

Submissions to:

The Competition and Consumer Policy Division

Ministry of Business, Innovation and Employment

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**Wellington 6140**

1. These submissions are directed towards the discussion paper dated January 2019 headed "Review of s.36 of the Commerce Act and other matters".
2. The purpose of this submission is to raise issues and concerns limited to the proposed repeal of ss.36(3) and 45 Commerce Act 1986.
3. These provisions of s.36(3) are the "carve-out" protections or exceptions. They carve-out from the s.36(2) proscribed activity so that the enforcement of a statutory intellectual property right is not a practice or conduct that takes advantage of a substantial degree of power in a market.
4. The carve-outs are limited to what are described as statutory IP rights defined as being rights conferred by or under:
  - 4.1. The Patents Act 2013
  - 4.2. The Designs Act 1953
  - 4.3. The Trade Marks Act 2002
  - 4.4. The Copyright Act 1994
  - 4.5. The Plant Variety Rights Act 1987
  - 4.6. The Layout Designs Act 1994
5. Perhaps the most dynamic and significant of these in terms of competition issues are the rights conferred by the Patents Act 2013 and the Copyright Act 1994.
6. In the MBIE discussion paper IP rights are referred to as a limited monopoly. To be strictly accurate, a patent is an absolute monopoly. Independent discovery of a product or process or method of manufacture by party A will not prevent the patentee party B from an ability to enforce the absolute monopoly conferred by the Grant of Letters Patent. If the discovery by party A falls within the scope of any one or more of the claims

in the patent of party B then completely independent or adventitious discovery will be no defence.

7. On the other hand, independent creation by party A of a copyright work and with no causal connection to the identical or substantially similar copyright work created by party B will not be an infringement of the copyright of party B.
8. In the case of trade mark registration, whilst an intention to copy a registered trade mark may be relevant evidence, the test of infringement is purely objective and is based on substantial similarity. Whilst trade marks have never been considered in the context of an absolute or limited monopoly, where the infringing mark is an absolute copy or replica of the registered mark, there is in that sense an absolute monopoly.
9. The patent system around the world depends for its integrity on this ability to enforce the patent in the country of original grant and those other countries where equivalent grants have been obtained pursuant to various international treaties.
10. That of course is exactly how the patents system operates in New Zealand.
11. Many patents are of immense value to the patentee. Those protecting pharmaceuticals are a good example.
12. As the term of a patent is only 20 years and many patents take years to shepherd through the application and grant process, it is clear that the opportunity for the patentee to monetise its patent is limited.
13. When the cost of research and development is taken into account together with the cost of obtaining health and other regulatory approvals, the patentee will, by the time of grant, have expended usually millions of dollars.
14. That cost must be recouped or amortised over the limited 20 year life of the patent which is the period of time within which the patentee must maximise its return on exploitation of the patent.
15. If the cost of so called dry holes is added (those pharmaceuticals that are abandoned as non efficacious or for other good reason) then the 20 year life for revenue earning, including to fund the dry holes, is extremely limited.
16. It is well accepted that the gravamen of the patent system and grant of the absolute monopoly lies in the social contract – the Crown (in New Zealand) grants the patentee

an absolute monopoly for 20 years in return for which the patentee must, in simple terms, disclose in the specification all it knows about its discovery or invention and the best method of working the patent. The rationale is that after expiry of term, that disclosure is there for others to use and build on in the hope that an improved product or process can be developed, thereby advantaging society as a whole.

17. But importantly, the term is limited to 20 years from date of grant. Extensions of term which existed under the old Patents Act 1953 are no longer possible.
18. It is also important to stress that IP rights, in whatever type of intellectual property is under consideration, are able to be enforced, as the rights are valuable. Enforcement is the "reward" that is given to the creator of the work in recognition of skill, expertise and originality in creating the source work or material. Thus the recognition of that creativity and its enforcement encourages creativity as it incentivises the originator.
19. Whilst it is generally accepted that New Zealand is a net importer of creative works, it would be idle to suggest that the creative industry in New Zealand is insignificant. The contributions made by research institutes and educational establishments and the film industry is immense.
20. If the result of the proposed changes to s.36 will, as it seems likely, be a focus on an effects rather than a purpose test under s.36, then it must be acknowledged that a Grant of Letters Patent does have the effect of falling foul of s.36(2). Much the same would likely arise with respect to other statutory IP rights.
21. Long before the s.36 prohibitions and the s.36(3) carve-outs, the former Patents Act 1953 contained within it s.46. That section allowed a person interested to apply to the High Court for a compulsory licence on the ground that the market for the patented invention was not being supplied or was not being supplied on reasonable terms in New Zealand.
22. That section was considered to be adequate to service the New Zealand market and consumers where the patentee was acting unreasonably.
23. Similar provisions were in the UK Patents Act 1949.
24. Section 46 is repeated in the Patents Act 2013. Accordingly compulsory licences are still possible under the new Act (see Part 4 Subpart 5).

25. It is understood that no compulsory licences were ever granted in New Zealand under s.46 of the 1953 Act or its predecessors. None have apparently been granted under the 2013 Act, so in its entire history it could be said that in the over one century that s.46 or its predecessors or successors have been in force, the reasonable needs of the public must have been satisfied or at least there is no evidence to suggest the contrary so as to compel an application for a compulsory licence.
26. There is in s.76 Copyright Act protection from infringement of a literary or artistic work when a medicine is imported under the Medicines Act 1981.
27. In the discussion paper there is stated to be a presumption that IP rights do not create market power in a competition law context.
28. If that is so, it immediately begs the question why ss.36(3) and 45 need to be repealed at all. To use the argot expression, "if it ain't broke, don't fix it".
29. It is not known what, if any, research on a proper empirical basis has been carried out to determine the presumptions which are summarised in paragraph 16 of the executive summary of the discussion paper.
30. When New Zealand considered amending the Copyright Act to allow for parallel importation of certain goods, it was against the background of a highly informed debate amongst stakeholders together with an Institute of Economic Research study paper.
31. Such a study would be essential in the present case before any consideration was given to repeal of ss.36(3).
32. The importance of an evidence-based study and analysis of the impact of the two sections and the consequences of their repeal is to ensure that any action taken (or not taken) is based on and justified by empirical, not anecdotal data.
33. The MBIE discussion paper is replete with references to understandings and assumptions. Before any serious consideration is therefore given to repeal, there should be an in-depth examination of the impact the existing law is having on the market and if there is any negative impact, whether that would be ameliorated by the proposed repeals.
34. This then gives rise to a related issue, the existing exclusion from s.36(3) of enforcement of non-statutory IP rights.

35. The s.36(3) carve-out is limited to statutory IP rights as defined in s.45 – i.e. those rights which are conferred, regulated and enforced pursuant to statutes.
36. But not all IP rights are statutory. Further, some IP rights can be statutory and also arise at common law.
37. Trade marks are a good example. A sign which is registered as a trade mark will protect the registered proprietor's rights from a look-a-like (or sound-a-like or smell-a-like) good, or service, as the case may be. But that which is protected by the registration is likely also protected at common law by the action for passing off. The Fair Trading Act may also be available as a remedy.
38. Common law IP rights are not exempted from s.36. It could therefore be said that as common law IP rights are not excluded and their enforcement could be regarded as taking advantage of market power, there is certain logic in now removing the protection given to statutory IP rights consistent with the absence of any carve-out for non-statutory IP rights.
39. That would be an inappropriate and unjustified approach. If anything, s.36(3) should be strengthened to exempt from the scope of s.36 the enforcement of any IP rights (to be appropriately defined) and not just limited to enforcement of statutory IP rights.
40. The discussion paper also analogises IP rights with other forms of property – real or personal. This is a false analogy. Copyright is undoubtedly a property right conferred by s.14(1) Copyright Act 1994. But as IP rights are conferred as a reward for creativity, discovery and invention they are property rights of a very special type and nature. The benefit of that reward is the right to prevent others from reaping the benefits either through the creation of an absolute or a partial monopoly. The abolition of that protection immediately attacks the incentivisation of the originator.
41. Further, ownership of an item of real property (e.g. a house) gives no monopoly to the owner being able to prevent another person from owning an identical property (subject of course to copyright issues). Nor does it give the owner of the house to contract to build another identical house, unless the architect or owner of copyright in the drawings has authorised that reproduction. The two rights ownership of the house and copyright are both property rights but not in the same property.
42. That IP rights as a property right are not analogous to rights in other property such as personal property is also exemplified by copyright law. If a person buys an original work

of art, that person acquires a property right in the work. It may be bought, sold, loaned, charged or whatever. But the owner of the work of art does not, by virtue of that ownership right alone, acquire the right to reproduce or copy that work by, for example, using it on the cover of a personalised Christmas card. That is unless the owner has also acquired the copyright. The two rights – the right of ownership and the right of copyright, are distinct and discrete.

43. Other similar examples in the case of trade marks can also be given.
44. Issue must also be taken with the example given in paragraph 211 of the discussion paper. It is respectfully suggested that the example, expressed as it is, is not accurate. If drug company A has a patent for a drug efficacious in the treatment of pain, it is likely that the claims in the specification extend to the formulation of the drug, the drug itself as a compound and the method of treatment. That would prevent a later second drug company marketing or importing a look-a-like drug that achieved the same or similar outcomes. This is the reason why generic equivalents are unable to be imported unless there is a carve-out for such products or the term of the original patent has expired.
45. Any consideration of the repeal of ss.36(3) and 45 must be undertaken in parallel and in conjunction with the MBIE group reviewing the Copyright Act 1994. It is understood from the recent workshop with stakeholders that the general feedback was in favour of greater strength to the Copyright Act, particularly in a digital age.
46. It would be antithetical to that review if MBIE followed through on its proposals summarised in paras 19 and 267 of the discussion paper to repeal ss.36(3) and 45. The status quo should remain, leaving these provisions as they are.

Dated this 1st day of April 2019.



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