



AUSTRALIAN COMPETITION
& CONSUMER COMMISSION

Guidelines on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth)

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Australian Competition and Consumer Commission
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Purpose of these Guidelines

These Guidelines reflect the approach that the Australian Competition and Consumer Commission (**ACCC**) will take from 13 September 2019, following the repeal of subsection 51(3) of the *Competition and Consumer Act 2010* (Cth) (**CCA**).

These Guidelines set out the ACCC's current understanding and interpretation of the law following the repeal. These Guidelines are for the general guidance of legal practitioners and business advisors, and should not be used as a substitute for legal advice.

Intellectual property rights holders, legal practitioners, and business advisors should refer to the following ACCC publications for further information:

- [Certification trade marks—the role of the ACCC](#), 2011
- [ACCC immunity and cooperation policy for cartel conduct](#), September 2014
- [Exclusive dealing notification guidelines](#), November 2017
- [Guidelines on concerted practices](#), August 2018
- [Guidelines on misuse of market power](#), August 2018
- [Guidelines for authorisation of conduct \(non-merger\)](#), March 2019.

The ACCC is responsible for investigating and enforcing the anti-competitive conduct prohibitions of the CCA. This includes the power to commence court proceedings. Businesses may also be subject to court proceedings brought by private parties for alleged contraventions of the anti-competitive conduct prohibitions of the CCA.

Australian courts are ultimately responsible for interpreting the CCA, determining if a provision has been contravened, and determining what, if any, penalty or other orders should be imposed. Following any relevant court decisions, the ACCC will consider and amend its approach and these Guidelines as appropriate.

1. Introduction

- 1.1 Prior to its repeal, subsection 51(3) of the CCA provided a limited exemption for some conduct relating to intellectual property rights from certain anti-competitive conduct prohibitions in Part IV of the CCA. On 13 September 2019, this exemption will cease to apply.
- 1.2 In these Guidelines, the ACCC:
- sets out the general principles that will guide its approach to enforcement of the cartel prohibitions and sections 45 and 47 of the CCA to conduct that was previously exempt under subsection 51(3) of the CCA
 - outlines the types of previously exempt conduct that may now be subject to the cartel prohibitions and sections 45 and 47 of the CCA, and
 - provides examples to illustrate conduct that the ACCC considers is likely or unlikely to contravene the cartel prohibitions and sections 45 and 47 of the CCA.
- 1.3 These Guidelines are not an exhaustive guide to the interaction between intellectual property rights and the CCA. They are limited to a discussion of the impact of the repeal of subsection 51(3) of the CCA. The limited nature of the exemption in subsection 51(3) of the CCA means that the majority of agreements entered into by intellectual property rights holders were already subject to the anti-competitive conduct prohibitions in Part IV of the CCA and the ACCC expects that intellectual property rights holders were already familiar with their compliance obligations.

The repeal of subsection 51(3) of the CCA

- 1.4 Following the repeal of subsection 51(3) of the CCA, conduct involving intellectual property rights will be subject to the anti-competitive conduct prohibitions in Part IV of the CCA in the same manner as all other conduct.
- 1.5 The following prohibitions, previously the subject of the exemption, will apply to conduct involving intellectual property rights from 13 September 2019:
- cartel conduct (Division 1 of Part IV of the CCA)
 - making or giving effect to a contract, arrangement, or understanding, or engaging in a concerted practice, for the purpose, or with the effect or likely effect, of substantially lessening competition (section 45 of the CCA), and
 - engaging in exclusive dealing for the purpose, or with the effect or likely effect, of substantially lessening competition (section 47 of the CCA).
- 1.6 The *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (Cth) provided a six-month grace period, with the new legislation entering into effect on 13 September 2019. From 13 September 2019, the cartel prohibitions and sections 45 and 47 of the CCA will apply to:
- a licence granted, an assignment made, or a contract, arrangement, understanding or concerted practice entered into on or after 13 September 2019
 - a licence granted, an assignment made, or a contract, arrangement, understanding or concerted practice entered into before 13 September 2019 in relation to:
 - conditions imposed, or provisions included, on or after 13 September 2019, and
 - conditions imposed, or provisions included, before 13 September 2019,

where that licence, assignment, contract, arrangement, understanding, or concerted practice would previously have been exempt under subsection 51(3) of the CCA. Where conduct was not exempt under subsection 51(3) of the CCA, the CCA will continue to apply as before.

- 1.7 The ACCC will enforce the cartel prohibitions and sections 45 and 47 of the CCA in respect of:
- the granting of licences, the making of assignments or the entering into of contracts, arrangements, understandings or concerted practices on or after 13 September 2019, or
 - the giving effect, on or after 13 September 2019, to conditions in licences, assignments, contracts, arrangements, understandings or concerted practices, even where entered into before 13 September 2019.

The scope of subsection 51(3) of the CCA

- 1.8 The exemption provided by subsection 51(3) of the CCA was limited and its precise scope was uncertain.
- 1.9 First, it only exempted the following types of conduct:
- imposing or giving effect to a condition of a licence or assignment for particular kinds of intellectual property rights, to the extent that the condition related to the subject matter of the relevant intellectual property right
 - inclusion in contracts, arrangements, or understandings authorising the use of a certification trade mark of a provision in accordance with the approved rules, or giving effect to such a provision,¹ or
 - inclusion of certain provisions in contracts, arrangements, or understandings in relation to other trade marks (not certification trade marks) between registered proprietors and registered users of the trade mark.²
- 1.10 Conduct that did not fall within these categories, including anti-competitive conduct by omission, such as refusal to deal, or licence and assignment conditions that did not 'relate to' the subject matter of the intellectual property right, was not subject to the exemption.
- 1.11 Second, conduct that contravened the following anti-competitive conduct prohibitions was not exempt:
- misuse of market power (section 46 of the CCA)
 - conduct engaged in by a corporation with substantial market power in a trans-Tasman market for a proscribed purpose (section 46A of the CCA), and
 - engaging in resale price maintenance (section 48 of the CCA).
- 1.12 Finally, conduct relating to other types of intellectual property not mentioned in subsection 51(3) of the CCA, such as confidential information or trade secrets, was not exempt.³

1 The introduction of the *Trade Marks Act 1995* (Cth) may not have been completely picked up by subsection 51(3) of the CCA. However, in accordance with section 10 of the *Acts Interpretation Act 1901* (Cth), the ACCC considers that subsection 51(3)(b) of the CCA likely continued to exempt conduct in accordance with the certification trade mark scheme under the *Trade Marks Act 1995* (Cth).

2 The introduction of the *Trade Marks Act 1995* (Cth) may not have been completely picked up by subsection 51(3) of the CCA. The ACCC considers that subsection 51(3)(c) of the CCA, which refers to the registered users scheme in the *Trade Marks Act 1955* (Cth), likely did not continue to have effect after 1 January 1996, when that legislation was replaced by the *Trade Marks Act 1995* (Cth), which did not refer to registered users.

3 The ACCC notes the omission of plant breeder rights from the list of exempt intellectual property rights in subsection 51(3)(a). However, the ACCC also notes the High Court's decision in *The Grain Pool of WA v The Commonwealth* [2000] HCA 14, where it was held that legislation establishing plant breeder rights was supported by section 51(xviii) of the Constitution on the basis that plant breeder rights fell within the term 'patents of invention'. Given the repeal of subsection 51(3), the ACCC considers that it is unnecessary to express a view on whether plant breeder rights were ever covered by the exemption.

2. General principles

- 2.1 This section set outs the general principles that will guide the ACCC’s approach to compliance and enforcement activities following the repeal of subsection 51(3) of the CCA.

Intellectual property rights and competition law are not in conflict

- 2.2 Intellectual property rights and competition law are not in fundamental conflict.⁴ This was part of Parliament’s rationale for repealing subsection 51(3) of the CCA.⁵ Intellectual property rights and competition law share a common purpose in promoting innovation and dynamic efficiency, and enhancing consumer welfare.
- 2.3 In particular, the ACCC acknowledges that intellectual property rights confer exclusive rights on rights holders, and considers that the bare exercise of these exclusive rights will not have significant anti-competitive implications. As a result, the ACCC considers that the repeal of subsection 51(3) of the CCA will not impact the majority of intellectual property rights arrangements. The ACCC acknowledges that the exclusive nature of intellectual property rights is an important incentive for parties to invest in innovation and commercialisation.

Intellectual property rights do not always create substantial market power

- 2.4 Intellectual property rights do not necessarily, of themselves, confer substantial market power on a firm. Goods or services that are protected by intellectual property rights will often be subject to competitive constraint from substitutable goods or services. Market power comes from a lack of effective competitive constraint.
- 2.5 Even where ownership of an intellectual property right is a key determinant of a firm’s market power, this will not, of itself, contravene the anti-competitive conduct prohibitions of the CCA. The CCA does not prohibit a firm from developing a superior product to its rivals, which may influence its position in a market or even extend existing market power.

Licensing or assignment of intellectual property rights usually encourages competition

- 2.6 The licensing or assignment of intellectual property rights is usually helpful to the competitive process. It enables intellectual property to be exploited to a greater extent than would occur if those rights were not licensed or assigned, therefore encouraging competition. Licensing or assigning intellectual property rights often increases production, geographic distribution, and the rate at which new products are introduced to the market.
- 2.7 The licensing or assignment of intellectual property rights can also be helpful to the competitive process if it enables the licensee to engage in commercial activity that would otherwise be closed to it, or which the licensee could only engage in by duplicating or ‘inventing around’ existing intellectual property rights.

4 Competition Policy Review, *Final Report*, March 2015, p.109; Productivity Commission, *Intellectual property arrangements—Inquiry report*, September 2016, p. 443.

5 Explanatory Memorandum, *Treasury Laws Amendment (2018 Measures No. 5) Act 2019* (Cth), March 2019.

Purpose, effect, or likely effect of substantially lessening competition

- 2.8 However, in some cases, licensing or assignment of intellectual property rights can have anti-competitive consequences, including where the licensing or assignment has the purpose, effect or likely effect of substantially lessening competition.
- 2.9 Sections 45, 46, and 47 of the CCA are subject to a 'substantial lessening of competition' threshold test. Conduct that does not have the purpose, effect, or likely effect of substantially lessening competition in a relevant market will not contravene sections 45, 46, or 47 of the CCA.
- 2.10 'Purpose' refers to a firm's intention to achieve a particular result. It can be established by direct evidence or by inference. The purpose of substantially lessening competition need not be a firm's only purpose, but it needs to be a substantial purpose.⁶
- 2.11 'Effect' refers to the direct consequences of a firm's conduct or the possibly anti-competitive provision. This is determined objectively by examining the actual impact of the alleged conduct on the competitive process within the relevant market.⁷
- 2.12 'Likely effect' refers to the likely consequences of a firm's conduct or the possibly anti-competitive provision, including its potential impact on the competitive process. 'Likely' means that there is a real chance or a possibility that is not remote.⁸
- 2.13 Competition is not static but a process expressed in the form of rivalrous behaviour. Competition is assessed by looking at both market structure and strategic behaviour. When assessing whether conduct substantially lessens competition, the ACCC focuses on the impact of the conduct on the competitive process.
- 2.14 'Lessening competition' means that the process of rivalry is diminished or lessened, or the competitive process is compromised or impacted. 'Lessening competition' extends to 'preventing or hindering competition'.⁹ 'Substantially' means meaningful or relevant to the competitive process. It is a relative concept and does not require an impact on the whole market.¹⁰
- 2.15 A market has a product and geographic dimension and is 'the field of actual and potential transactions between buyers and sellers among whom there can be a strong substitution if given a sufficient price incentive.'¹¹
- 2.16 The ACCC's starting point for assessing market definition is to identify:
- the goods or services supplied or acquired by the relevant firm and their close product substitutes (product market), and
 - the geographic region in which the relevant firm supplies or acquires the goods or services and close geographic substitutes (geographic market).
- 2.17 The ACCC also considers the functional dimensions of the market (the different levels in the supply chain such as the production, wholesale, or retail functional level). This is particularly relevant if some firms in the relevant market are vertically integrated. Sometimes there is a focus on the timeframe over which substitution possibilities should be assessed.
- 2.18 It is important to note that conduct that contravenes the cartel prohibitions is not subject to a 'substantial lessening of competition' threshold. In other words, cartel conduct is prohibited regardless of its effect on competition.

6 *Competition and Consumer Act 2010* (Cth), section 4F.

7 *Rural Press v ACCC* (2003) 126 CLR 53.

8 *Tillmans Butcheries v Australasian Meat Industries Employees' Union* [1979] FCA 85, (1979) 42 FLR 331.

9 *Competition and Consumer Act 2010* (Cth), section 4G.

10 *Rural Press v ACCC* (2003) 216 CLR 53, at [41].

11 *Re Queensland Cooperative Milling and Defiance Holdings Ltd* (1976) 8 ALR 481, at 517.

‘With or without’ test for cases involving SLC analysis

- 2.19 When assessing the effect or likely effect of conduct on competition, the ACCC will usually undertake a ‘with or without test’. This compares the likely state of competition ‘with’ the relevant conduct, to the likely state of competition ‘without’ the conduct, to isolate the effect of the conduct on competition.
- 2.20 While it will depend on the circumstances in which a particular licence is granted or assignment is made, in most cases when applying a ‘with or without’ test to conduct involving licensing or assignment of intellectual property rights, the ACCC expects that the appropriate ‘without’ comparison scenario will be that there is no licence or assignment at all, rather than a scenario in which the licence or assignment stands without its possibly anti-competitive provisions.¹²
- 2.21 Accordingly, the ACCC considers that most licences or assignments of intellectual property rights that are subject to conditions will still allow greater exploitation of the intellectual property rights than the scenario without the licence or assignment, and so will not risk contravening those provisions of the CCA that contain a ‘substantial lessening of competition’ test.
- 2.22 For example, the ACCC expects that an exclusive licence between non-competitors will generally be unlikely to contravene those prohibitions in the CCA that are subject to a ‘substantial lessening of competition’ test. Although the conditions in the licence may restrict the licensee’s conduct in some ways, it will often be the case that, absent the conditions, the licensor would not grant the licence at all, rather than allowing the licensee to engage in the conduct without restriction. Accordingly, the ACCC expects that an exclusive licence between non-competitors will generally not meet the threshold of ‘substantially lessening competition’. Instead, it will either encourage competition or be competitively neutral.
- 2.23 While it will depend on the facts, the ACCC considers that where a condition imposed in a licence or assignment is not related to the intellectual property rights that are the subject of the licence or assignment, but is rather aimed at securing some collateral advantage for the licensor, it is less likely that the appropriate ‘without’ scenario will be that no licence is granted or assignment made.

Purpose, effect, or likely effect of conduct assessed at the time of the conduct

- 2.24 The ACCC will assess whether conduct has the purpose, effect, or likely effect of substantially lessening competition at the time the conduct occurs.
- 2.25 Section 45 of the CCA prohibits both the ‘making’ of contracts, arrangements, or understandings containing provisions with the purpose, effect, or likely effect of substantially lessening competition, and ‘giving effect’ to such provisions.
- 2.26 Accordingly, the ACCC will consider the purpose, effect, or likely effect of a provision of a contract, arrangement, or understanding both at the time the contract, arrangement, or understanding was made and at the time at which it was given effect.
- 2.27 This is important for long-term contracts where fluctuations in market conditions may change the competitive effect or likely effect of a provision over time.

¹² For further support for this approach, see, for example, Competition Policy Review, *Final Report*, March 2015, p.109.

3. Application of competition law to intellectual property

3.1 This section discusses the application of the cartel prohibitions and sections 45 and 47 of the CCA to intellectual property related conduct.

Cartel conduct

Categories of prohibited cartel conduct

3.2 Four categories of cartel conduct are prohibited, regardless of their effect on competition:

- Price fixing, which occurs when competitors agree on pricing rather than competing against each other.
- Output restrictions, which occur when competitors agree to prevent, restrict or limit the volume or type of particular goods or services available. Output restrictions reduce the available supply of particular goods or services and so increase the price.
- Market sharing, which occurs when competitors agree to divide or allocate customers, suppliers, or territories among themselves rather than allowing competitive market forces to work. Market sharing restricts competition, forces prices up, and reduces choice on price and quality for consumers and other businesses.
- Bid rigging, also referred to as collusive tendering, which occurs when two or more competitors agree they will not compete genuinely with each other for tenders, allowing one of the cartel members to 'win' the tender. Participants in a bid rigging cartel may take turns to be the 'winner' by agreeing the manner in which they submit tenders, including by some competitors agreeing not to tender. Bid rigging leads to uncompetitive tender processes that can result in organisations paying higher prices or receiving lower quality goods or services.

3.3 These categories of cartel conduct are prohibited where they satisfy the 'competition condition', and either the 'purpose/effect condition' or the 'purpose condition', which are discussed below.

3.4 Where conduct does not satisfy the 'competition condition', the 'purpose/effect condition', or the 'purpose condition' as required, it may still contravene another section of the CCA if it meets the requirements of that section.

The 'purpose' or 'effect' of cartel provisions

3.5 Provisions will only be prohibited 'price fixing' provisions under the CCA if they have the purpose, or have or are likely to have the effect, of directly or indirectly fixing, controlling or maintaining prices.¹³ This is referred to as the 'purpose/effect condition'. If a provision does not satisfy the purpose/effect condition, then it is not a prohibited 'price fixing' cartel provision.

3.6 In contrast, 'output restriction' provisions, 'market allocation' provisions, and 'bid rigging' provisions will only be prohibited cartel provisions where they have the purpose of directly or indirectly restricting output, allocating markets, or rigging bids.¹⁴ This is referred to as the 'purpose condition'. If a provision does not satisfy the purpose condition, then it is not a prohibited 'output restriction', 'market allocation', or 'bid rigging' cartel provision.

¹³ *Competition and Consumer Act 2010* (Cth), section 45AD(2).

¹⁴ *Competition and Consumer Act 2010* (Cth), section 45AD(3).

- 3.7 The purpose/effect condition and the purpose condition will be satisfied if the substantial purpose of the provision was price fixing, restricting output, allocating markets, or rigging bids; it does not have to be the sole purpose of the provision.¹⁵ The purpose of a provision is to be determined by assessing the subjective purpose of the parties to the agreement, that is, what the parties actually intended.¹⁶ However, this subjective purpose may be inferred from objective evidence, including the nature of the arrangement, the circumstances in which it was made, and its likely effect.¹⁷

Example 1: The purpose condition¹⁸

Firms A and B compete in the market for building cladding products. Firm A manufactures and distributes 'SafeClad' cladding materials and has a registered trademark for SafeClad materials. Firm A contracts Firm B to also manufacture and distribute SafeClad cladding materials in Australia.

The contract licenses the use of the SafeClad trademark by Firm B on the condition that Firm B will not use the SafeClad trademark on any cladding materials unless the materials have been tested by an independent testing lab and have passed the robust 'X-FLAM' non-combustible safety standard specifications set out in the licensing agreement.

Assessment

Firms A and B are competitors in respect of the goods or services that are the subject of the possible output restriction provision in the licensing agreement (building cladding materials).

However, the ACCC does not consider that the provision satisfies the purpose condition. In other words, it does not appear to be a substantial purpose of Firms A and B to restrict or limit the supply of building cladding materials.

Instead, the purpose of the possible cartel provision appears to be placing quality requirements on the production of cladding material bearing the SafeClad trademark in order to assure the safety of the materials and maintain the goodwill associated with the SafeClad trademark.

As a result, the ACCC does not consider that Firms A and B are at risk of contravening the cartel prohibitions.

The 'competition condition'

- 3.8 Cartel conduct is prohibited where the parties are, or are likely to be, or but for the possible cartel provision would be or would be likely to be, competitors in relation to the supply or acquisition of the goods or services that are the subject of the possible cartel provisions.¹⁹ This is referred to as the 'competition condition'.
- 3.9 Intellectual property rights over a particular good or service allow the rights holder to exclude others from producing or supplying that particular good or service. However, this does not mean that firms will never satisfy the competition condition where the goods or services involved are protected by intellectual property rights.
- 3.10 The ACCC considers that firms are likely to satisfy the competition condition where one firm's goods or services that are the subject of the possible cartel provision are 'substitutable for' similar goods or services supplied by the other firm/s.²⁰ It is relevant to consider whether a firm could produce the goods or services, or substitutable goods or services, prior to the licensing or assignment of intellectual property rights, or would be likely to do so, or obtain the capacity to do so, but for the licence or assignment.

¹⁵ *Competition and Consumer Act 2010* (Cth), section 4F.

¹⁶ *Norcast S.ar.L v Bradken Limited (No 2)* [2013] FCA 235, at [273].

¹⁷ *Norcast S.ar.L v Bradken Limited (No 2)* [2013] FCA 235, at [273].

¹⁸ This example is adapted from an example provided in Brent Fisse's submission.

¹⁹ *Competition and Consumer Act 2010* (Cth), section 45AD(4).

²⁰ *CDPP v Nippon Yusen Kabushiki Kaisha* [2017] FCA 876, at [182].

Example 2: The competition condition

Firm A is a book publisher that owns the copyright to Textbook 1 (a high school science textbook). Firm A makes two distribution agreements with each of Firms B (which has a distribution network primarily in Western Australia) and C (which has a distribution network primarily in the rest of Australia) for the distribution of physical copies of Textbook 1.

These distribution agreements allow Firms B and C to manufacture and distribute Textbook 1, and include non-exclusive licenses for the copyright in Textbook 1 from Firm A to Firms B and C. However, Firm B's licence limits its distribution of Textbook 1 to Western Australia, while Firm C's licence limits its distribution of Textbook 1 to the rest of Australia. Firm A retains the right to sell Textbook 1 throughout Australia using its website.

All three firms sell other textbooks, including other high school science textbooks. The firms have different commercial and licensing arrangements in respect of each of the textbooks they sell some of which restrict the territory or channels through which they may distribute or sell a particular textbook and some of which do not.

Assessment

Firms B and C could not distribute Textbook 1 without a licence from Firm A. However, all three firms compete to sell other textbooks, including other high school science textbooks, which are substitutable for Textbook 1. As a result, the ACCC considers that the possible cartel provision satisfies the competition condition.

The ACCC would then have to consider whether the possible cartel provision satisfies the purpose condition. Without further persuasive evidence that the firms intended to allocate markets, the ACCC does not consider that the agreement is likely to satisfy the purpose condition.

Subsection 51(3) and cartel provisions

- 3.11 Only provisions in contracts, arrangements, or understandings between competitors which related to the intellectual property rights set out in subsection 51(3)(a) of the CCA were ever exempt from the cartel prohibitions.
- 3.12 All other provisions in contracts, arrangements or understandings between competitors, including conditions 'which [sought] to gain advantages collateral to'²¹ the intellectual property rights set out in subsection 51(3)(a) of the CCA, have always been, and following the repeal continue to be, subject to the cartel prohibitions.
- 3.13 Following the repeal of subsection 51(3) of the CCA, the prohibitions against cartel conduct now cover all conditions of a licence or assignment, including any that relate to the subject matter of an intellectual property right.
- 3.14 The following examples indicate the ACCC's intended approach to investigating and enforcing to the cartel prohibitions following the repeal of subsection 51(3) of the CCA.

²¹ *Transfield v Arlo* (1980) 144 CLR 83, at 103.

Example 3: Price restrictions

Firms A, B, and C each own plant breeder rights relating to new varieties of banana plant. They compete to license their rights to farmers.

One year, the banana industry is affected by particularly bad weather that damages many crops. In light of the industry's difficult financial position, Firms A, B, and C agree that each of them will set their prices somewhere below a specified low price, so that banana farmers may still be able to purchase from them.

Firms A, B, and C agree that they will return to independently setting their prices the following year.

Assessment

The ACCC considers that Firms A, B, and C are likely to be engaging in cartel conduct with the purpose or effect of fixing, controlling, or maintaining the price of the plant breeder rights that the firms license in competition with each other.

Prior to its repeal, subsection 51(3) of the CCA may have protected Firms A, B, and C from liability for giving effect to a cartel provision in this example. This is because the price may be considered a condition of the firms' licences to the farmers, which 'related to' the intellectual property rights at issue. This conclusion is dependent on plant breeder rights being covered by subsection 51(3) of the CCA (see footnote 3 above for further discussion).

However, the firms would still have risked contravening the prohibition on making a cartel provision, since their initial agreement to cap their prices was not itself a condition of their licences to the farmers, and so would not have been exempted by subsection 51(3).

Following the repeal of subsection 51(3) of the CCA, the ACCC considers that Firms A, B, and C may be at risk of contravening the prohibitions on (i) making a cartel provision (through making their agreement to cap prices), and (ii) giving effect to a cartel provision (through implementing that agreement by capping prices in their licences).

The ACCC considers that the competition condition is satisfied, since the firms compete to license PBRs that are substitutable for each other. The ACCC also considers that the purpose/effect condition is satisfied since it was a substantial purpose of the firms in making and giving effect to the possible cartel provision to fix or control the price of the PBRs that they licensed in that one year.

However, given the possible benefit that the firms' actions may have for the banana industry, the firms should consider whether authorisation of their conduct may be available. Whether authorisation is granted will depend on whether the conduct results in a net public benefit.

Example 4: Output restrictions

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.

Assessment

Prior to its repeal, subsection 51(3) of the CCA may have protected Firms A and B from liability for giving effect to a cartel provision in this example. This is because Firm B's specified maximum output may be considered a condition of Firm A's licence to Firm B, which 'related to' the intellectual property rights at issue.

However, given that the firms' initial agreement to restrict Firm B's output was not itself a condition of Firm A's licence to Firm B, that agreement would not have been exempted by subsection 51(3) of the CCA.

Following the repeal of subsection 51(3) of the CCA, the cartel provisions would apply to the conduct to the extent that Firms A and B (i) made a cartel provision (through making their agreement to restrict Firm B's output), and (ii) gave effect to that cartel provision (through implementing that agreement).

The ACCC considers that the competition condition is likely to be satisfied, since the firms are competitors in the supply of steel, notwithstanding the fact that Firm B would not have been able to supply the particular high-strength, low-weight steel absent the grant of a licence.

However, the ACCC does not consider that the purpose condition is likely to be satisfied. Following the grant of the licence, Firm B seems able to supply more steel than it could before the licence, including supplying the particular high-strength, low-weight steel for the first time. In this situation, the ACCC does not consider that the parties could possibly have intended for the possible cartel provisions to have restricted or limited the supply of steel by Firm B.

As a result, the ACCC does not consider that Firms A or B are at risk of contravening the cartel prohibitions.

Example 5: Market allocation²²

Firms A and B are pharmaceutical research companies that, independently and in competition with each other, research new pharmaceutical compounds and then license them to other firms to incorporate into drugs that those other firms then manufacture and distribute.

Firms A and B agree to collaborate in the development of a pharmaceutical compound, Compound 1, that has potential application in respect of two different diseases, Disease 1 and Disease 2. The development agreement includes a cross-licence in respect of each firm's relevant background intellectual property.

In addition, Firms A and B agree that all intellectual property rights in the result will be jointly owned, but Firm A will have the exclusive right to commercialise any research results in respect of Disease 1 and Firm B will have the exclusive right to commercialise any research results in respect of Disease 2.

Assessment

To reach a view on whether the competition condition was satisfied in this example, the ACCC would investigate a variety of factors, including whether Firms A and B had previously competed to license pharmaceutical compounds to treat Disease 1 and/or Disease 2. If Firms A and B had previously competed, or in the absence of the development agreement would be likely to compete, in respect of compounds that would be substitutable for Compound 1, then the ACCC considers that the competition condition would be satisfied. However, if Firms A and B had never previously competed, or in the absence of the development agreement would not be likely to compete, in respect of compounds that would be substitutable for Compound 1, then the ACCC considers that the competition condition would not be satisfied, notwithstanding that Firms A and B may have previously competed in other markets.

To reach a view on whether the purpose condition was satisfied in this example, the ACCC would investigate a variety of factors, including the commercial rationale(s) for Firms A and B deciding to split the commercialisation of Compound 1 between them for Disease 1 and Disease 2. For example, Firm A may have a particular focus on and special expertise in commercialising drugs for Disease 1 and similar diseases, while Firm B may have a particular focus on and special expertise in commercialising drugs for Disease 2 and similar diseases.

If both the competition condition and the purpose condition were satisfied, then Firms A and B may be risking forming a market allocation cartel within the meaning of section 45AD(3)(b)(i) of the CCA. Firms A and B should seek legal advice on whether their activities constitute a joint venture within the meaning of section 4J of the CCA, and whether the elements of the joint venture exemptions in sections 45AO and 45AP of the CCA are satisfied.

If the joint venture exemptions are unlikely to apply to them, the parties should consider applying to the ACCC for authorisation for their conduct, given the public benefits that may accrue from the conduct of Firms A and B. In this example, relevant public benefits could include that Compound 1 is unlikely to be developed in the absence of the development agreement. Whether the ACCC would grant authorisation will depend on whether the conduct results in a net public benefit.

Exemptions to the cartel prohibitions

3.15 There are a number of exemptions to the cartel prohibitions, including:

- conduct notified under a collective bargaining notice (section 45AL of the CCA)
- authorised conduct (section 45AM of the CCA)
- contracts, arrangements, or understandings between related bodies corporate (section 45AN of the CCA)
- joint venture conduct (sections 45AO and 45AP of the CCA)

²² This example is adapted from an example provided in the Law Council of Australia's submission.

- conduct relating to resale price maintenance (section 45AQ of the CCA)
 - conduct relating to exclusive dealing (section 45AR of the CCA)
 - dual listed company arrangements (section 45AS of the CCA)
 - acquisitions of shares or assets (section 45AT of the CCA), and
 - collective acquisitions (section 45AU of the CCA).
- 3.16 The operation of these exemptions is complex and not covered by these Guidelines. Businesses should seek legal advice before relying on them.

Penalties for cartel conduct

- 3.17 There are both civil and criminal prohibitions for corporations and individuals for making or giving effect to contracts, arrangements, or understandings containing cartel provisions. For further information on when the ACCC is more likely to refer a matter to the Commonwealth Director of Public Prosecutions for determination as to whether criminal prosecution is warranted, please refer to the factors listed in the Memorandum of Understanding between the CDPP and ACCC regarding Serious Cartel Conduct.
- 3.18 Intellectual property rights holders, legal practitioners, and business advisers can find out more about cartel conduct at www.accc.gov.au. The first party to report cartel conduct to the ACCC may be eligible for civil and criminal immunity. If you consider that you might be engaging in cartel conduct, you should also refer to the [ACCC immunity and cooperation policy for cartel conduct](#) and consider contacting the ACCC Cartel Hotline on (02) 9230 3894 or email cartelimmunity@accc.gov.au.

Contracts, arrangements, understandings and concerted practices

- 3.19 Section 45 of the CCA prohibits a corporation from making or giving effect to a contract, arrangement, or understanding, or engaging in a concerted practice, for the purpose, or with the effect or likely effect, of substantially lessening competition.²³
- 3.20 Conduct that does not have the purpose, effect, or likely effect of substantially lessening competition in a relevant market will not contravene section 45 of the CCA.
- 3.21 Contracts, arrangements, understandings or concerted practices which did not relate to, or 'which [sought] to gain advantages collateral to'²⁴, the intellectual property rights set out in subsection 51(3)(a) of the CCA have never been exempt and were already subject to section 45 of the CCA. The repeal of subsection 51(3) of the CCA will not affect either the application of the CCA to, or the ACCC's approach when investigating, these types of conduct.
- 3.22 The ACCC understands time restrictions, grant-back provisions, and no-challenge provisions are examples of provisions commonly included in intellectual property licences.
- 3.23 The ACCC considers it unlikely that these provisions were covered by the exemption under subsection 51(3) of the CCA as provisions of this kind generally involve a licensor seeking to gain an advantage that is collateral to the relevant intellectual property rights.
- 3.24 However, that does not mean that making or giving effect to these types of provisions will necessarily contravene section 45 of the CCA. Conduct is still required to meet the 'substantial lessening of competition' threshold before it will contravene section 45 of the CCA.
- 3.25 The ACCC considers that, similar to other types of non-intellectual property-related conduct, time restrictions, grant-backs, and no-challenge provisions will only occasionally reach this threshold. This is particularly when compared to a scenario where no licence has been granted, rather than a scenario where a licence has been granted without its possibly anti-competitive provisions.

²³ A similar prohibition applies to 'persons' under the Competition Code, set out in Part 1 of Schedule 1 to the CCA.

²⁴ *Transfield v Arlo* (1980) 144 CLR 83, at 103.

- 3.26 For example, a competitively neutral licence restriction that extends beyond the statutory lifetime of the underlying intellectual property rights is unlikely to suddenly substantially lessen competition simply because the statutory lifetime ends, unless there is also a major change in the competitive dynamics in the relevant marketplace.
- 3.27 As a further example, a licence agreement may contain a grant-back provision where the licensee agrees to provide a non-exclusive licence back to the original licensor for any improvements made to the intellectual property during the licence term. In this situation, where the licensee retains the ability to exploit the improvements itself and/or license them to other parties, the ACCC considers it unlikely that the conduct will meet the substantial lessening of competition threshold.

Example 6: Time restrictions

Firm A is a semiconductor chip research and development corporation. In 2010, it licensed a particular circuit layout to Firm B, a major chip manufacturer in Australia, for 15 years for use in the manufacture of semiconductor chips for on-sale to other firms. Firm B agreed to abide by certain costly quality requirements for the duration of its licence.

Assessment

Circuit layout rights are only protected for 10 years from their first commercial exploitation, so Firm A's rights over the circuit layout it has licensed to Firm B will only extend to 2020. By entering into an agreement that restricts Firm B's behaviour until 2025, five years following the expiry of the circuit layout rights, Firm A is imposing a condition that does not relate to the intellectual property rights at issue, or is collateral to them.

As a result, the ACCC considers that the conduct after 2020 would not have been exempted by subsection 51(3) of the CCA, and so the repeal will not change the application of the CCA to, or the ACCC's approach when investigating, this conduct.

To reach a view on whether the conduct is likely to have contravened section 45 of the CCA the ACCC would assess whether the conduct met 'substantial lessening of competition' threshold.

Example 7: Grant-back provisions

Firm A is a research institution that owns patents relating to touchscreen technology. Firm A separately licenses its patents to Firms B and C for manufacture and commercialisation. A condition of each of those licences is that Firms B and C exclusively license back to Firm A any improvements that they make during the licence term.

Assessment

The grant-back condition in the licence agreement seeks to confer on Firm A an advantage (ownership of improvements) that does not relate to, i.e., is collateral to, the intellectual property rights that are the subject of the licence (the touchscreen patents).

As a result, the ACCC considers that the conduct would not have been exempted by subsection 51(3) of the CCA. To reach a view on whether the conduct is likely to have contravened section 45 of the CCA, the ACCC would assess whether the conduct met the 'substantial lessening of competition' threshold.

Example 8: No-challenge provisions

Firm A is a medical research company that owns the patent over a biologic compound. It grants a licence to Firm B to manufacture and distribute a drug using the biologic compound. The licence agreement contains a provision that prohibits Firm B from challenging the validity of Firm A's patent during the licence period.

Assessment

The no-challenge provision in the licence agreement seeks to confer on Firm A an advantage (additional protection for the validity of its patent) that does not relate to, i.e., is collateral to, the intellectual property rights that are the subject of the licence (the biologic compound patent).

As a result, the ACCC considers that the conduct would not have been exempted by subsection 51(3) of the CCA. To reach a view on whether the conduct is likely to have contravened section 45 of the CCA, the ACCC would assess whether the conduct met the 'substantial lessening of competition' threshold.

Example 9: Output restrictions

Firm A is an Australian research and development corporation that owns a patent relating to transmission systems used in mining vehicles. It licenses the patent to Firms B and C for manufacture of the transmission systems and on-sale of the systems to other firms. Firms B and C are the two major manufacturers of transmission systems for mining vehicles in Australia.

Firm B agrees to pay Firm A licensing fees that are 20 per cent more than those paid by Firm C. In return, Firm A agrees to make it a condition of Firm C's licence that Firm C abide by more stringent quality requirements than Firm B. Firm C accepts the quality requirements however Firm C does not know that these requirements are higher for it than they are for Firm B.

The effect of the more stringent quality requirements on Firm C is that Firm C is only able to produce substantially fewer transmission systems than it would be able to produce if it had the same quality requirements as Firm B.

Assessment

The ACCC considers that Firms A and B are at risk of contravening section 45 of the CCA.

While Firms A and B are not competitors, and so the conduct will not fall within the cartel provisions, their agreement appears to have the purpose of substantially lessening competition by imposing such conditions on Firm C.

The ACCC acknowledges that many licensing arrangements may contain bona fide quality requirements intended to meet legislative trademark control requirements, limit product liability concerns, and protect the goodwill associated with a business or intellectual property right. However, Firm A's imposition of more stringent quality requirements on Firm C in return for higher licensing fees from Firm B indicates that these quality requirements are unlikely to be bona fide and suggests that a substantial purpose of the requirements may be to substantially lessen competition. This substantial purpose may be inferred from objective evidence.

Prior to its repeal, subsection 51(3) of the CCA may have protected Firm A from liability for giving effect to the agreement in this example. This is because the quality requirements imposed on Firm C may be considered a condition of Firm A's licence to Firm C, which 'related to' the intellectual property rights at issue.

However, Firms A and B would still have risked contravening the prohibition on making the agreement, since their initial agreement to restrict Firm C's output was not itself a condition of Firm A's licence to Firm B or Firm C, and so would not have been exempted by subsection 51(3) of the CCA.

Following the repeal of subsection 51(3) of the CCA, the ACCC considers that Firms A and B are at risk of contravening the prohibition on making an agreement that substantially lessens competition (through making their agreement to restrict Firm C's output), and Firm A is at risk of contravening the prohibition on giving effect to that agreement (through making those quality requirements part of Firm A's licence to Firm C).

Exclusive dealing

- 3.28 Section 47 of the CCA prohibits a corporation from engaging in exclusive dealing which has the purpose, effect, or likely effect of substantially lessening competition.²⁵
- 3.29 Section 47 of the CCA sets out a number of categories of conduct that constitute exclusive dealing. In general, exclusive dealing occurs when a corporation trading with another imposes restrictions on the other's freedom to choose with whom, in what, or where they deal.
- 3.30 Broadly, exclusive dealing includes:
- the supply of goods or services, or the supply at a particular price or discount, on condition that the purchaser will not acquire, or will limit their acquisition of, goods or services from a competitor of the supplier. This includes a condition that the purchaser will not re-supply, or will only re-supply to a limited extent, goods or services acquired from a competitor: section 47(2) of the CCA
 - the refusal to supply goods and services because the purchaser has dealt in a competitor's products, or failed to accept some restrictions on their right to re-supply the original goods or services: section 47(3) of the CCA
 - the acquisition of goods or services on condition that the supplier accepts some restriction on their freedom to supply to third parties, or the refusal to acquire goods or services because the supplier has refused to accept some restriction on their freedom to supply to third parties: section 47(4) and (5) of the CCA
 - the supply of goods or services on the condition that the buyer also acquire goods or services from a particular, unrelated, third party or the refusal to supply because the buyer will not agree with that condition. This conduct is commonly known as third line forcing: section 47(6) and (7) of the CCA.
- 3.31 Conduct that constitutes exclusive dealing, or would constitute exclusive dealing if it had the purpose, effect, or likely effect of substantially lessening competition, is exempt from the cartel prohibitions and from section 45 of the CCA.²⁶
- 3.32 In other words, if conduct falls within the categories of exclusive dealing set out in section 47 of the CCA, whether or not it substantially lessens competition, then neither the ACCC nor third parties can take action in respect of that conduct under the cartel prohibitions or section 45 of the CCA. Any action that is taken must be taken under section 47 of the CCA. These provisions are commonly known as the 'anti-overlap' provisions.
- 3.33 The ACCC considers that the conduct in the following examples would constitute exclusive dealing under section 47 of the CCA, and would contravene section 47 of the CCA if it was engaged in for the purpose, or had the effect or likely effect, of substantially lessening competition.

²⁵ A similar prohibition applies to 'persons' under the Competition Code, set out in Part 1 of Schedule 1 to the CCA.

²⁶ *Competition and Consumer Act 2010* (Cth), sections 45AR and 45(5A) and (6).

Example 10: Exclusive dealing

Firm A is a multinational chemicals company, operating in Australia. Firm A's patent on a highly profitable fertiliser product is set to expire in six months.

Firm A is concerned that once its patent expires, other companies will enter the market with fertiliser products that use the same chemical compounds. Firm A enters into a supply agreement with Firm B, Australia's largest home improvement retailer, for the fertiliser on the condition that Firm B will not stock fertiliser products from any other competitor after their patent expires. The supply agreement allows Firm B to manufacture and supply Firm A's fertiliser, and includes a licence to Firm A's patent. Firm B enters the supply agreement, as it is concerned that any other fertiliser products may not sell as well as Firm A's fertiliser.

Assessment

The ACCC considers that this conduct is unlikely to have been exempt under subsection 51(3) of the CCA prior to the repeal, as Firm A is imposing a condition that does not relate to the intellectual property rights at issue.

The ACCC also considers that Firm A is at risk of contravening section 47 of the CCA.

Firm A has supplied its goods or services on the condition that Firm B would not acquire goods or services from a competitor to Firm A, or re-supply goods acquired from a competitor to Firm A, after Firm A's patent expires. This conduct is prohibited under section 47(2) of the CCA if the conduct has the purpose, effect, or likely effect of substantially lessening competition.

To reach a view on whether this conduct is likely to have had the substantial purpose of substantially lessening competition, the ACCC would examine a variety of factors including any commercial rationale(s) for Firm A's conduct.

To reach a view on whether this conduct is likely to have had the effect or likely effect of substantially lessening competition, the ACCC may consider what the likely comparison to this conduct would be for the 'with or without' analysis. While Firm B may be unable to sell Firm A's fertiliser for the next six months before the patent expires unless it gets a licence, once the patent expires, Firm B may have the opportunity to choose between competing generic fertilisers from Firm A or Firm A's competitors. The ACCC would also consider any competitive constraints on Firm A and what the relevant market is for fertiliser products in Australia.

In the absence of a clear alternative commercial rationale for Firm A's conduct, the ACCC considers that the conduct appears to have the purpose of substantially lessening competition, and therefore that Firm A may be at risk of contravening section 47 of the CCA.

In addition, in the event that the factors referred to above suggest that Firm A's conduct would have the effect, or likely effect, of substantially lessening competition, then Firm A is also at risk of contravening section 47 of the CCA.

Example 11: Exclusive dealing

Firm A is a film distribution corporation, specialising in acquiring licences to independent Australian films for distribution to cinemas around Australia. Firm B owns the copyright to an independent Australian film.

Firm B agrees to license the film to Firm A for distribution. Firm A insists that the licence agreement contain a provision that prevents Firm B from licensing that film to any other distributors in Australia.

Assessment

Firm A would be acquiring, or offering to acquire goods or services, from Firm B on the condition that Firm B will not supply goods or services to any party other than Firm A. This conduct is prohibited under section 47(4) of the CCA where it has the purpose, effect, or likely effect of substantially lessening competition.

To reach a view on whether this conduct is likely to have had the purpose of substantially lessening competition, the ACCC would consider the commercial rationale for including exclusive distribution rights for the film, including whether and why this arrangement was the same or different to those in other similar distribution arrangements. In the absence of compelling evidence that Firm A's substantial purpose was to substantially lessening competition, the ACCC does not consider that the 'purpose' element of the threshold is likely to be met.

To reach a view on whether this conduct is likely to have had the effect or likely effect of substantially lessening competition the ACCC would consider a variety of factors, including the market/s for film distribution services around Australia and the cinema market/s around Australia. Given that Firm A's conduct only relates to a distribution agreement with one other firm and affects only one film, the ACCC considers it is unlikely that Firm A's conduct had the effect or likely effect of substantially lessening competition.

As a result, the ACCC considers that Firm A is unlikely to have contravened section 47 of the CCA.

Prior to its repeal, subsection 51(3) of the CCA may have exempted Firm A from liability for giving effect to the agreement. This is because the agreement preventing Firm B from licensing the film to another distributor may be considered a condition of Firm B's licence to Firm A, which 'related to' the intellectual property rights at issue.

Example 12: Exclusive dealing

Firm A is a technology developer, specialising in personal electronic products. Firm A's most successful product, PhoneOne, is the market leader in smartphone sales in Australia. Firm A is considering an exclusive licensing arrangement for the patent of the PhoneOne to Firm B, which allows Firm B to manufacture PhoneOnes and sell them to retailers across Australia.

Firm C is a plastics manufacturer. Firm C approaches Firm A and offers a financial benefit to Firm A if Firm A requires Firm B to acquire the plastic components for the manufacture of PhoneOne from Firm C only. Firm A agrees and grants the licensing agreement to Firm B on the condition that Firm B acquire the plastic components necessary to produce the PhoneOne from Firm C.

Once Firm B begins manufacturing PhoneOnes using Firm C's components, Firms D and E, the only other firms in Australia who manufacture plastic components that could be used in the PhoneOne, go out of business. As a result, Firm A's competitors, who previously used Firms D and E, must instead use Firm C to manufacture the plastic components for their smartphones as well.

Assessment

Firm A is supplying services to Firm B on the condition that Firm B acquires goods and/or services from Firm C, who is not a related body corporate of Firm A. This conduct is prohibited under section 47(6) of the CCA where it has the purpose, effect, or likely effect of substantially lessening competition.

To reach a view on the purpose of Firm A's conduct, the ACCC would consider the commercial rationale(s) for Firm A's conduct. One such rationale could be a bona fide belief that Firm C's plastic components were the best available, and a desire to maintain the quality of the final PhoneOnes in order, for example, to maintain the goodwill associated with PhoneOnes and Firm A. However, the financial benefit given to Firm A by Firm C would need to be taken into account.

To reach a view on the effect or likely effect of Firm A's conduct, the ACCC would examine the market for smartphones and for plastic mobile phone components. The ACCC would further assess the state of competition without the relevant conduct. In this instance, the appropriate comparison without the relevant conduct is likely to be that Firm B could acquire its plastic components from any provider. Given that the agreement has the effect of preventing current and possible future plastic component manufacturer firms from competing for the opportunity to manufacture the relevant plastic components for the most popular smart phone and hindering their ability to compete for the manufacture of plastic components for other smart phones, the ACCC considers that the 'effect' threshold is likely to have been met, and that Firm A is likely to have contravened section 47 of the CCA. The key difference between this comparison and the general approach proposed in paragraphs 2.19-2.23 is that the conduct in this example relates to a condition that is collateral to the intellectual property rights.

This conduct is unlikely to have been exempt under subsection 51(3) of the CCA prior to the repeal, as Firm A is imposing a condition in its licensing agreement with Firm B that does not relate to the intellectual property rights at issue.

Example 13: Franchising²⁷

Firm A grants a gym franchise to Firm B, including a licence to use key trademarks in a specified limited geographic area around Firm B's gym. Firm B agrees not to actively promote its business, including through use of the licensed trademarks, outside of that specified limited geographic area (**Promotional Provision**).

There are many gyms operating under the franchise in question.

Assessment

The Promotional Provision is unlikely to amount to exclusive dealing within the meaning of section 47 of the CCA. Exclusive dealing requires the supply or acquisition of goods or services and using trademarks for promotional purposes is unlikely to be a supply or acquisition of goods or services.

Given that the Promotional Provision is unlikely to amount to exclusive dealing within the meaning of section 47 of the CCA, the ACCC would then consider whether the cartel prohibitions or section 45 of the CCA are likely to apply to the Promotional Provision.

The ACCC considers that the Promotional Provision is unlikely to be a prohibited cartel provision because the competition condition is unlikely to be satisfied. Firms A and B are not, nor are they likely to be, competitors for the supply of the trademark (given that Firm B is using, not sub-licensing, the trademark within its exclusive territory) or any other goods or services substitutable for the trademark.

To reach a view on whether the Promotional Provision was likely to contravene section 45 of the CCA, the ACCC would look at its purpose, effect, or likely effect on competition in the markets in which Firms A and B supply or acquire goods or services. Given that Firm B does not supply the trademark or substitutable goods or services, nor is it likely to do so, the ACCC considers that it is unlikely that the Promotional Provision would have the purpose, effect, or likely effect of substantially lessening competition in a trademark-related market.

The ACCC would then consider the impact of the Promotional Provision on other markets that Firms A and B were involved in, such as a gym services market, and whether the Promotional Provision had the purpose, effect, or likely effect of substantially lessening competition in any of those markets.

Although the Promotional Provision is unlikely to amount to exclusive dealing, other common conditions of franchise arrangements can amount to exclusive dealing. For example, Firm A may require Firm B to obtain gym equipment from a particular supplier, which would be likely to fall within the category of exclusive dealing set out in section 47(6) of the CCA. These conditions are prohibited where they have the purpose, effect, or likely effect of substantially lessening competition.

If a franchisor is concerned that their proposed exclusive dealing provision could have the purpose, effect, or likely effect of substantially lessening competition, they should cease the conduct, notify the ACCC of the conduct, or seek authorisation from the ACCC for the conduct.

²⁷ This example is adapted from an example provided in the Law Council of Australia's submission.

4. The ACCC's approach to enforcement

- 4.1 When considering whether to take enforcement action, the ACCC focuses on matters that will, or have the potential to, harm the competitive process or result in widespread consumer detriment. The ACCC cannot pursue all the complaints it receives and directs its resources to matters that are likely to provide the greatest overall benefit for competition and consumers.
- 4.2 Further information about how the ACCC prioritises matters is set out in our annual Compliance and Enforcement Policy and Priorities. The latest version is always available on our website at www.accc.gov.au.

5. Certification trade marks

- 5.1 A certification trade mark (CTM) indicates to consumers that a product bearing the mark meets a particular standard, such as being of a particular quality, is manufactured in a particular location or by a particular process, is made from particular materials or ingredients, or is suited to a particular task.

The ACCC's role

- 5.2 Businesses wishing to register a CTM must apply to the Registrar of Trade Marks and propose rules that will govern the use of the CTM. ACCC approval is required before a CTM can be registered.
- 5.3 The ACCC will only approve a CTM application if it is satisfied that:
 - the attributes required of those assessing whether products may use the CTM are sufficient to enable the assessor to competently assess whether goods and/or services meet the certification requirements, and
 - the proposed CTM rules would not be to the detriment of the public and are satisfactory having regard to the principles of competition, unconscionable conduct, and consumer protection.
- 5.4 For further information, intellectual property rights holders, legal practitioners, and business advisers should refer to [Certification trade marks—the role of ACCC \(2011\)](#).

The repeal of subsection 51(3)(b) of the CCA

- 5.5 The exemption in subsection 51(3)(b) of the CCA previously applied to making or giving effect to a provision in an agreement authorising the use of a CTM, where that provision was otherwise in accordance with the ACCC-approved rules for that CTM.
- 5.6 The repeal of subsection 51(3) of the CCA removes this exemption, meaning that the cartel prohibitions and sections 45 and 47 of the CCA now apply to agreements authorising the use of CTMs in the same way as they apply to other conduct.
- 5.7 However, the ACCC does not consider that the repeal will expose agreements authorising the use of a CTM to additional risk. The ACCC assesses the competition impacts of the proposed CTM rules and does not approve the rules unless satisfied that they would not be to the detriment of the public.
- 5.8 In making this assessment, the ACCC analyses whether the CTM rules would require or encourage CTM users to engage in anti-competitive conduct, such as cartel conduct, anti-competitive agreements, or exclusive dealing. Consequently, the ACCC does not foresee a scenario where it would approve CTM rules and later take action against parties conducting themselves in accordance with those rules.
- 5.9 Conduct relating to CTMs that was not in accordance with the ACCC-approved rules was never subject to the exemption provided by subsection 51(3) of the CCA.

6. Authorisation, notification & class exemptions

Authorisation

- 6.1 Where businesses are concerned that proposed conduct would or might contravene the anti-competitive conduct prohibitions of the CCA, they can seek authorisation from the ACCC.
- 6.2 Broadly, the ACCC may grant authorisation where proposed conduct is likely to result in a net public benefit (i.e. where the likely public benefit resulting from the conduct outweighs the likely public detriment).
- 6.3 If parties obtain authorisation from the ACCC, they receive statutory protection from legal action under the CCA for that conduct. That is, for the duration of the authorisation, the party or parties to whom the authorisation applies will be able to engage in the proposed conduct without risk of the ACCC, or third parties, taking legal action against them for a contravention of the relevant anti-competitive conduct prohibitions of the CCA.
- 6.4 The ACCC does not have the power to grant authorisation for conduct engaged in before the authorisation is granted.
- 6.5 Authorisation is a public process. The application and supporting submission will be available on the ACCC's public register and provided to interested parties for their comment or response. Applicants and interested parties providing documents and submissions to the ACCC may request that confidential information be excluded from the public register. All public responses are made available on the public register. The ACCC's draft and final determination, including the reasons for the decision, are also publicly available.
- 6.6 The ACCC seeks to deal with applications for authorisation quickly and efficiently, and in any event must issue its final determination either granting or dismissing an application within six months of receiving a valid application, unless extended with agreement by the applicant or due to a pre-decision conference being held.
- 6.7 Further detailed information on the authorisation process is available in the ACCC's [Guidelines for authorisation of conduct \(non-merger\)](#) (March 2019). Parties can also contact the ACCC to obtain more information about authorisation or the authorisation process.

Notification

- 6.8 Notification is an alternative process to authorisation that is available where parties propose to engage in small business collective bargaining, exclusive dealing or resale price maintenance.
- 6.9 Upon the notification coming into force, the notified conduct is protected from legal action unless the ACCC objects to the notification. Broadly, the ACCC may only object to a notification if the benefit to the public likely to result from the notified arrangements would not outweigh the public detriment likely to result (i.e. there is no net public benefit).
- 6.10 Following valid lodgement of the notification, protection from legal action for the conduct commences at different times for different types of notifications. Further detailed information on the notification process is available in the ACCC's notification guidelines at www.accc.gov.au.

Class exemptions

- 6.11 The ACCC has the power under section 95AA of the CCA to issue a class exemption that specifies that one or more provisions of Part IV of the CCA do not apply to the kind of conduct set out in the class exemption. A class exemption may be limited to a person of a specified kind, such as participants in a particular industry. In effect, it provides a 'safe harbour' allowing businesses to engage in conduct of the specified kind without risk of contravening the relevant provisions of Part IV of the CCA.

- 6.12 The ACCC will identify kinds of conduct that may appropriately be the subject of a class exemption. While businesses do not apply for a class exemption, they may wish to suggest options to the ACCC. The ACCC will consider such suggestions taking account of other organisational priorities.
- 6.13 The register of class exemptions currently under consideration is available on the ACCC's website at www.accc.gov.au. At the time of publishing these Guidelines, the ACCC is not considering issuing a class exemption relating to intellectual property rights.

7. Sanctions

Sanctions in the CCA

- 7.1 If a court determines that a person has contravened, attempted to contravene, or been involved in the contravention of an anti-competitive conduct prohibition of the CCA, the court may make orders including but not limited to:
- requiring a person to pay a pecuniary penalty
 - requiring a person to pay damages, refund money, or return property
 - requiring a person to undertake community service
 - restraining a person from engaging in certain conduct
 - declaring that a person has contravened the CCA, or
 - disqualifying an individual from managing a corporation.
- 7.2 A court may impose a pecuniary penalty on a corporation for each contravention of an anti-competitive conduct prohibition of the CCA up to the greatest of:
- \$10 million
 - three times the value of the benefit obtained by the corporation as a direct or indirect result of the contravening conduct, or
 - 10 per cent of the annual turnover of the corporation during the 12 month period following the contravening conduct.
- 7.3 A court may impose a pecuniary penalty on an individual of up to \$500 000 for each contravention of an anti-competitive conduct prohibition of the CCA. For individuals found guilty of a criminal cartel offence, a court may impose a sentence of up to 10 years in jail and/or a fine of up to \$420 000 for each offence.

Sanctions outside the CCA

- 7.4 Other state, territory, and Commonwealth laws may also apply to the licensing and assignment of intellectual property rights. For example, the ACCC notes that where a patent holder is held to have contravened an anti-competitive conduct prohibition of the CCA 'in connection with the patent', another person may apply to the Federal Court for an order requiring the patent holder to grant that person a compulsory licence.²⁸ If a compulsory licence is granted, an interested person may also apply to the Federal Court for an order revoking the patent.²⁹
- 7.5 Obligations may differ between states and territories. You may also have additional obligations for various reasons. For example, if you are in receipt of government grants or tax concessions for related research and development.
- 7.6 If you are unsure about your legal obligations, or which laws apply to you, you should consider seeking legal advice.

²⁸ *Patents Act 1990* (Cth), s. 133.

²⁹ *Patents Act 1990* (Cth), s. 134.



AUSTRALIAN COMPETITION
& CONSUMER COMMISSION

