Simpson Grierson

10 February 2023

[redacted]

Commerce Commission
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Sent by Email

Submission on the Draft Guidelines on the Application of Competition Law to Intellectual Property Rights

1. Thank you for the opportunity to make a submission on the Draft Guidelines on the Application of Competition Law to Intellectual Property Rights (**Draft Guidelines**).

2. Simpson Grierson is a leading commercial law firm in New Zealand, with expertise in competition law and intellectual property law. This submission is by Simpson Grierson, not on the behalf of any client. The authors of this submission are lawyers in Simpson Grierson's intellectual property team, who have obtained input from lawyers in Simpson Grierson's competition law team.

Summary of Submission

3. We support the Commission issuing guidelines to the public on the application of the Commerce Act 1986 (the **Act**) to intellectual property rights following the removal of the exceptions for intellectual property rights under the Act.

4. However, we believe that the Draft Guidelines would benefit from clarification on various issues we have commented on in the **attached** Schedule.

Contact

5. Please contact us if you have any questions about this submission.

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Schedule – Our comments on the Draft Guidelines

Section / paragraph reference in the Draft Guidelines	Our comments
Refusals to license intellectual property *55 Where a firm or group of firms have agreed to license their intellectual property on 'Fair Reasonable and Non-Discriminatory' (FRAND) terms, and do so, their conduct is less likely to harm competition.*	Paragraph 55 seems to make assumptions in relation to the content of FRAND terms. It is unclear from paragraph 55 in what specific circumstances adoption of FRAND terms "is less likely to harm competition". Furthermore, where a firm or group of firms have agreed to license their intellectual property on FRAND terms, this also has the potential to harm competition in certain circumstances. FRAND terms are typically set by a standards-setting organisation and the owner of an intellectual property right. Adhering to a set of standard terms imposed by a standards-setting organisation could potentially harm competition by: • requiring the use of specified intellectual property (such as a standard-essential patent) in order to meet that standard, thereby reducing incentives to innovate or restricting the ability to use alternative intellectual property; and/or • limiting competitive bargaining and negotiation over licence terms. We request that the Commission: • clarifies in what circumstances adoption of FRAND terms is less likely to harm competition; and • describes in what circumstances, if any, the Commission believes the adoption of FRAND terms could harm competition.

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No-challenge provisions *75 However, no challenge provisions may harm competition when they are adopted for the purpose or with the effect of ensuring the continued existence of invalidly held IP rights. Licensees may be the only individuals with sufficient understanding of the intellectual property and economic incentive to challenge the validity of IP rights. The exercise of invalid IP rights preserves the monopoly of the licensor and has the potential to stifle competition and innovation.*	Paragraph 75 creates significant uncertainty as it is unclear what the following statements are intended to mean: • "However, no challenge provisions may harm competition when they are adopted for the purpose or with the effect of ensuring the continued existence of invalidly held IP rights"; and • "The exercise of invalid IP rights preserves the monopoly of the licensor and has the potential to stifle competition and innovation." Intellectual property rights that are declared to be invalid are by their nature not exercisable – they are not licensable and grant no monopoly. In this context, is the Commission intending to mean a granted intellectual property right, the validity of which could potentially be challenged? If so, only IPONZ or a court can make a declaration of invalidity of a registered intellectual property right. In which case, it is unclear how firms should assess, or how the Commission would assess, whether the validity of an intellectual property right could be challenged. And as part of any such an assessment it is unclear what the threshold is for the likelihood of the intellectual property right being declared invalid. For example, is the threshold 1% or 99% likelihood of an intellectual property right being declared invalid? Also see our comments below in relation to paragraph 90.2.2 for similar concerns in relation to ambiguous wording such as "appears unlikely". Furthermore, it is unclear whether the terminology "invalidity" and "invalid" is intended to refer to unregistered intellectual property rights such as copyright. We request that the Commission clarifies paragraph 75.
Settlement of intellectual property disputes *90 Examples of settlement agreements that have the potential to harm competition include: […]* *90.2 Agreements in which an allegedly infringing party: […]*	Paragraph 90.2.2 creates significant uncertainty for parties attempting to settle a dispute. First, "appears unlikely to infringe" is vague. For example, is "unlikely to infringe" the same as "1% likelihood of infringement" or "49% likelihood of infringement" or something else? Parties to a dispute may genuinely hold different views on whether intellectual property has been infringed and how likely they are to succeed in litigation. One party may have the opinion that infringement is likely, while another party may have the opinion that infringement is unlikely. One party may have substantial resources available to assess the likelihood of infringement, while another party may have limited resources available. Ultimately, only a court can determine whether an intellectual property right has been infringed.

90.2.2 agrees to a restraint on a product that appears unlikely to infringe the intellectual property right at the heart of the dispute.	Secondly, it is unclear how the Commission would assess this or how firms should assess this. Is "appears unlikely" intended to mean that this is a cursory assessment? Are firms required to obtain a legal opinion, and how fully researched should this be? Are firms required to obtain more than one legal opinion? Will firms only be in a position to assess this once litigation has been commenced, discovery completed, and all evidence filed? Does the Commission have the capability and means to assess, and to require relevant parties to disclose all necessary information to assess, whether infringement "appears unlikely"? We request that the Commission clarifies paragraph 90.2.2.
90 Examples of settlement agreements that have the potential to harm competition include: […] *90.3 Agreements that result in one or both of the parties exiting a market or ceasing to engage in competitive behaviour.*	It is unclear what "competitive behaviour" means in this context. We request that the Commission clarifies this.
90 Examples of settlement agreements that have the potential to harm competition include: […] *90.4 Agreements in settlements of litigation that contains no valid dispute, including where infringement is improbable, or where the intellectual property right is invalid (for example, where litigation is entered into solely for the purpose of delaying or blocking entry).*	Paragraph 90.4 creates significant uncertainty for parties attempting to settle a dispute: • It is unclear what "no valid dispute" means or how firms should assess this or how the Commission would assess this. See our comments above in relation to paragraph 90.2.2 for similar concerns in relation to vague wording. We request that the Commission clarifies this. • The statement "Agreements in settlements of litigation that contains no valid dispute, including where infringement is improbable" is inconsistent and unclear. First, there is an obvious inconsistency between the wording "no valid dispute" and "infringement is improbable". Secondly, it is unclear what "infringement is improbable" means or how firms should assess this or how the Commission would assess this. See our comments above in relation to paragraph 90.2.2 for similar concerns in relation to vague wording. • The statement "or where the intellectual property right is invalid (for example, where litigation is entered into solely for the purpose of delaying or blocking entry)" does not make sense. If an intellectual property right is invalid then it is not enforceable – e.g. it is not possible to commence infringement proceedings based on an invalid patent. In this context, is the Commission intending to mean a granted intellectual property right, the validity of which could potentially be challenged? If so, only IPONZ or a court can make a declaration of invalidity of a registered intellectual property right. In which case, it is unclear how firms should assess, or how the Commission would

	assess, whether the validity of an intellectual property right could be challenged. And as part of any such an assessment it is unclear and what the threshold is for the likelihood of the intellectual property right being declared invalid. For example, is the threshold 1% or 99% likelihood of an intellectual property right being declared invalid? Furthermore, it is unclear whether the terminology "invalid" is intended to refer to unregistered intellectual property rights such as copyright. We request that the Commission clarifies paragraph 90.4.
-	The Draft Guidelines do not appear to provide guidance on whether, in the Commission's opinion, any of the following could contravene the Act: 1. applying for registration of intellectual property; or 2. opposing an application to register intellectual property, or defending such an action; or 3. taking steps to invalidate, rectify, or revoke registered intellectual property, or defending such actions; or 4. continuing to maintain, or not voluntarily withdrawing, registered intellectual property which the owner is aware could potentially be declared invalid if challenged. We request that the Commission clarifies its position on the above.