

IMPLICATIONS OF THE REPEAL OF THE IP EXEMPTION

On 18 February 2019, the Parliament passed legislation which repeals the intellectual property (IP) exemption in section 51(3) of the *Competition and Consumer Act 2010* (Cth) (CCA) which exempts specified IP from the application of some competition laws under the CCA

Importantly, the repeal will affect new and existing arrangements.

In light of this, businesses should review current IP contracts, arrangements, understandings, assignments and licences to ensure they are compliant with the CCA.

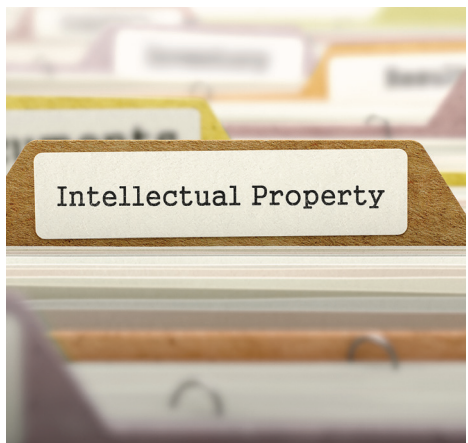
What is the IP exemption?

As a broad overview, the IP exemption in section 51(3) provides that some contracts, arrangements, understandings, assignments and licences relating to specified IP will not contravene certain anti-competitive conduct prohibitions in the CCA.

The specified IP includes patents, a registered design, copyright, EL rights (within the meaning of the *Circuit Layouts Act 1989* (Cth)), certification trade marks and registered trade marks.

The types of anti-competitive conduct prohibitions that will not be contravened where the IP exemption provided in section 51(3) applies includes:

- exclusive dealing, including for example, refusing to supply or purchase goods or services if the other party purchases particular goods or services from a competitor, refusing to supply or purchase goods or services unless the goods or services are only sold within (or not sold within) a specified territory or to a specified consumer, and third line forcing;
- contracts, arrangements or understandings (or provisions of contracts, arrangements or understandings), that substantially lessen competition;
- cartel conduct, including for example, having an agreement or understanding with a competitor to control output, fix prices and or engage in bid rigging (or collusive tendering).



However, the IP exemption in section 51(3) IP exemption does not apply to resale price maintenance or the misuse of market power.

What are the reasons for the repeal?

The Explanatory Memorandum to the *Treasury Laws Amendment (2018 Measures No. 5) Bill 2018* refers to the Productivity Commission's 'Intellectual Property Arrangements Inquiry Report' (December 2016) and the 'Competition Policy Review' (March 2015), and notes that the reason for the IP exemption is for the most part no longer necessary.

It is now considered that there is no longer a 'fundamental conflict' between IP rights and competition. Instead competition issues arise where there are limited alternatives or there is the creation of market power through the accumulation of IP rights.

The Explanatory Memorandum further notes that removing the IP exemption brings Australian competition law into closer alignment with competition law in Canada, Europe and the United States of America, where IP transactions are reviewed in the same way as other commercial transactions.

When will the repeal be effective?

The repeal of the IP exemption in section 51(3) of the CCA will take effect on 12 September 2019.

What is the effect of the repeal?

The repeal of section 51(3) will apply to contracts, arrangements, understandings, assignments and licences established/entered into before the repeal of section 51(3) and on and from the repeal of section 51(3). This means that the IP exemption in section 51(3) cannot be relied on by contracting parties to prevent the contravention of the CCA in relation to both current and future contracts, arrangements, understandings, assignments or licences.

What actions can be taken?

It is important to review current contracts, arrangements, understandings, assignments and licences to check they do not contravene the CCA. If section 51(3) has been relied on the contract, arrangement, understanding, assignment or licence should be amended so that there will not be a contravention of the CCA on the repeal of section 51(3). This is likely to involve discussion with the other contracting party.

It is also important to review standard or template



contracts, understandings, assignments and licences to ensure no provisions or conditions are contained within them that would contravene the CCA.

Contravention of the CCA

If the anti-competitive conduct provisions are contravened financial penalties apply under the CCA. The highest financial penalty for each act or omission by a corporation is the greater of the following:

- \$10,000,000;
- If the value of the benefit that the company (including related companies), directly or indirectly obtained that can be attributed to the act or omission, then three times the value of the benefit;
- If the value of the benefit cannot be determined, then 10 percent of the annual turnover of the company for the 12 months prior to the act or omission.

For an individual the highest financial penalty is \$500,000.

Takeaways

It is important to review all contracts, arrangements, understandings, assignments and licences to identify any reliance on CCA section 51(3) and to amend those aspects before 12 September 2019.

In future transactions be mindful of the repeal of section 51(3) when negotiating and entering into contracts, arrangements, understandings, licence grants and assignments.

AAAA Member Benefits

Industry Legal Group provides advice to members on IP, competition and consumer law matters.

If you have any questions relating to the above case, please contact Industry Legal Group on 1300 369 703 or aaaa@industrylegalgroup.com.au