

## Article Information

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# Repeal of s51(3) of the Competition and Consumer Act 2010 (Cth): It might be time to think about your competition

**On and from 12 September 2019, businesses that license or assign IP rights will be subject to the full application of anti-competition provisions under the Competition and Consumer Act regardless of whether those arrangements were entered into before or after that date.**

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Partner, Tim Clark, Associate, Philip Chow and Lawyer, Jamin Li, explain why businesses involved in the conditional licensing or assignment of IP rights should consider reviewing their current arrangements.

### Background

The *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (Cth) repeals s 51(3) of the Competition and Consumer Act 2010 (Cth) (CCA).

Section 51(3) has previously provided an exemption for conditional licensing or assignments of certain intellectual property (IP) rights (including, patents, registered designs, copyright and eligible circuit layout rights) from being subject to certain anti-competitive provisions such as those involving cartel conduct, exclusive dealing and anti-competitive contracts, arrangements or understandings. Misuse of market power and resale price maintenance provisions were not protected under s 51(3) so they continue to restrict conditional licensing or assignment of IP rights.

The repeal of s 51(3) follows the Productivity Commission's review into IP arrangements and the Harper Competition Policy Review as well as consideration from various law reform bodies over the past 15 years. The Productivity Commission noted that s 51(3) was enacted at a time when the prevailing view was that IP rights were fundamentally in conflict with competition policies. In contrast, the generally accepted view now is that IP rights do not inherently give rise to significant competition implications so the anti-competitive effect of conditional licences and assignments should be evaluated in each case.

### Why should businesses be concerned?

There are significant penalties for businesses contravening the cartel and anti-competitive provisions of the CCA. The maximum penalty on corporations for such contraventions is the greater of: (a) \$10 million; or (b) 3 times the value of the benefit reasonably attributable to the act or omission; or (c) if the value of the benefit cannot be determined, 10% of a corporation's annual turnover in the preceding 12 months, per breach. The maximum penalty for individuals (including directors and/or other employees) for these contraventions is \$500,000 per breach. Individuals and corporations can also face criminal penalties if found guilty of cartel conduct. In addition, investigations by the regulator, the Australian Competition and Consumer Commission (ACCC), diverts management attention, involves considerable expense and can affect the reputation of the business.

### What should businesses do?

Even though there has been limited consideration of s 51(3) by the courts in the past, the repeal will likely bring greater scrutiny to transactions involving conditional licences or assignments of IP rights. In particular, the Harper Review has

singled out the bio-technology, pharmaceutical and telecommunications industries as those most likely to be affected.

However, all businesses should review their conditional licensing or assignment of IP rights to which they are party (whether as a licensor, licensee, assignor or assignee) in light of the repeal of s 51(3). For licensees or assignees, this reform may give rise to an opportunity to renegotiate, or otherwise limit, the scope of conditional licensing or assignments arrangements.

### **Next steps**

The ACCC has indicated that it will issue guidance before the repeal takes effect. It is likely that conditional arrangements which are particularly vulnerable to competition law risks, and which may require attention, include:

1. patent pooling arrangements in which patent rights of various patent holders are pooled together and licensed as a bundle under restrictions;
2. market sharing arrangements such as territorial restrictions, allocation of suppliers and customers or field of use restrictions;
3. cross-licences of IP, particularly if they impose any sort of restrictions on production or supply or could be seen to involve allocations of customers or suppliers or involve price setting;
4. grant-back of IP provisions, in which licensees are required to licence back IP improvements to the licensor;
5. hold-up arrangements, in which patent holders impose higher licensing fees on users after they have made up-front investments which depend on licensing patent rights (particularly patent rights relating to technology standards); and
6. arrangements between a business and its competitors which may involve possible cartel conduct (because these arrangements could contravene cartel provisions even if they do not have anti-competitive effects).

To the extent that conditional licensing or assignment of IP rights may contravene the CCA, businesses should consider seeking authorisation from or lodging a notification with the ACCC as required. This needs to be considered carefully in each case.

Piper Alderman can assist your business with the review of its current arrangements and provide advice on steps to be taken as a result of such a review.

Please contact us if you have any concerns or queries regarding the repeal of s 51(3) of the *Competition and Consumer Act 2010* (Cth).