

10 February 2023

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

1. Thank you for the opportunity to comment on the Commerce Commission's draft Guidelines on the Application of Competition Law to Intellectual Property Rights (**Guidelines**).
2. In summary, the Guidelines provide some useful insights into how the Commission assesses conduct relating to intellectual property under the Commerce Act. However, as set out further below, we consider the usefulness of the Guidelines would be improved if the Guidelines provided more certainty and clarity about how the Commission assesses certain matters, including by providing clearer examples of what the Commission considers will and will not breach the Commerce Act.

### **Providing greater clarity of approach**

3. We appreciate that the specific facts of each case will determine how the Commerce Act applies and that the Guidelines are not intended to be a substitute for specialist competition law advice.
4. However, the Guidelines will be looked at by people who are not specialist competition lawyers (including IP lawyers, in-house lawyers and non-lawyers). With this in mind, it is important that the Guidelines provide certainty and clarity about how the Commission will approach certain matters in different circumstances, such as by clearly setting out:
  - (a) 'red flags' (ie, where, in the Commission's view, particular conduct or arrangements will be likely to breach the Commerce Act); and
  - (b) 'green flags' (ie, where particular conduct or arrangements will be very unlikely to breach the Commerce Act).
5. This will help to ensure that people who are not specialist competition lawyers do not interpret the Guidelines as meaning that certain conduct may be problematic when it is not (and vice versa).
6. This could be done by adding additional examples to the Guidelines. As currently drafted, the examples are generally inconclusive, and talk generally about matters that the Commission would consider and whether certain conduct or arrangements might 'harm competition'. Although we recognise that the Commission is seeking to express matters in plain English, the Guidelines would

be clearer in some places if the Commission was more explicit about the actual test that is applied under the Commerce Act rather than just referring to harming competition. For example, in relation to refusals to supply, we suggest that the Commission expressly states that a refusal to licence intellectual property will only breach the Commerce Act if the refusal is by a person with a substantial degree of market power, and the refusal has the purpose, effect, or likely effect of substantially lessening competition in a market. Similarly, we think that the Guidelines could be improved by making it clearer that Commerce Act issues are particularly likely to arise if:

- (a) an arrangement is between competitors or potential competitors; or
- (b) a party to the arrangement has market power or control of a key input.

### **Other comments**

7. We also have the following additional comments:

- (a) Paragraph 32 (under the heading 'Acquisition of intellectual property rights') could be read as suggesting that any acquisition of IP rights would be considered under section 47 of the Act. We recommend that this section be amended to make it clear that section 47 only applies to acquisitions of the 'assets of a business' (not any assets) – ie, section 47 will only apply to the acquisition of intellectual property rights where the intellectual property rights are part of an acquisition of the assets of a business.
- (b) In the section on exclusive licensing (paragraphs 61 to 64), it would be helpful if the Commission could address the circumstances (if any) in which the Commission considers an exclusive licensing arrangement could raise issues under the cartel prohibition, and when the vertical supply contract exception would apply. For example, the application of those provisions when a licensor is restricted from distributing the relevant product itself, or the licensee is restricted from distributing products that compete with the licensed products where the licensor also distributes the licensed products.
- (c) In the section on territorial, field-of-use, and customer restraints (paragraphs 65-68), we recommend that the Guidelines include examples of when such restraints are likely to be problematic and when they are unlikely to be problematic. Related to this, paragraph 67 refers to a situation in which the licensee and licensor are actual or potential competitors. We recommend that the Commission expands on the concept of potential competitors in this context, as well as:
  - (i) the point made in footnote 29 relating to when a provision may not have the objective purpose, effect, or likely effect of market allocation; and
  - (ii) when exceptions to the cartel prohibition such as the vertical supply contract exception would apply.
- (d) The section on no-challenge provisions (paragraphs 73-75) leaves it very uncertain as to when the Commission considers such provisions would breach the Commerce Act. The section would be improved if it gave examples of when the Commission considers a no-

challenge provision does not breach the Commerce Act, and when the Commission considers such a provision would breach the Commerce Act.

**The Commission's specific questions**

8. Acknowledging that some of the Commission's questions are directed at businesses rather than legal advisors, we provide answers to two of the specific questions set out on the Commission's website, below.

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

9. Standard practice before considering whether an exception applies is to analyse whether the conduct requires an exception (ie, whether particular conduct is likely to breach a provision of the Commerce Act before considering whether an exception applies). The removal of the IP exceptions would truncate the analysis insofar as part of the second step (relating to the IP exceptions) would not be required. In our experience, it is rare to rely on the IP exceptions under the Commerce Act, so the removal of the IP exceptions and the Commission's draft Guidelines is unlikely to significantly change how conduct in relation to IP is assessed.

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

10. As outlined above, we think it would be beneficial for the Commission to provide additional detailed guidance. This could include more specific examples by way of factsheets, and webinars, as a more interactive approach to support compliance.

**Conclusion**

11. Please contact us if you have any questions about the above. We are happy to meet with you to discuss if that would be useful.

Yours sincerely

