July 18, 2019

Submission via electronic format

Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

Re: Joint Comments on the Australian Competition and Consumer Commission’s Draft Guidelines on the Repeal of Subsection 51(3) of the Competition and Consumer Act of 2010

Dear Sir/Madam:

On behalf of the American Bar Association Antitrust Law, Intellectual Property Law, and International Law Sections, we are pleased to submit the attached comments on the Australian Competition and Consumer Commission’s Draft Guidelines on the Repeal of Subsection 51(3) of the Competition and Consumer Act of 2010.

Please note that these views are being presented only on behalf of the Antitrust Law, Intellectual Property Law, and International Law Sections. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and should not be construed as representing the policy of the American Bar Association.
If you have any questions after reviewing the report, we will be happy to provide further comments.

Sincerely,

Deborah A. Garza
Chair, Antitrust Law Section

Mark Dickson
Chair, Intellectual Property Law Section

Robert L. Brown
Chair, International Law Section

Attachment
COMMENT OF THE AMERICAN BAR ASSOCIATION ANTITRUST LAW, INTELLECTUAL PROPERTY LAW, AND INTERNATIONAL LAW SECTIONS ON THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION’S DRAFT GUIDELINES ON THE REPEAL OF SUBSECTION 51(3) OF THE COMPETITION AND CONSUMER ACT OF 2010

July 19, 2019

The views stated in this submission are presented on behalf of the American Bar Association’s (ABA’s) Antitrust Law Section, Intellectual Property Law Section, and International Law Section. They have not been approved by the House of Delegates or the Board of Governors of the ABA and therefore should not be construed as representing the policy of the ABA as a whole.

The ABA Antitrust Law Section, Intellectual Property Law Section, and International Law Section (the Sections) commend the Australian Competition and Consumer Commission (ACCC) for providing the opportunity to comment on its Draft Guidelines on the repeal of subsection 51(3) of the Competition and Consumer Act 2010 (Draft Guidelines). The Sections limit their comments to: (1) Section 3.15, specifically to the treatment of grantbacks, no-challenge clauses, and expired patents; and (2) the treatment of conditions entered into before September 13, 2019. This comment reflects the expertise and experience of the Sections’ members with competition law, intellectual property law, and economics.

The Sections commend the ACCC for adopting an essentially effects-based approach that recognizes that “[l]icensing or assignment of intellectual property rights usually encourages competition.” We respectfully recommend that the ACCC focus its analysis on competitive effects as opposed to the purpose of, or intent behind, specific conduct. An effects-based approach is better suited to minimize Type I (false positive) and Type II (false negative) errors by avoiding inquiries into the subjective intent of parties, focusing instead on whether the conduct at issue resulted in anticompetitive effects that are not outweighed by procompetitive benefits.

Grantbacks

Section 3.15 defines grantback clauses as “conditions that require a licensee to assign or grant an exclusive license back to the original licensor for any improvements generated through the licensee’s exploitation of intellectual property rights.” To the extent the ACCC includes

---


2 Section 3.15 of the Draft Guidelines states that grantbacks and no-challenge provisions both “involve a licensor seeking to gain an advantage that is collateral to the relevant intellectual property rights, and therefore that section 45 already applies, and following the repeal of subsection 51(3) will continue to apply.” With this understanding, the Sections nevertheless offer comments on such provisions in the hope that they will provide helpful guidance for the ACCC.

3 Id. §§ 2.4-2.5.
“exclusivity” in its definition to reflect its view that absent exclusivity grantbacks are less likely to raise competition concerns, the Sections agree.4

Section 3.15 further states that grantback clauses “involve a licensor seeking to gain an advantage that is collateral to the relevant intellectual property rights,” and are thus governed by Section 45 of the Competition and Consumer Act (which prohibits contracts, arrangements, understandings or concerted practices that have the purpose, effect or likely effect of substantially lessening competition in a market). As noted in the Introduction, above, the Sections recommend a focus on the effects of the grantback as opposed to an approach that seeks to decipher the subjective intent of whether the licensor is “seeking to gain an advantage.”

Grantbacks provide a means for the licensee and the licensor to share risks and to reward the licensor for further innovations based upon or informed by the licensed technology. The prospect of a grantback is an incentive both for innovation in the first place and for the subsequent licensing of the results of that innovation.5 “The clause ensures that the licensee is reassured that some other piece of intellectual property (IP) held—or applied for—by the licensor will not make the licensed technology immediately obsolete and the licensor is protected against the possibility that the licensee might already hold knowledge that would allow him to immediately outperform the licensor. In this sense such clauses might be necessary to ensure that the parties can reach a licensing agreement at all.”6 That said, grantback clauses may also adversely affect competition if they substantially reduce incentives to engage in further R&D, serving as a mechanism by which a licensor can limit rivals’ innovation. Grantbacks may also “be used as a way to ‘leverage’ the market power of the licensor into other markets or as a way to extend patent protection beyond the term of the patents that are covered by the initial agreement.”7

Thus, the Sections agree that grantback clauses should be analyzed under an effects-based approach. Any scrutiny should focus on the breadth of the technology included in the grantback (including the severability of the potential grantback technologies); whether the grantback rights are reciprocal and/or involve other quid pro quo benefits; whether the grantback involves a transfer of ownership; and whether the grantback rights are exclusive. In analyzing the contours of a grantback clause, the ultimate questions are: (1) whether the clause is likely to substantially lessen competition by reducing licensees’ incentive to further innovate, allowing the licensor to leverage any monopoly power it may possess into other markets, or allowing the licensor to extend its patent protection beyond the term of the original patents; and, if so, (2) whether the clause has offsetting procompetitive benefits. When assessing whether the grantback provision is likely to substantially lessens competition, the comparison should be to competition that would have existed if there were no license in the first place, in other words, in

4 The U.S. antitrust agencies take a similar approach, stating that, “[c]ompared with an exclusive grantback, a non-exclusive grantback, which leaves the licensee free to license improvements technology to others, is less likely to harm competition.” U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY at 33 (2017), available at https://www.justice.gov/atr/ipguidelines/download [hereinafter DOJ-FTC IP Guidelines]. U.S. courts and agencies typically analyze grantback provisions under the effects-based rule of reason analysis. See, e.g., Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637, 645–48 (1947) (holding that grantback provisions are not per se unlawful); DOJ-FTC IP Guidelines, at §5.6 (stating that the agencies “will evaluate a grantback provision under the rule of reason, considering its likely effects in light of the overall structure of the licensing arrangement and conditions in the relevant markets”).

5 DOJ-FTC IP Guidelines, supra note 4, at 33.


7 Id. at 40.
the “but for” world. For example, if the license is necessary to do the innovation that results in the granted back IP, there is no reduction in competition that would have existed “but for” the license. Some examples of offsetting procompetitive benefits include promoting the dissemination of licensees’ improvements to the licensed technology, increasing the licensors’ incentives to disseminate the licensed technology or otherwise increasing competition and output in a relevant technology or research and development market.8

No-Challenge Clauses and Expired Patents

Section 3.15 addresses no-challenge clauses, stating that such clauses “involve a licensor seeking to gain an advantage that is collateral to the relevant intellectual property rights,” and are thus governed by Section 45 of the Competition and Consumer Act (which prohibits contracts, arrangements, understandings or concerted practices that have the purpose, effect or likely effect of substantially lessening competition in a market). We observe that the ACCC did not provide any clarifying examples covering no-challenge clauses. We suggest adding an example to provide further guidance on the circumstances under which such clauses may raise competition concerns and when they are likely to be considered procompetitive or benign.

The Sections agree that no-challenge clauses should be analyzed under an effects-based approach; as noted above, we encourage the ACCC to focus on actual effects as opposed to the “purpose” of such clauses. That said, given that the purpose of competition laws is to protect the competitive process and not individual competitors, under most circumstances including a no-challenge clause in a license agreement is unlikely to lead to the unlawful acquisition or maintenance of monopoly power or dominance. In the Sections’ experience, no-challenge clauses typically do not provide the intellectual property right (IPR) holder with any enhanced leverage. This follows because licensees have the opportunity to challenge the validity of a patent at any time after the patent is granted but before a license containing a no-challenge clause is executed.

Most commonly, a negotiated royalty rate reflects the possibility that some of the licensed portfolio’s patents may be invalid or may expire before the end of the license term. Thus, the typical effect of a no-challenge clause is to decrease transaction costs associated with negotiations by decreasing the incentive of ex-post opportunism by the licensee after the licensing agreement has been signed.9

With respect to licenses for large patent portfolios—a common occurrence in many industries—negotiations typically revolve around “proof packages” that are used to demonstrate a licensing program’s value.

Such packages may include a portfolio overview, innovation story, demonstration of technology leadership, benefits to licensees, use cases, and potential exemplary claim charts. When a licensor and a licensee negotiate a license for a large IPR portfolio, both parties understand that some of the numerous (sometimes hundreds or even thousands of) patents (or claims within patents) in the portfolio may be invalid or may expire before the end of the license term. The parties do not invest extensive

---

8 DOJ-FTC IP Guidelines, supra note 4, at 33-4.

9 For a related discussion, see, e.g., Roy Kenney & Benjamin Klein, The Economics of Block Booking, 26 J. OF L. & ECON. 497 (1983). The authors demonstrate that “block booking” contractual arrangements, which serve to prevent buyers from rejecting parts of a package of products that has been average-priced, is an efficient contractual mechanism when a portfolio of goods is comprised of individual products whose individual values are not easily known—i.e., a precise estimate of value for each underlying product would require costly and often duplicative and wasteful examination.
resources in identifying those potentially invalid or expiring patents because to do so would raise negotiation transaction costs considerably. Instead, the parties assess generally the value of the licensed portfolio (typically through proof packages) and determine a royalty that accounts for the possibility that some of the portfolio’s patents may be invalid or may expire.\textsuperscript{10}

Therefore, in the portfolio licensing context, encouraging a licensee to challenge the validity of individual patents within the licensed portfolio after an agreement has been signed invites opportunistic litigation by the licensee so as to delay paying the IPR holder the agreed-upon royalty for the use of the valid patents in its licensed portfolio upon which the license negotiations were based. Thwarting an IPR holder’s ability to receive prompt compensation for its innovative contribution in this fashion would lessen the IPR holder’s incentive to invest in innovation, which in turn can impose significant harm on consumers.\textsuperscript{11}

Nonetheless, under certain circumstances a no-challenge clause could result in anticompetitive harm. For instance, when an IPR holder is an unavoidable trading partner and it conditions its license grant on the licensee’s agreement to a no-challenge clause, the licensee may be effectively prevented from ever challenging the validity of the licensed patents. For instance, should the licensee challenge some of the patents before attempting to negotiate a license, the IPR holder may refuse to subsequently grant a license (regardless of the validity outcome), which could foreclose the licensee from the relevant market if injunctive relief for infringement is readily available to the IPR holder. However, unless such conduct is practiced by a vertically-integrated IPR holder that excludes a downstream rival (through an injunction), it is difficult to see how such conduct could result in the unlawful acquisition or maintenance of monopoly power through exclusion of a rival.\textsuperscript{12}

Because of the potential for both pro- and anticompetitive effects from no-challenge clauses, and because of the possibility that such clauses may be addressed under contract or IP law, the Sections recommend that the following factors be considered by the ACCC in any particular case involving a no-challenge clause: (1) whether there are a sufficient number of other parties with a potential interest in challenging the validity of the patents (including current licensees, potential licensees, other competitors, etc.) that are not subject to similar restrictions; (2) the reasonableness of the no-challenge clause in the context of the particular license agreement; (3) whether the no-challenge clause is legally enforceable; and, most importantly, (4) whether such a contractual provision is likely to eliminate or restrict competition in a relevant market.

**Treatment of Conditions Entered Into Before September 13, 2019**

Paragraph 1.7 states that “[t]he ACCC will enforce the cartel prohibitions and sections 45 and 47” against certain conditions in licensing arrangements, “even where entered into before 13 September 2019,” when the parties give “effect to, on or after 13 September 2019,” those conditions. We respectfully request that the ACCC provide additional guidance in order to allow


\textsuperscript{12} No U.S. court has addressed whether the inclusion of a “no-challenge” clause in a patent licensing agreement constitutes an antitrust violation. Nevertheless, some lower U.S. courts have relied on the U.S. Supreme Court’s decision in *Lear Inc.* v. *Adkins*, 395 U.S. 653 (1969) to invalidate no-challenge clauses under patent or contract law.
businesses and other entities to understand how the ACCC intends to approach enforcement in such situations. Such measures would serve to enhance compliance with the new legislative change.

In particular, we recommend that the ACCC provide specific guidance as to what “giving effect to . . . conditions” entails, as well as what is required to cease such conduct. For example, how will the ACCC treat conditions that are part of a larger, multi-party agreement covering jurisdictions in which the enforcement of such term remains lawful, particularly when such conditions may be difficult to remove or amend? Will it be sufficient for the relevant parties to cease enforcement of the condition in Australia alone? Another example relates to Example 2 in the Draft Guidelines. Specifically, if a party has given effect to a condition such as a pricing term, would the ACCC require the termination of the agreement in its entirety, or would it instead allow for the amendment or non-enforcement of the offending condition?

CONCLUSION

We appreciate the opportunity to comment and welcome the opportunity to discuss with the ACCC any comments or questions it may have.