

22 June 2021

Economic Development, Science and Innovation Select Committee
Parliament
Wellington

By email: edsi@parliament.govt.nz

Commerce Amendment Bill – Comments on MBIE’s response to questions from the Economic Development, Science and Innovation Select Committee – Removal of Intellectual Property exceptions

The New Zealand Law Society | Te Kāhui Ture o Aotearoa (**Law Society**) welcomes the opportunity to comment on the Ministry of Business, Innovation and Employment’s (**MBIE**) response to specific requests from the Economic Development, Science, and Innovation Select Committee regarding the removal of Intellectual Property (**IP**) exemptions from the Commerce Act 1986 (**Act**) in the Commerce Amendment Bill 2021 (**Bill**).

This submission has been prepared with input from the Law Society’s Intellectual Property Law Committee and aims to provide helpful guidance to officials and the Select Committee. The submission contains the following key points:

- The need for section 45 is particularly important, because of the expansion of the definition of cartel conduct in the Act in 2017;
- Sections 45 and 36(3) promote pro-competitive conduct;
- Sections 45 and 36(3) should be amended to allow routine IP dispute settlement and routine IP licensing decisions;
- IP is different from other property rights, and the existing provisions of the Commerce Act appropriately recognise this; and
- Uncertainty in this area of the law will discourage innovation.

We also provide two schedules:

- Schedule 1 sets out the Law Society’s recommendations in relation to the IP exceptions in the Act; and
- Schedule 2 provides a more detailed response to MBIE’s comments on the hypothetical examples included in our original submission and, in particular, whether the examples engage the cartel provisions (supported with appropriate references to legal authority and expert competition law commentary).

We wish to reiterate that our primary concern is that the proposed repeal will make routine behaviour relating to the licensing of IP unlawful and, at the very least, cause uncertainty. Removal of

the IP exceptions may disincentivise innovation and discourage ordinary and reasonable commercial conduct in New Zealand.

We recommend further amendments to address this. Please refer to **Schedule 1** for those recommendations.

The Law Society would be pleased to discuss the matters raised in our submission further with officials if that would be of assistance.

Nāku noa,

A handwritten signature in black ink, appearing to read 'Herman Visagie', written in a cursive style.

Herman Visagie
Vice President, New Zealand Law Society

New Zealand Law Society's response to the Economic Development, Science, and Innovation Select Committee – 22 June 2021

Executive Summary

The Law Society considers that:

- a) The repeal of the sections 45 and 36(3) exceptions would amount to a fundamental erosion of IP rights, and would discourage the innovation that the IP laws are designed to encourage.
- b) We agree with MBIE that some conduct involving IP rights can breach the Commerce Act, (such as the example of tying discussed by MBIE¹). However, the IP exceptions in sections 45 and 36(3) do not protect against tying or other anti-competitive practices. Sections 45 and 36(3) protect against the simple exercise of IP rights (e.g. ordinary arrangements for licensing of intellectual property) and the enforcement of those rights. They are simple and limited exceptions that go no further than ensuring IP rights can be exercised and enforced without breaching the Commerce Act.
- c) The exceptions in sections 45 and 36(3) are important, given recent and proposed amendments to competition law that would otherwise impact on the effective exercise and enforcement of IP rights. We consider that the removal of the IP exceptions would disincentivise innovation, and discourage ordinary and reasonable commercial conduct in New Zealand.

The Law Society also reiterates, as we explained in our original submission, that the IP exceptions have become even more important since the expansion of the definition of cartel conduct in 2017. They will also become more important in light of the proposed changes to the prohibition on misuse of market power in section 36 (to include conduct that has an effect on the level of competition in a market).

We do not agree with MBIE's assertion that the IP exceptions are not well understood.² The exceptions are relatively simple and are based on the exercise or enforcement of IP rights. They are important to ensure that the policy underpinning IP law is not negated through the Commerce Act rendering illegal the exercise or enforcement of IP rights.

Summary of submission in relation to section 45

In terms of section 45:

- a) We consider that MBIE's analysis in relation to the Law Society's hypothetical examples is flawed. MBIE argues that most of the examples provided would not breach the prohibition on cartel conduct (either because they do not amount to a restriction of output, or because they would be protected by the vertical supply contract exception in section 32). We consider that MBIE's analysis is incorrect and provide our detailed response in **Schedule 2**. Our view is supported by expert competition law commentary.
- b) MBIE's response does not take account of the disincentive effect on pro-competitive conduct caused by the uncertainty that would be created through the removal of section 45, despite clearly accepting that a number of the hypothetical examples involve

¹ MBIE response dated 18 May 2021, p15, para 61.

² MBIE response dated 18 May 2021, p14, para 56.

pro-competitive conduct. Regardless of whose analysis of the law is correct, at the very least there is uncertainty as to whether **admittedly pro-competitive conduct** is caught by the new cartel laws, in the absence of section 45. Business will be discouraged from that pro-competitive conduct by the uncertainty, especially with the recent introduction of criminal sanctions.

- c) The reality then is that if section 45 is repealed, conduct which MBIE recognises is pro-competitive will be deterred. Because IP rights holders will not be able to effectively exercise those rights, there will necessarily be a dampening of the incentive to innovate.

Summary of submission in relation to section 36(3)

In terms of section 36(3):

- a) MBIE's analysis does not engage with the fact that the section 36(3) exception is essential to ensuring that commercial parties retain the incentive to innovate. The current section 36(3) exception provides that a person will not be taken to misuse their market power by reason only that the person seeks to enforce a statutory intellectual property right. Without such a provision, the incentive to innovate — encouraged through conferral of an IP right — is rendered nugatory.
- b) While other property rights are not based on creating the incentive to innovate, statutory IP rights are. The very purpose of creating IP rights is to encourage innovation. Accordingly, it is important that the Commerce Act does not undermine this purpose by making them unenforceable.
- c) The Law Society does not agree with MBIE's suggestion that enforcement of IP rights might not be considered by a Court to breach section 36. We consider that the Court will find it relevant if legislative change revokes the exception, and believe this is likely to factor in any decision around an attempt to enforce IP rights.

Submissions on section 45

1. Response to MBIE's comment on application of section 45 to the examples

- 1.1. In relation to all five hypotheticals, MBIE comments that it does not agree that section 45 would apply.³ We disagree and believe that there is no doubt section 45 applies to each of examples 1 to 4.
- 1.2. Section 45 protects entry into contracts that contain provisions authorising actions that would otherwise be prohibited by a statutory IP right. That is what is occurring in each of examples 1 to 4. MBIE does appear to accept this in relation to licensing of IP for a particular territory.⁴ However, this is inconsistent with MBIE's overall position that section 45 would not apply.
- 1.3. In each of the four examples, a limited licence is given for use of a patented method of production (limited in the case of example 1 to a certain geographic area, in the case of examples 2 and 3 to certain fields of use, and in the case of example 4 to a certain quantity of production). In each case, that limited licence authorises something which would otherwise be prohibited by the relevant patent.

³ MBIE response dated 18 May 2021, p4, para 7 and p16 para 65b.

⁴ MBIE response dated 18 May 2021, p15, para 59a.

- 1.4. These examples show just how important the section 45 exception has become since the amendments to the cartel prohibition in 2017. Without the exception, common IP licensing arrangements would be prohibited, even though they are reasonable exploitations of the relevant IP rights, and even though (as MBIE acknowledges in relation to at least the first three examples) they are pro-competitive.
- 1.5. In the case of the fifth hypothetical, we accept that example is not protected by section 45. However, the Law Society considers that it should be, as discussed further in **Schedule 2** and in our previous submission.

2. If preserving section 45 would protect pro-competitive conduct, that is sufficient reason to retain it

- 2.1. MBIE has commented that: *‘Even if section 45 was necessary to avoid this result, it would do so only in relation to IP rights when the same problem could apply to comparable agreements involving other types of property.’*⁵
- 2.2. If the removal of section 45 results in the prohibition of arrangements that are accepted to be pro-competitive, then the solution is to retain it. MBIE appears to be saying is that it is better to change the law so that reasonable and pro-competitive IP arrangements are prohibited because of a concern that other reasonable and pro-competitive arrangements (not involving IP) may not currently be protected.
- 2.3. We suggest that it is better to retain good law, albeit only applied in some circumstances, than to amend the law so it is consistently bad in all circumstances.⁶

3. Impact of the removal of section 45 on innovation and the economy

- 3.1. The inability of IP rights holders to appropriately exploit IP rights will reduce the incentive to innovate.
- 3.2. If an IP rights holder cannot exercise the normal rights associated with its IP (such as licensing the use of that IP for a particular geographic area, for certain fields of use, or to certain quantitative limits) this will significantly diminish the incentive to innovate that the conferral of IP rights is intended to encourage.
- 3.3. Although there are many, one example of the holder of IP rights who has been responsible for substantial innovation is the Crown Research Institute, Plant and Food Research (who have won awards for some of these varieties). Plant and Food Research has been successful in developing new varieties of raspberries, hops (e.g. Sauvín hops), apples and kiwifruit (e.g. New Gold 3 disease resistant kiwifruit) and have plant variety rights for these new varieties.
- 3.4. Plant varieties are a key part of the potential economic recovery from Covid-19 and exports going forward. Plant and Food Research’s licensee, Zespri, is the country’s largest horticulture product exporter. It would be damaging to the economy to discourage innovation of the kind that plant variety rights have helped Plant and Food to develop and exploit.

⁵ MBIE response dated 18 May 2021, p4, para 7. See also p16, para 65c and p19, para 81.

⁶ The Law Society is not advocating that the cartel laws need improving in relation to non-IP related agreements and arrangements. We have not undertaken the investigation required to form a view on that question.

- 3.5. In summary, the removal of the section 45 exception is likely to damage innovation and discourage efficient and pro-competitive business conduct. Such a policy intent does not appear to have been the intended basis for the proposed changes.

Submissions on section 36(3)

4. Response to MBIE's submissions on s 36(3)

- 4.1. The Law Society considers that the current section 36(3) exception appropriately states that a person will not be taken to misuse their market power by reason only that the person seeks to enforce a statutory intellectual property right.
- 4.2. We are concerned that MBIE's response in relation to the misuse of market power exception in section 36(3) undervalues the importance of IP rights in encouraging innovation. It suggests IP rights should not be treated differently from other property rights.⁷
- 4.3. The Law Society does not agree that a comparison between other property rights and IP rights is helpful in this context. IP rights are distinct because of the policy purpose on which they are based. Property rights, such as rights to exclusive possession of land, are important, but they are not created for the purpose of encouraging innovation.
- 4.4. For that reason, we disagree with MBIE's view that: *'We see no basis for treating IP rights differently to any other property right belonging to a firm.'*⁸ The intended purpose of IP rights cannot be realised unless they are enforceable. As noted above, these proposed changes do not appear to reflect any policy basis for now restricting the ability to enforce those rights.

5. Response to miscellaneous points raised by MBIE regarding s 36(3)

- 5.1. MBIE does point out that the holding of an IP right does not necessarily mean that the IP rights holder has substantial market power in the market as a whole, for the purpose of the section 36 prohibition on misuse of market power.⁹
- 5.2. This is correct, but there are often cases where an IP right is so important that it does confer market power in the context of the market as a whole.
- 5.3. The Law Society considers that this is why an exception like that in section 36(3) is necessary to avoid discouraging a firm with market power from enforcing its IP rights.
- 5.4. MBIE has also suggested that if the holder of an IP right enforces its rights, this might not breach section 36 because the exclusion of a competitor could be said to be based on the original conferral of the IP rights rather than their enforcement.¹⁰
- 5.5. That is a possible argument but a risky one. We consider that a Court would likely have regard to the deletion of the section 36(3) exception and may interpret this as a clear indicator of legislative intention that the enforcement of IP rights can (and perhaps should) amount to a breach of section 36.

⁷ MBIE response dated 18 May 2021, p4, para 8; p19, para 86.

⁸ MBIE response dated 18 May 2021, p19, para 86.

⁹ MBIE response dated 18 May 2021, p20, paras 88 and 92.

¹⁰ MBIE response dated 18 May 2021, p20, para 89.

6. Recommendation in relation to section 36(3)

- 6.1. The Law Society reiterates that the section 36(3) exception is of critical importance, and we strongly recommend that it be substantively retained. Further:
- a) Section 36(3) should be amended to reflect the proposed changed wording of the new prohibition on misuse of market power; and
 - b) The legislation should clarify that a refusal to license IP rights should be considered to be the enforcement of IP rights for the purpose of the exception. This point was ambiguous and unclear under the current wording of section 36(3), leading to a division of opinion between academic commentators and to an undesirable uncertainty in the law.
- 6.2. The Law Society's suggested formulation of an appropriate rewording was contained in our previous submission, and is repeated in **Schedule 1**.
- 6.3. In terms of the issue of the refusal to license IP rights, it is important to note that the Patents Act 2013, Designs Act 1953, and Plant Variety Rights Act 1987 contain compulsory licensing provisions.¹¹ Accordingly, there is already protection against the abuse of IP rights in failing to meet market demand.

7. Conclusion

- 7.1. The current IP exceptions in section 45 and 36(3) are simple and limited in their application. They do no more than ensure that the exercise or enforcement of IP rights by themselves will not amount to a breach of the Commerce Act.
- 7.2. The exceptions have become more importance since 2017, because of:
- a) the reform of the prohibition on cartel conduct in 2017 (extending that prohibition to cover agreement or arrangements between competitors, which restrict supply); and
 - b) the proposed reform of the prohibition on misuse of market power (which would prohibit (for the first time) actions by a firm with substantial market power, which had the effect of substantially lessening competition).
- 7.3. These two reforms will (as explained in our previous submission) make it much more likely that the exercise or enforcement of IP rights will breach sections 30 or 36, unless the IP exceptions in section 45 and 36(3) are preserved.
- 7.4. The removal of the IP exceptions would undermine the very purpose of the IP laws, which is to encourage innovation in the interests of the economy generally through the creation of IP rights.

¹¹ Sections 169-178 Patents Act 2013; s 14 Designs Act 1953; s21 Plant Variety Rights Act 1987.

Schedule 1: Recommendations in relation to the IP exceptions in the Commerce Act

1. Do not proceed with the proposed repeal of section 45 because this would have a significant impact on the ability of holders of patent rights to exercise their intellectual property rights.
2. Amend section 45 to counteract the unexpected impact of the change to the definition of cartel conduct on appropriate settlements of intellectual property litigation. The Law Society suggests that a new section 45(1)(c) read as follows:
 - (1) *Nothing in this Part, except sections 36, 36A, 37 and 38, applies-*
....
 - (c) *to the entry into, or giving effect to, any contract, arrangement or understanding which results from the settlement of action (including court proceedings or threatened court proceedings) to enforce a statutory intellectual property right in so far as it contains a provision which prevents, limits or restricts the production or supply of goods or services prohibited by the statutory intellectual property right.*
3. Do not proceed with the proposed removal of the intellectual property exception to the prohibition on market power (section 36(3)), recognising that with the proposed new test for market power (under which conduct can breach section 36 where it has the effect of substantially lessening competition), such an exception is of even greater importance.
4. Amend the intellectual property exception in section 36(3) to line up with the proposed amended test for misuse of market power, and to resolve the current uncertainty in the law concerning refusals to license IP rights, with new sections 36(3) and 36(4) to read as follows;
 - (3) *A person does not contravene section 36(1) by reason only that the person seeks to enforce a statutory intellectual property right, within the meaning of section 45(2), in New Zealand.*
 - (4) *Without limiting section 36(3), a refusal by a person to license the use of a statutory intellectual property right shall be considered enforcement of that right.*
5. Do not repeal the saving in relation to the law of breaches of confidence in section 7(2), recognising that with the proposed new test for misuse of market power (under which conduct can breach section 36 where it has the effect of substantially lessening competition), such a saving provision has greater importance.

Schedule 2: Detailed response to MBIE’s comments on the NZLS hypothetical examples

Hypothetical Example 1

AvoPack are the largest packhouse for avocados in the Bay of Plenty. They have come up with an exciting new invention for a method of packing avocados that will enhance the life and quality of avocados. This means that they are able to add real value to the avocados produced by Bay of Plenty avocado farmers who supply avocados to AvoPack.

AvoPack have not to date licensed their new technology to any other party. However, they see an opportunity to license the technology to other packhouses but are only willing to enter into a license agreement that permits the use of the technology outside of the Bay of Plenty. AvoPack wish to preserve their own exclusive right to exploit their own technology in their local (Bay of Plenty) market.

MBIE accepts that this agreement is “likely to be pro-competitive” as AvoPack’s development of the packing technology and its application in different regions would be inhibited without the ability to include a territorial restriction in licence agreements.¹² However, MBIE suggests it is “*not clear*” that the provision is a cartel provision prohibited by section 30, arguing the supply of avocados is not restricted by the licence.

Contrary to MBIE’s view, expert commentators have consistently suggested that examples of this kind will be caught by section 30 (or its Australian equivalent).

For example, Professor Brent Fisse gives an (Australian) example of two competitors A and B who both manufacture batteries for e-vehicles.¹³ A is currently overseas but plans to establish a manufacturing base in Australia unless it can obtain sufficient revenue by licensing its patented technology to a manufacturer that already has a manufacturing plant in Australia. A licenses its patented technology to B on the condition that it will not export batteries that it manufactures using A’s patents.

As with the Law Society’s example, in this example, B can still supply batteries outside of the local market, just not those manufactured using the patented technology.

Professor Fisse assumes that the provision is a cartel provision. He notes that the non-export provision “*has the substantial purpose of restricting or limiting the supply of goods made by the use of A’s patents in a market in Australia.*”

New Zealand commentators have also assumed that providing a competitor with a licence to use intellectual property in just one geographic section of the market will amount to market allocation in breach of section 30 unless the exception in section 45 is preserved.¹⁴

The weight of expert commentary suggests that the granting of a geographical licence to a competitor in order to exploit intellectual property is prohibited by section 30 in the absence of the section 45 exception. Business people, and legal advisers, are unlikely to draw any comfort from MBIE’s suggestion that this is “*not clear*”.

MBIE relies on a suggested interpretation of the Australian Competition and Consumer Commission. However, NZ business people and NZ competition advisers are more likely to rely on the

¹² MBIE response dated 18 May 2021, annex 1, page 25 of MBIE paper.

¹³ Brent Fisse “Harper Report Implementation Breakdown: Repeal of Section 51(3) of Competition and Consumer Act (Cth) and Lack of Proposed Supply/ Acquisition Agreement Cartel Exception” (2019) 47 ABLR 127 at 132 (Example 1).

¹⁴ Land “Competition law and the removal of exceptions for intellectual property rights” LawTalk 926, March 2019 at 46, 48.

interpretation given by competition law experts (and the plain wording of the NZ cartel prohibition) than an interpretation by the ACCC of the Australian legislation.

MBIE also suggests that the vertical supply contract exception in section 32 would protect Hypothetical 1 from amounting to a breach of law. MBIE suggests that the dominant purpose of AvoPack is not anti-competitive but to increase the supply of its avocado packing technology .

However, we consider that this is a misapplication of section 32.

Section 32 does not allow an assessment of the overall purpose of the parties to an arrangement. In that sense, the section 32 exception is quite different from section 31 (the collaborative activity exception), where it is important to assess whether the collaborative activity overall has an anti-competitive purpose (see section 31(4)). The different approaches taken in sections 31 and 32 indicate how purpose in each section should be assessed.

The vertical supply contract exception in section 32 can only apply if the relevant *provision* does not have the purpose of lessening competition. Section 32 only applies on its terms if “(b) the cartel provision- ...(ii) does not have the dominant purpose of lessening competition between any 2 or more of the parties to the contract.”

Section 32 is clear that it is the purpose of the *provision* that is relevant, not the purpose of the whole agreement. The Commerce Commission’s own guidelines in relation to the vertical supply contract exception also make it clear that what needs to be assessed is the main or principal reason for the “*provision*.”¹⁵ The Commission also notes that the parties to an agreement have the onus of showing “*that the cartel provision does not have the dominant purpose of lessening competition.*”¹⁶

So, discussion of the overall purpose of AvoPack is not relevant to whether the vertical supply contract exception in section 32 applies. All that is relevant is the purpose of the specific provision that prevents the competitor to AvoPack from using AvoPack’s technology for the purpose of packing avocados in AvoPack’s home market of the Bay of Plenty.

That provision has the dominant purpose (in fact the only purpose) of lessening competition between the competing licensee and AvoPack. Its sole purpose is to prevent the licensee from using AvoPack’s technology to compete more effectively with AvoPack in AvoPack’s home market.

That does not mean that the provision should be considered anti-competitive overall. But it does mean that the vertical supply contract exception in s32 does not apply.

Hypothetical Example 2

AvoPack are the largest packhouse for both avocados and kiwifruit in the Bay of Plenty. They have come up with an exciting new invention for a method of packing avocados that will enhance the life and quality of avocados. However, and quite unexpectedly, they have now realised that the invention is also a complete “game changer” in relation to the packing of kiwifruit, and will provide AvoPack with a huge market advantage in the kiwifruit market.

The potential market advantages from the technology in the kiwifruit market are so great that AvoPack decides it is only willing to license the technology to other packhouses for use with packing avocados, but not for use with packing kiwifruit.

¹⁵ Commerce Commission Competitor Collaboration Guidelines, January 2018, para [80].

¹⁶ Commerce Commission Competitor Collaboration Guidelines, January 2018, para [82].

AvoPack enters into license agreements with competing packhouses to allow those packhouses (on payment of a license fee) to use AvoPack's patented technology for the packing of avocados. The license agreement does not, however, permit the use of the technology for the packing of kiwifruit.

MBIE accepts that this example “*is likely to be pro-competitive.*”

However, as with example 1, MBIE express doubts that the provision would amount to a cartel provision, and consider it is “*likely the vertical supply exception [in s32] would apply.*”¹⁷

For similar reasons as discussed with example 1, we consider this is not correct. At best, there is uncertainty which would deter commercial parties from engaging into such a pro-competitive arrangement in the future (if section 45 were repealed).

Academic commentators have expressed the view that field of use restrictions of this kind *do* amount to cartel provisions.¹⁸ As long as both licensor and licensee compete in relation to the restricted field of use, the definition of restriction of output applies.

Preventing the licensee from using the technology to supply kiwifruit is clearly a restriction on the supply of packing services that the licensee does supply in competition with AvoPack (who is also in the kiwifruit market). That falls precisely within the definition of “restricting output” in section 30A(3)(c) of the Act.

In relation to the vertical supply contract exception, MBIE's analysis shares the same flaw as its analysis in relation to example 1. MBIE states that the exception would apply because “*the purpose of the licence is to increase the supply of avocados packed using the technology without limiting AvoPack's ability to exploit the technology in the kiwifruit market*” (emphasis added).¹⁹

However, the overall purpose of the licence is irrelevant to the potential application of the section 32 exception. As discussed above, it is not the overall purpose of the *licence agreement* that is relevant to whether section 32 can apply but the purpose of the particular cartel *provision*.

While the overall licence agreement might not be anti-competitive (as MBIE acknowledges), the section 32 exception cannot apply. The dominant purpose of the provision preventing the licensee from using the patented packing technology for packing kiwifruit is to prevent the licensee from competing with AvoPack in the kiwifruit packing market.

Hypothetical Example 3 (borrowed from Professor Brent Fisse)

A devises a new resin for use in fibreglass and supplies fibreglass products using this resin in several fields, namely boats, planes, and swimming pools. It has strong distribution and marketing channels in the fields of boats and planes, but not in that of swimming pools. B is a competing supplier in all three fields but has a particularly strong position in the field of swimming pools. A decides to maximise the value of its patented formula for the new resin by licensing the patent to B in the field of swimming pools.

MBIE agrees that “*this licensing practice will often be pro-competitive.*”²⁰

¹⁷ MBIE response dated 18 May 2021, annex 1, page 26 of MBIE paper.

¹⁸ See for example Brent Fisse “Harper Report Implementation Breakdown: Repeal of Section 51(3) of Competition and Consumer Act (Cth) and Lack of Proposed Supply/ Acquisition Agreement Cartel Exception” (2019) 47 ABLR 127 at 133 (at [31]).

¹⁹ MBIE response dated 18 May 2021, annex 1, page 26 of MBIE paper.

²⁰ MBIE response dated 18 May 2021, annex 1, page 27 of MBIE paper.

However, as with examples 1 and 2, MBIE expresses doubt that the practice would amount to restricting output (and therefore be a cartel provision) and also suggests that the vertical supply exception is likely to apply.

For similar reasons to the above, we disagree. There is little doubt to us that the provision amounts to a cartel provision.

Professor Brent Fisse, who is the source of the example, is one of the leading Australasian commentators and practitioners in the field of competition law. While he expresses the view that a licensing condition of this kind “*is not unusual and will rarely be anti-competitive*”²¹ he has no doubt that it amounts to a cartel provision.

He expresses the point without reservation:²²

The patent licence in this example contains a cartel provision. The purpose condition ... applies: the Field of Use Provision has the substantial purpose of restricting or limiting the supply of goods made by B with the use of A's patent in a market in Australia. The competition condition ...applies: A is a competitor of B in relation to the supply of swimming pools.

The licensor’s overall purpose is not anti-competitive, but section 32 cannot apply where the purpose of the provision is to prevent B from effectively competing with A in relation to the fields of boats and planes by using A’s patented technology for that purpose.

Hypothetical Example 4 (borrowed from ACCC)

Firm A is a steel manufacturing company that owns a patent over the only method of producing a particular high-strength, low-weight steel. Firm A is a small manufacturer, so it decides to license its method to Firm B as well. Firm B is a major steel manufacturer.

Firm A wants to make it a condition of the licence that Firm B only produce a specified maximum amount of the high-strength, low-weight steel over the life of the licence. The two firms come to an agreement about that maximum amount, include the restriction in the licence, and proceed to behave in accordance with that agreement.

MBIE’s discussion of this fourth example is more equivocal:

... we consider it likely that the vertical supply exception would apply. The dominant purpose of the agreement would appear to be increasing the supply of high quality steel ...

Again, we reiterate that it is not the purpose of the agreement that is relevant to the application of the section 32 exception, but that of the relevant cartel provision.

The purpose of limiting the quantity of high strength steel that Firm B can produce must be to limit the extent to which Firm B can compete with Firm A. There is no other purpose for the provision.

That does not mean that the provision is not a reasonable provision, or that the licence agreement is not pro-competitive overall. It does mean, however, that the section 32 exception cannot apply on its facts.

²¹ Brent Fisse “Harper Report Implementation Breakdown: Repeal of Section 51(3) of Competition and Consumer Act (Cth) and Lack of Proposed Supply/ Acquisition Agreement Cartel Exception” (2019) 47 ABLR 127 at 132.

²² At 133.

Hypothetical Example 5

Company A is the producer worldwide of a very successful innovative new coronary stent used in medical procedures to improve blood flow in patients with blocked arteries. It has patents for this stent in many countries around the world including New Zealand. Company B starts manufacturing and supplying a very similar stent utilising the same technology in various countries including New Zealand. Company A alleges that Company B is infringing its patents and brings patent infringement in multiple jurisdictions including New Zealand. Company B initially counterclaims seeking revocation of Company A's New Zealand patent. Eventually, however, a global settlement is reached. This settlement includes, in relation to New Zealand, agreement by Company B to cease manufacturing its infringing stent and to cease supplying that stent into the New Zealand market.

MBIE comments that this type of settlement agreement is likely to have pro-competitive and anti-competitive instances, depending on the likelihood that the patent is valid (among other facts).²³

We agree, and the proposed amendment to section 45 that we have suggested reflects this.

We are not suggesting that the exception should apply just where there is a settlement of a "claimed" statutory intellectual property right, only that it should apply where there is a settlement of a "statutory intellectual property right" and only in relation to restrictions of production or supply that were prohibited by the statutory intellectual property right.

If a patent were not valid, then the extension to the s45 exception that we have proposed would also not apply.

However, if the patent is valid, then the need for an exception is important. MBIE acknowledges that *"it seems doubtful that an exception would apply"* to this example.

MBIE expresses a doubt as to whether the settlement provision can be said to amount to a restriction of output (and therefore a cartel provision). However, as noted in our original submission, leading commentators such as Dr Dimitrios Eliades have expressed the clear opinion that such a provision is technically a cartel provision.²⁴

We explained in our previous submission why this is technically so on the facts of example.

First, company A and company B have agreed in the settlement agreement that company B will no longer manufacture the infringing stent product. That is a provision that prevents or restricts the production of a good by Company B. That is restricting output within section 30A(3)(a).

Secondly, company A and company B have agreed in the settlement agreement that company B will no longer supply the infringing product in the New Zealand market. That is a provision that prevents or restricts the supply of goods by company B. That is restricting output in terms of section 30A(3)(c).

However, such a settlement agreement is a normal and appropriate way of resolving intellectual property enforcement proceedings. If the proceedings had not been settled and the Court had found that company A's patent was valid, then the Court would itself likely have made orders preventing company B from infringing the patent by manufacturing and supplying the infringing stent.

²³ MBIE response dated 18 May 2021, annex 1, page 28 of MBIE paper.

²⁴ Dr Dimitrios Eliades "Has the Repealed Limited Exemption for Intellectual Property Rights in sub-section 51(3) of the Competition and Consumer Act 2010 (Cth) Finally Been Put to Rest?" IP Forum 33 (December 2020).

Parties should not be at risk of breaching section 30 just because they choose to settle intellectual property proceedings out of court by agreeing to remedies that a Court would be likely to impose in any event.

Unlike the four previous hypothetical examples, however, the current wording of section 45 would not protect against the settlement agreement amounting to a breach of section 30 (or to a criminal offence under section 82B). This is the reason for our suggested amendment to section 45 in our previous submission. For convenience, the wording previously suggested by the Law Society is repeated in **schedule 1**.