Commerce Act to assess whether the asserted behaviour is anti-competitive, but it will also result in assessment of IP validity / infringement. This will, in turn, lead to the very litigation the two parties had intended to avoid by entering into the agreement at issue. Consequently, because of the actions of Party C, the purpose of settlement between Party A and Party B is undone.

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<sup>1</sup> Para [90.1] Draft Guidelines.

<sup>2</sup> Para [90.2.1] Draft Guidelines.

In August 2019 the Australian Competition & Consumer Commission (ACCC) issued guidelines (**ACCC Guidelines**) on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth). It is notable that the ACCC Guidelines do not touch on settlement agreements as such,<sup>3</sup> but rather focus on time restrictions, grant-back provisions, and no-challenge provisions noting that these have the potential to substantially lessen competition, “particularly when compared to a scenario where a licence has been granted without its possibly anti-competitive provisions”.<sup>4</sup> In the Examples provided in support, no questions of infringement or validity are raised, thereby keeping the application of IP law to IP litigation, and out of the sphere of competition law.

#### NZIPA's Proposed Changes

The NZIPA submits that any reference to infringement and validity should only be made where absolutely necessary in the Draft Guidelines when referring to examples of agreements that have the potential to harm competition. In the context of the Draft Guidelines, where the aim is to avoid agreements that substantially lessen competition, reference to infringement or validity is unnecessary.

The NZIPA therefore submits that paragraphs [90.2.2] and [90.4] should be deleted and paragraph [90.2] amended to read:

90.2 Agreements in which the parties agree to a restraint that is longer in duration than the remaining life of the intellectual property right at the heart of the dispute.

#### **“ANTI-COMPETITIVE BEHAVIOUR” – [90.3]**

Paragraph [90.3] of the Draft Guidelines lists agreements that result in one or both of the parties exiting a market or ceasing to engage in competitive behaviour as an example of agreements that have the potential to harm competition.

The phrase “ceasing to engage in competitive behaviour” is potentially broad in scope and is therefore ambiguous.

In the context of the Draft Guidelines, it seems likely that it is intended to be interpreted as including within its scope any act which substantially lessens competition resulting in an increase in market power for one or more businesses in a market. So, for example, an agreement not to compete would fall foul of [90.3].

However, [90.3] also has the potential to include within its scope agreements which include a term (or terms) requiring one party to cease (or to perform) particular conduct. This interpretation has the potential to limit the ability of parties in a dispute regarding alleged infringing conduct to come to an effective settlement agreement. Until such time as a court decision is issued, alleged infringing conduct is just that – “alleged”. It is also conduct which could be interpreted as anti-competitive. That is, if conduct is found to be infringing, one party will be prevented from continuing with that conduct thus preventing competition in the marketplace. However, if found to be non-infringing, both parties will be free to continue the conduct in question leading to competition in the marketplace.

#### NZIPA's Proposed Changes

The NZIPA submits that [90.3] should be deleted from the Draft Guidelines. There is no need for such a broad, catch-all provisions because the specifics of anti-competitive conduct with respect to settlement agreements are covered by the [90.1] and proposed amended [90.2].

In support, the NZIPA refers to the ACCC Guidelines which (as discussed above) focus on restricting the use of time restriction provisions, grant-back provisions and no challenge provisions in settlement agreements but only in circumstances where such provisions have the potential to substantially lessen competition. Such provisions are adequately covered by [90.1] and the proposed amended [90.2]. The ACCC Guidelines also recognise that just because one party is seeking to gain an advantage that is collateral to the relevant IP rights does not mean that the agreement reached will result in a substantial lessening of competition.<sup>5</sup> If a similar approach is taken here in New Zealand, then [90.3] is unnecessary.

Alternatively, if the Commerce Commission considers it is necessary to retain [90.3] in some form, the NZIPA submits it should be amended to read:

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<sup>3</sup> ACCC Guidelines on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth), at [3.19] – [3.27]

<sup>4</sup> Ibid, para [3.25].

<sup>5</sup> Ibid, paras [3.22] – [3.24].

90.3: Agreements that result in one or both of the parties exiting a market or otherwise agreeing not to compete, with the proviso that an agreement requiring a party to cease allegedly infringing conduct is not an agreement which substantially lessens competition.

## **FINAL COMMENTS**

The general tenure of the Draft Guidelines is to prevent conduct falling under the scope of intellectual property that substantially lessens competition. This point is critical when discussing settlement of intellectual property disputes. Settlement agreements typically result in one party gaining an advantage that is collateral to the relevant IP right but, as noted above, this does not mean that the agreement reached will result in a substantial lessening of competition. It would be useful if the Draft Guidelines included this acknowledgement when discussing settlement agreements.

If we can provide any further assistance in this matter please let us know.

Yours faithfully,  
**New Zealand Intellectual Property Attorneys Inc**