THE INSTITUTE OF PATENT
AND TRADE MARK
ATTORNEYS OF AUSTRALIA

November 12, 2014

Competition Policy Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sirs,

Re: Submission by the Australian Patent & Trade Marks Association to the Competition Policy Review Panel

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) represents registered patent and trade mark attorneys in Australia. Its members are heavily involved in the obtaining and commercialization of intellectual property rights in all areas of the arts, science and technology. In many cases, members of IPTA will be closely involved in the commercial development of ideas or other subject matter in those areas.

It follows naturally from this involvement that IPTA is concerned that Australia has a strong intellectual property system in which granted rights are clearly defined and reliably robust. It is also the concern of IPTA that Australia has strong competition laws which clearly define what is and is not permitted and which provide the appropriate incentives for the encouragement of research, development and commercialization activities.

The Panel has recommended in this draft report that section 51(3) of the Competition and Consumer Act 2010 (**the Act**) be repealed and that assignments and licences of intellectual property be subject to the competition test. In short, IPTA opposes this recommendation. Section 51(3) provides a safe harbor for assignments and licences of intellectual property from the full impact of the Act. Specifically, it takes away the requirement that specific conditions in such arrangements are not subject to the Act other than sections 46 and 48. Essentially, this avoids the need to assess those conditions against the provisions of Part IV of the Act unless they can be characterized as a use of substantial market power for a prescribed purpose or resale price maintenance. There are two reasons why this is important.

In the first place, it gives owners, financiers and developers of IP rights confidence that the rights can be exercised in limited ways which will help secure the possibility of a return from the attempted commercialization of those rights.

Secondly, it reduces the transaction costs and red tape in these early stage situations where, in the vast majority of cases, money is scarce, the risk of failure is high and the likelihood of restrictive conditions in an assignment or licence offending against the Act is low. Without a safe harbor each transaction would need to be assessed against the competition test contained in the Act and, in situations of doubt, an appropriate application or notification made to the Australian Competition and Consumer Commissioner (**ACCC**). These processes can be costly, take time and introduce a degree of uncertainty. As the Science Policy Secretary for the Academy of Science, Professor Les Field, has recently said:

> "One of the things that impacts most on the translation of research into industry is that period called "the valley of death", where you've got a great idea but it's not at the stage of being able to attract investment".

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Removing s51(3) and thereby increasing cost and uncertainty will not assist research in crossing the valley of death. This is particularly important to arrangements entered into for the development and commercialization of technologies by Co-operative Research Centres, Universities and similar organizations.

The recommendation of the Panel also comes at a time when the Government has started to place emphasis on innovation generally and science, technology, engineering and mathematics in schools specifically. In particular, the allocation of the funds to establish five Industry Growth Centres underscores a recognition of the importance of technology.

The recommendation also has the effect of increasing the amount of "red tape" which rights owners, investors and commercialisers will need to deal with in relation to, in particular, innovations. This is contrary to the Government's policy of cutting red tape for businesses.

The Panel has recommended the repeal of section 51(3) on purely theoretical grounds. There is no evidence presented that the operation of section 51(3) has led to competition being compromised. However, what is certain is that by removing section 51(3) the Government would be imposing on transactions involving intellectual property rights, increased transactions costs and, in the view of IPTA, unnecessary red tape.

In reaching its conclusion, the Panel relies on a number of unsupported and, in the view of IPTA, incorrect statements which deserve comment. These are as follows:

1. "Excessive IP protection cannot only reduce the adoption of new technologies but also stifle innovation."

   It is not clear what constitutes "excessive IP protection" nor how it could either reduce the adoption of new technologies or stifle innovation. Certainly, if a patent is granted in respect of a technology, then a third party can only use that technology with consent. However, this is a fundamental aspect of the patent system. If the statement is intending to say that a patent plus the presence of section 51(3) could reduce the adoption on new technologies, then that would be clearly wrong. As it was made clear by Mason J. in the High Court in *Transfield v Arlo*[1], any condition which seeks to obtain advantages collateral to a patent right falls outside the ambit of section 51(3) and is therefore outside the safe harbor. Furthermore, it is equally difficult to see how innovation could be stifled. This issue was addressed most recently in the amendments in The Intellectual Property Laws Amendment (Raising the Bar) Act 2012 which introduced a clarification that experiments on patented inventions would not constitute patent infringement. In explaining the reasons for the introduction of the specific exemption for experimental use, IP Australia has indicated that it was to dispel any uncertainty as to whether particular work might involve a risk of being sued for infringement which in turn might detract from scientific enquiry. Thus, section 119C was introduced into the Patents Act 1990 to exempt, among other things, activities to determine the properties of an invention, the scope of patent claims relating to an invention and improving or modifying an invention. Thus, it now is clear that in the case of patents, it cannot be argued that IP protection would stifle innovation.

2. "IP rights can help to break down barriers to entry but can also, when applied inappropriately, reduce exposure to competition and erect long lasting barriers to entry…"

[1] Transfield Pty Ltd v Arlo International [1980] HC15 per Mason J at [25]

With respect, this statement is again particularly unhelpful in advancing any discussion over the appropriateness of section 51(3). The whole point of an intellectual property right is to provide a person with exclusive rights in relation to the subject matter of that right. To that extent, all intellectual property rights (in fact all property rights) provide some degree of insulation from competition and to some extent, are a barrier to entry. The only way in which those two circumstances could be eliminated would be if the exclusive rights themselves were eliminated. This is clearly not what is intended nor would it be desirable. The critical question should be whether the reduction in exposure to competition or the creation of a barrier to entry was something which exists independently of the consequences flowing from the grant of the intellectual property right concerned. If that is the case, then that independent cause (collateral advantage) would be outside section 51(3) and be assessed in the usual way under Part IV of the Act. This is what section 51(3) purports to achieve.

3. "While IP rights create incentives for innovation and the dissemination of ideas, they also have the potential to restrict market entry by preventing access to technology."

It is a truism that the existence of an intellectual property right could prevent access to a technology which was the subject matter of a right because inherent in the existence of that right is the exclusive right to practise that technology. This is neither a bad thing nor controversial. Equally, just because exclusive rights to a technology which is the subject matter of a particular right prevents access to the technology without the rights owner's consent, it is quite a leap to then say that this has the potential to restrict market entry. This proposition assumes that there is no product market in which the technology would compete prior to the grant of the intellectual property right and that the technology which is the subject of the right constitutes a product market itself. This is a highly unlikely scenario. It also relies on the assumption that markets are static rather than dynamic in that it assumes that competition in innovation ceases once an intellectual property right is granted. This is clearly not the case as the raison d'etre of the intellectual property systems is that ideas can be made public without them being expropriated by third parties in order to act as a stimulus to other creators who will then strive to develop competing ideas and technologies with a view to capturing a share of the market.

4. "IP Rights can be used to facilitate monopolistic or anticompetitive behavior. This could, for example, manifest in owners of IP rights extracting excessive royalties from IP licences or placing unnecessary restrictions on knowledge dissemination."

If behavior is "monopolistic", it would presumably require the person engaging in that behavior, at the least, to have a substantial degree of market power. As noted above, that type of behavior is caught by section 46 of the Act and is outside the scope of the safe harbor provided by section 51(3).

The comment regarding "excessive royalties" is meaningless. Leaving aside any consideration of the provisions in the various IP statutes regarding Crown use and the provisions in the Patents Act regarding compulsory licensing, the extent to which a rights owner can charge a royalty is always governed by the cost of the next best alternative to the potential licensee. IPTA does not understand how a royalty can be regarded as "excessive" when it will be a freely negotiated rate. On the assumption that the licensor is a profit maximizing entity, there will a point at which even an entity with substantial market power will be forced to accept a particular rate rather than lose the opportunity altogether.

Similarly, IPTA believes that there is no logic in the suggestion that a form of monopolistic behaviour would be the placing of unnecessary restrictions on knowledge dissemination. The whole point of the patent system and the design registration system is to allow knowledge to be published and therefore disseminated in return for limited exclusive rights. IPTA would expect that if a restriction was unnecessarily placed on knowledge dissemination that it would, in all likelihood, be an attempt to extend the scope of the intellectual property right applying to that knowledge. As noted above, in that situation, IPTA would expect that section 51(3) would not provide any protection. Furthermore, IPTA notes that the common law doctrine of restraint of trade is not affected by the Act (section 4M). Accordingly, any "unnecessary" restrictions would be likely to fall foul of that doctrine.

5. "However, conflicts between the two policies might occur "where IP owners are in a position to exert substantial market power or engage in anticompetitive conduct to seek to extend the scope of the right beyond that intended by the IP Statute"."

As has been noted above, this statement is irrelevant in the context of a discussion of whether or not section 51(3) should be retained. In the first place, if one is dealing with the position of IP owners in a position of substantial market power, then their conduct is governed by section 46 which is not protected by section 51(3). Furthermore, any attempt through the use of collateral restrictions to extend the scope of a IP right is also regarded as being outside the scope of section 51(3). Thus, the statement is misguided in so far as a discussion of section 51(3) is concerned.

Furthermore, the Panel then goes on to refer to the submission received from the Productivity Commission where, in relation to the patent system, it refers to the accrual of patent portfolios and "cumulative innovation". It is not clear why these comments are relevant to a discussion of section 51(3). In the first place, the accrual of a portfolio of patents, irrespective of whether one regards that as a legitimate business model or not, is clearly not within the purview of section 51(3). Similarly, to the extent that the comment regarding "cumulative innovation" covers a situation where an innovator needs to use a patented technology for the purposes of innovation, it is difficult to see why that activity is not caught by the experimental use exemption in the Patents Act. On the other hand, if the comment is intended to cover the situation where an innovator develops a product which incorporates somebody else's patented technology, it would be an extraordinary proposition to argue that the innovator should have free access to the ancillary technology merely because the innovator has come up with a new innovation which incorporates that technology.

IPTA also wishes to make the point that the obtaining of an IP right is no guarantee of commercial success although in many cases it will be essential to attracting funds for the development of a product or process which may lead to commercial success. This position is perhaps most evident in the case of patents.

A patent gives the most extensive protection of all IP rights because it can protect a product or process. However, IPTA is not aware of an instance where a patent protected a product or process which was not the subject of competition from other products or processes. Even patented blockbuster drugs operate in broader product markets. Thus, the granting of a patent is unlikely to give an owner a monopoly position in a market although it may give a degree of market power.

Furthermore, in most cases, the development costs associated with commercializing a patented product or process and the time to market can be substantial. In the case of the pharmaceutical industry, the costs associated with bringing a new pharmaceutical product to market are generally reported to be in excess of USD 1billion.

Again, in many cases, the launch of a patented product or commencement of use of a patented process will occur in the later years of the life of a patent. Thus, the time over which the substantial costs must be recovered can be quite short.

A further point which is relevant to this discussion is the fact that IP is commercialized in a dynamic and not a static market. Even if a patent is granted, this does not mean that other avenues of research and other ideas directed towards a particular product or problem cease. The publication of the patented solution adds to the stock of public knowledge providing a springboard for further innovation or enquiry; either in the particular field or another field. The release of a new patented product or the adoption of a new patented process drives competitors to create new products and processes or improve existing products or processes.

IPTA also notes that the Panel is recommending that the ACCC be given power to issue block exemptions. IPTA supports that recommendation but maintains its objection to the removal of s51(3). Whilst some may see a block exemption relating to research and development contracts or technology transfer as a substitute for s51(3), IPTA holds a contrary view. The great benefit of s51(3) is that it eliminates from further consideration certain conditions in assignments and licences thus eliminating red tape, cost and delays. The block exemptions of the EU are inevitably surrounded by conditions which require expert opinion before a decision can be made whether to proceed with the particular provision or not. For instance, the Technology Transfer Block Exemption contains market share thresholds for competing and non-competing parties which require a determination of the relevant market and the market shares of the contracting entities and their "connected undertakings".

Finally, IPTA does accept that s51(3) does require amendment in relation to the defunct references in relation to conditions in assignments and licences of trade marks. As it stands, the section refers to the Trade Marks Act 1955 (Cth), which has been repealed and replaced by the Trade Marks Act 1995 (Cth). The Acts Interpretation Act states that where there is a reference to an Act has been repealed and re-enacted, with or without modifications, the reference shall be construed as including a reference to the re-enacted Act as originally enacted and as amended from time to time. However, Morris CJ pointed out in Jones and Hannan v Commr of Taxes [1942] Tas SR 1 at [6] that the provision can have no operation where parliament puts into an Act 'any entirely new provision, not one put in place of a repealed provision and amounting to a re-enactment with or without modification of the substance of the old but one which is new altogether'. In particular, the 1955 Act refers to Part IX and XI which deal with registered users and certification trade marks respectively. The concept of a registered user does not exist under the 1995 Act, and it is therefore hard to see how a reference to the part under s 51(3) can have any effect. However, as there was no substantive change to the effect of granting a certification trade marks, the reference to Part XI may be valid (see Amalgamated Television Services Pty Ltd v Foxtel Digital Cable Television Pty Ltd (1995) 60 FCR 483). In any case, IPTA proposes amendments are required to dispel this uncertainty.

IPTA appreciates the opportunity to make submissions in relation to the draft report of the Competition Policy Review Panel, and would be happy to answer questions and/or take part in further consultation in relation to section 51(3) of the Act.

Yours sincerely

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