

5 April 2019
AUCKLAND OFFICE

For: Ministry of Business, Innovation and Employment

SUBMISSIONS ON TREATMENT OF INTELLECTUAL PROPERTY IN THE COMMERCE ACT

Dear Sir / Madam

1. We refer to the MBIE discussion paper dated January 2019 concerning the Review of Section 36 of the Commerce Act (**Discussion Paper**). We make the following submissions in relation to the proposed treatment of intellectual property in the Commerce Act. We respond in particular to question 25 (only) of the Discussion Paper, namely: "Do you support our initial preferred option? If not, why not?" Your preferred option is to repeal (among other provisions) s36(3) of the Commerce Act.

Submissions in Response to Question 25

2. We do not support the proposal to repeal s36(3) of the Commerce Act.
3. A fundamental element of patent law is the underlying social contract. In return for public disclosure of an invention, a patentee has the exclusive right to make, use and sell an invention in New Zealand for a finite period. After that time other parties can make and improve on the invention in New Zealand thus building up the pool of knowledge available to all.¹ This limited statutory monopoly provides an incentive for inventors, creators, innovators and entrepreneurs to create new inventions.² As recognised in the issues paper³, the benefits that result from such innovation are generally considered to outweigh any costs imposed on society by IP rights.
4. The operation of this regime is entirely dependent on the ability of rights holders to protect and enforce their exclusive rights. If the certainty of exclusivity is undermined, the incentive of innovators to create is weakened. The dominant means by which patentees can protect their rights (and preserve their exclusivity) is the ability to freely enforce and licence those rights. Such enforcement is strictly regulated by the Patents Act 2013, and is guided by well over a century of case law. Appropriate checks and balances are also built into the Act.
5. It is important that innovators retain confidence in their ability to freely enforce (and licence) their rights if required. Under s 36 of the Commerce Act as currently in force there is, quite properly, little impediment (from a competition law perspective) to such routine enforcement.⁴

¹ Finch, *James & Wells Intellectual Property Law in New Zealand* (2nd ed) at 2.1.

² *Ibid* at 1.3.

³ At 208.

⁴ *Telecom Corp of New Zealand Ltd v Clear Communications Ltd* [1992] 3 NZLR 247 (HC).

6. We are concerned that the proposed removal of IP exemptions could disrupt this well-balanced regime. Competition lawyer John Land has argued that the combination of the proposed new effects test for s36, together with the removal of exceptions which protect the enforcement of IP rights, could have two serious consequences:⁵
 - (a) A firm with market power seeking to enforce its intellectual property rights by bringing patent proceedings against its only competitor could arguably have the likely effect of substantially lessening competition in the market and thus breach s36; and
 - (b) A firm with market power which refuses to license a patent could potentially achieve an outcome that has the effect of substantially lessening competition in the market and thus breach s36.
7. These are very serious outcomes. They have the potential to disrupt the certainty of rightsholders that traditional enforcement mechanisms are available to them in all cases. This in turn would erode the confidence of rightsholders that investment in innovation is justified.
8. Further, and importantly, the amendments may force patentees to routinely seek specialist competition law advice before taking previously uncontroversial litigation and licensing steps. The flow on effect is to discourage innovation by raising the cost of using and applying IP rights for at least small to medium enterprises.
9. We submit that a legislative amendment which could produce these results should be extremely carefully scrutinised. The safest course is to preserve the exception in s36(3) (with necessary modifications) in the Act as amended.⁶

Yours sincerely
James & Wells

⁵ John Land "Competition Law and the Removal of Exceptions for Intellectual Property Rights" (2019) 926 Lawtalk 46 at 49.

⁶ We note for completeness that the Patents Act 2013 itself already provides a backstop to ensure that New Zealanders are not unduly impacted by the limited monopoly granted by a patent. If the patented invention is not being supplied (on reasonable terms) in New Zealand, then a person may apply for a compulsory licence under s 169 of the Patents Act 2013 at the prescribed time.