

Submission template: Review of section 36 of the Commerce Act and other matters

Your details

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Responses to discussion paper questions

Your submission may respond to any or all of the questions from the discussion paper. There is an additional box at the end for any other comments you may wish to make.

Text boxes will expand as you complete them.

Decision-making criteria

1 Do you agree with the primary objective and the criteria?

Section 36: Problem Definition

2 Can you offer any new evidence on the costs and benefits of section 36, as currently worded? If you have previously submitted on this issue, do you have anything new or different to add to your views on the effectiveness of section 36? If you have not previously submitted on this issue, what are your views on the effectiveness of section 36?

Section 36: Designing a Unilateral Conduct Prohibition

3 Do you agree that interconnected bodies corporate should be treated the same as a single firm?

4 Do you agree that “a substantial degree of power in a market” is an appropriate threshold for the prohibition?

5 Do you agree that a new prohibition does not require any equivalents to the Australian section 46(4)-(7)?

6 Should a new prohibition define the types of proscribed conduct? Should a new prohibition describe or list the types of proscribed conduct?

7 Should the prohibition focus on purpose OR effects, purpose AND effects, solely purpose, or solely effects? Please provide reasoning.

8 Should purpose be defined as per the existing case law or should it explicitly be an objective purpose? Should section 36B and/or an equivalent provision be retained?

9 Is a “substantial lessening of competition” the appropriate standard for the prohibition? If not, do you have any alternative suggestions? Does the SLC standard provide enough certainty to assess conduct before it is undertaken?

10 Can you provide any examples of exclusionary conduct where the anti-competitive effects and the pro-competitive effects occur in different markets? Should the prohibition enable a balancing of pro- and anti-competitive effects that occur in different markets?

11 Should a “less restrictive alternative” test form part of the analysis when assessing conduct with both pro- and anti-competitive effects?

Section 36: Providing certainty

12 Are there any forms of anti-competitive unilateral conduct that should be specifically prohibited in the Commerce Act?

13 Should the Act provide for secondary legislation to provide greater certainty for anti-competitive unilateral conduct? If so, who should hold the power to make secondary legislation?

14 Should authorisation be available for unilateral conduct?

Section 36A: Misuse of Trans-Tasman Market Power

15 In your view, does section 36A have any practical effect? Should section 36A be retained or repealed? If section 36 is changed, should section 36A be changed to mirror the new section 36?

Section 36: Options Identification and Impact Analysis

16 Do you support our initial proposition? If not, why not?

17 Do you agree with the rejection of these options as unfeasible? Are there any other options that should be considered?

18 Do you agree with our assessment of this option against the criteria? If not, why not? Please provide evidence to support your answers.

19 Do you agree with the types of costs and benefits identified? Do you agree with the valuation of the costs and benefits? If not, why not? Please provide evidence to support your answer.

Treatment of Intellectual Property in the Commerce Act

20 Can you identify any examples of potentially anti-competitive IP-related conduct that is likely to fall within the scope of the Commerce Act's IP-related provisions at present?

A realistic example that we might consider is in relation to products which depend on genetic modification. New products or vastly superior products may be able to be produced with this sort of technology, which may either be protected via patent or plant variety (depending on the product). This sort of technology is likely to come with very high barriers to entry for effective competition - substantial development investment may be required, time to market may be extended due to technological barriers, there may be limited feasible technical possibilities for alternatives and (in New Zealand at least) there may be regulatory hurdles to overcome. We consider for this sort of scenario, there is a genuine possibility of either a monopoly or substantial market power being controlled by one rights-holder simply by holding the IP, and therefore the exercise of attached rights (such as the right to enforce a patent) could be within the scope of the IP exceptions in the Act. The IP exceptions therefore provide important clarity to the rights-holder in their commercial dealings and enforcement activities.

While we have focused on an area for which we have some familiarity it is not hard to envisage other 'disruptive technologies' being within the IP exceptions in the Act, if these technologies are protected by patents or plant variety rights in particular. Without the benefit of the exceptions, we would be concerned that the incentive to invest in these technologies will diminish.

We note here that the impact of changes to section 36 proposed in the earlier parts of the paper in particular needs to be considered. If an effects test is adopted in section 36, the analysis of the removal of the applicable components of sections 36(3) and 47 is likely to be far more important. We're not sure if any consideration has been given to the implication of a change to section 36 when analysing the impact of removing the relevant exceptions, and it seems that this is likely to be quite different to the analysis if section 36 is not amended as proposed earlier in the paper.

Although we are in support of the IP exceptions in the Act, we do acknowledge that IP can be used in ways which are likely both anti-competitive and disadvantageous to the market and consumers. We are familiar with the concept of patent 'evergreening' for instance, which is an issue in pharmaceutical markets overseas particularly. There, drug companies are known for initially patenting a drug formulation, then subsequently (and arguably improperly) extending the life of protection some years later by subsequently patenting second or further uses, dosage regimes and methods of administration. This process generally only benefits the patent holder, and can prevent generic alternatives from being available to consumers until well after the expiry of the original patent. We consider that sort of approach to be an abuse of the patent process if permitted in New Zealand. We would also be unsure on the options to mitigate against it under current provisions in the Commerce Act – it would be difficult to envisage how section 36, for example, may apply, even under an effects-based test (if adopted).

We disagree with the initial assessment. There are a number of paragraphs in the first part of Section 9 of the Discussion Paper we wish to comment on:

1. Paragraph 210: Here, the paper makes the observation that IP and competition laws are generally seen as complementary, and that it is generally accepted that the monopolies granted by IP rights are much narrower than the markets considered under competition law. It isn't clear from the paper what the source for these observations is – it implies there is some consensus, but does not highlight where that consensus is taken from. In our experience, there is just as much support for the opposing view – that there is inherent conflict between IP law and competition law.
2. Paragraph 211: We consider that it is possible for certain types of IP right to still effectively grant a monopoly in a market, or to grant an IP right-holder a substantial degree of market power short of a monopoly. In particular, we think this may arise in relation to IP rights which protect inventions, such as patents or plant varieties, and certain types of inventions, such as some that might arise from genetic modification as discussed in our response to question 20. We believe it is possible to conceive of products which are either unique and for which there is no effective substitute (effectively creating a new market which is a monopoly), or which perform so far ahead of alternative products to effectively vest substantial market power in the producer.

By comparison, we consider that for other types of IP right, such as copyright and trademarks, the analysis in this paragraph and in para 210 is more correct. For example, there are conceivably limitless possibilities for creation of a work such as a song or image, and low barriers to creation – competition in the market for either type of work is likely to be high and not circumscribed by IP rights.

We consider the choice to use the drug company patent as an example of how IP and competition law are complementary an interesting one. Drug companies are well known for 'evergreening', which we discuss further in our response to question 20 above. The extent of ongoing litigation between pharmaceutical companies and generic companies demonstrates that evergreening does in fact prevent a second drug company from developing and selling another drug that achieves similar outcomes.

3. Paragraph 235: We agree the majority of the types of conduct here are conceivably anti-competitive, and (per paragraph 236) also outside of the scope of the IP related provisions in the Act. We are however not sure whether this paragraph in particular adds much and found the examples to be somewhat light on discussion. We generally take the view that the IP exceptions in the Act should only provide protection to legitimate enforcement or dealing with IP, and not conduct which goes beyond granted rights. We wish to comment on some of the points in the paragraph:
 - a. In relation to e., we consider grant back obligations are unlikely to reduce incentives to engage in research and development. In our experience, it is more common for these provisions to facilitate a rights holder being able to apply a technology in a different field than the one the licensee is licensed to operate in.
 - b. In relation to f., we don't think 'Hold-up' is a likely issue. Any licensor that engages in conduct which discourages licensees from taking up a license is hurting their own interests. We believe that a licensee that is sophisticated enough to be concerned about future license fee increases is going to be sophisticated enough to ensure the risk of this is reduced in the license terms.
4. Paragraphs 236 to 242 generally: We consider these paragraphs demonstrate a preference for pro-competitive conduct without recognising that there can be pro-consumer value in a regime that permits a party to have a monopoly or substantial market power in a market in relation to inventions. As in our response to question 20 above, we believe some of the most innovative technologies come with high barriers to entry and therefore high cost of development in the first place. If an IP rights-holder in those circumstances does not have the benefit of clarity under the Act that the exercise

of those rights won't fall foul of the Act, then this may have a chilling effect on investment in development of those technologies.

5. Paragraph 236: We agree generally the conduct in this paragraph may be anti-competitive, but wish to comment on the specific examples:
 - a. We consider an exclusive license of IP is simply passing rights that a licensor itself already has to another party, and is therefore (by itself) no more anti-competitive than the granting of exclusive IP rights to the licensor in the first place.
 - b. It isn't clear that limiting licensees to particular territories in particular is within the section 45 exception. We think the section permits the passing on of rights (e.g., under a trademark, to market goods under that mark), but does not per se sanction limiting how those rights can be applied territorially.
 - c. Similar to b., we don't believe section 45 sanctions the imposition of production quotas.
 - d. In some circumstances, refusals to license will be able to be addressed by the compulsory licence regimes in applicable legislation (Patents Act and Plant Variety Rights Act), or similarly options to pursue revocation for non-use or opposition.
 - e. We do not consider bans on resale to unauthorised distributors to be within the section 45 exception. As with b., we think section 45 permits the passing on of rights (such as the right to sell a product), but does not per se permit a licensor to restrict who a licensee can sell to.

In addition to comment on the specific paragraphs in the paper, we wish to add that we do not consider that the paper adequately deals with the justifications for IP protection. IP rights are generally rationalised on the basis that there are low marginal costs for exploiting already-created items of intellectual output, but high cost to create that output in the first place. It's therefore necessary in order to encourage production of intellectual outputs to provide an incentive to develop, and ability to recover cost of development to creators, which is achieved by granting IP rights.

It is our view, as in our response to question 20, that outputs where costs of creation are highest are where IP rights may come close to granting either monopolies or substantial market power in the competition sense. It is therefore in those cases that it is necessary to provide exceptions to competition law in order to preserve the incentives to creation of intellectual outputs.

In relation to the particular points raised in the paper:

1. Paragraph 243 – In general we agree that there is uncertainty in relation to the scope of the exceptions. However:
 - a. We don't think the example cited in a. is correct. Although conceptually possible to have occurred without there being a clear agreement, arrangement or understanding, it seems most likely that the two separate agreements will be evidence of an arrangement or understanding to exclusively cross-licence, possibly contrary to section 27.
 - b. We think the characterisation in b. of an action in passing off as creating rights is incorrect. We see it as more akin to the ability to prevent others from misleading the market, although of course similar in practice to an action to protect a trademark. We consider that both trademark protection and actions in passing off are unlikely to evoke competition concerns in any event, so excluding passing off from the exception in section 45 is unlikely to be practically meaningful.
 - c. We wonder if the analysis in c. is an overreading of what is actually in the relevant IP legislation, or equally reading too broad a scope of the language 'right, privilege, or entitlement that is conferred or acknowledged as valid'.
 - d. We note the paper does not at all refer to or consider section 36A(4). Although we believe the application is likely the same as section 36(3), though with a different territorial application, it is ultimately a separate exception that needs to be considered (and not overlooked) in MBIE's analysis.
2. Paragraph 244 -
 - a. We're inclined to take the view that the language in section 36(3) provides a narrow substantive exception – that enforcement of statutory IP rights does not by itself infringe section 36. However, related conduct which is not strictly enforcement is subject to section 36. This would in any event be our preferred interpretation.
 - b. We are unsure on the line of thinking in b., and think further consideration is warranted. We note for instance that there are compulsory licensing provisions in some of the relevant statutory IP regimes, which we expect arise from some consideration of the economic benefit in loosening the exclusive rights of a rights-holder.
3. Paragraph 245 – We are also not clear on the rationale behind section 7(2), and would be relaxed with this exception being deleted, although consider more genuine investigation of the purpose of the section is warranted before that decision is taken.

We consider that both sections 36(3) and 45 have important value in the situations where IP rights may be closest to granting an effective market monopoly or substantial market power, as discussed in some of our earlier comments. On that basis, we think that rather than dispensing with the provisions, making modifications to clarify and/or narrow their application would be preferable.

We think the scope of section 45(2) is broader than it needs to be. An alternative to explore could be reducing the statutes referenced to those where there is a possibility of legitimate exercise of IP rights clashing with competition concerns. We consider the Patents Act and Plant Varieties Act to be important to retain the exceptions for but would be relatively relaxed about the Trade Marks Act (and likely others) being removed on this basis. A further alternative could be to clarify particularly the specific rights protected, by referencing specific sections in the Acts referred to. For example, in the Patents Act, the rights in sections 17, 18, 23, 31 and likely others could be specifically referenced. Changes of this nature would have the effect of narrowing both sections 36(3) and 45(1).

In addition, section 45(1) could be more plainly worded using affirmative language, to state that the assignment, transfer or licensing of statutory IP rights, or the granting of permission to infringe statutory IP rights, does not constitute infringement of Part 2 of the Act.

36(3) could also be further clarified. If it is accepted that this could and should provide a substantive exception, then language to the effect that enforcement of a statutory intellectual property right does not constitute an infringement of the section should be included. Anything over and above strict enforcement should be outside the exception. We consider that 36(3) is unnecessarily long for this purpose, therefore increasing the possibility of confusion or misinterpretation.

24 Do you agree with our assessment of this option against the criteria? If not, why not?

In relation to Criterion 1, as above, we take the view that in some situations it is possible for the goals of IP policy to be undermined by the repeal of the IP provisions. This could particularly be the case where substantial investment requirements or other barriers to entry exist so as to have IP rights effectively grant market monopolies or substantial market power.

We note in paragraph 257 the paper referring to the Act's authorisation regime. The regime doesn't apply to all types of conduct that the exceptions apply to, such as section 36, which should be considered in assessing Criterion 1.

In relation to Criterion 3, we would be concerned that the removal of IP-related exemptions will remove predictability in the cases where there may be genuine conflict between IP and competition policy. Predictability could be improved by setting out more specific exceptions as outlined in our response to question 23, and accordingly we believe this option should be properly considered. Predictability is very important for people that have to make investment decisions in research and development, and not having clarity about the ability to deal with or license IP rights due to the possibility of competition concerns could have a chilling effect on such investment.

We consider the cost of enforcement referred to in Criterion 4 to be of limited importance compared to the potential chilling effect noted above. Cost could of course also increase if repeal was carried through with – if an assessment can be readily made that the IP provisions do apply at present, it can mean that there is no need to carry out a separate competition assessment and the costs of doing so are not incurred.

25 Do you support our initial preferred option? If not, why not?

No, we do not support the paper's preferred option. As discussed, we consider the exceptions are very important in some situations, and although this may be a small number, it is nonetheless important to retain some measure of clarity for rights holders in those situations.

26 Do you agree with the types of costs and benefits identified? Do you agree with the valuation of the costs and benefits? If not, why not? Please provide evidence to support your answer.

We do not believe that the assessment of costs and benefits is complete without providing genuine consideration of alternatives to either repeal of the exceptions or maintaining the status quo, such as narrowing or clarifying the existing exceptions.

We disagree with some of the assessment of costs of repeal. In particular, we consider businesses with rights to significant or critical IP may in some cases reduce investment in (and therefore return from) research and development if they did not have the benefit of the exceptions. We consider other businesses or users may also lose the benefit of access to some inventions if a chilling effect on research and development did occur.

We question the value of making a decision when the assessed benefit is low (and more so when the evidence certainty of that benefit is also assessed as low).

Covenants

27 Do you agree that covenants and provisions of contracts should be treated the same in the Commerce Act? If not, why not?

28 Are there other options that we should consider?

29 Do you agree with our assessment of these options against the criteria? If not, why not?

30 Do you support our initial preferred option? If not, why not?

31 Do you agree with the types of costs and benefits identified? Do you agree with the valuation of the costs and benefits? If not, why not? Please provide evidence to support your answer.