Competition Policy Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

17 November 2014

Dear Secretariat

Submission – Competition Policy Review Draft Report

This submission is made in relation to the Draft Report released on 22 September 2014. It is being made by me in my personal capacity and not as a partner of Clayton Utz.

There is only one matter which I intend to address in this submission. It concerns the recommendations in the Draft Report relating to section 51(3) of the *Competition and Consumer Act 2010* (Cth) (the "**Act**") – in particular, the recommendation at page 87 that section 51(3) be repealed.

There is no doubt that the drafting of section 51(3) could be improved. In particular:

- there are a number of anomalies in the present drafting;
- the provision contains outdated references to repealed legislation; and
- the language used has given rise to some uncertainty as to its meaning.

I have addressed these issues in detail in an article I published some years ago. I attach a copy of that article to this submission, and I adopt the comments in that article in making this submission.

There is therefore a compelling case for redrafting the current exemption to address the above issues. However, I do not agree that there is a case for the repeal of section 51(3).

Having practised as a lawyer in the intellectual property and competition field since 1998, I am aware that businesses (both large and small) frequently take considerable comfort from the protection which section 51(3) provides. Often this renders unnecessary any detailed consideration of the potential for conduct to contravene the relevant provisions of the Act, particularly those subject to a competition test (in such cases, of course, analysis is a complex and expensive process). Sometimes it may be the case that the shield of section 51(3) is unnecessary as there would be no contravention in any event. However, even in such cases, removing the exemption would impose an additional cost burden on businesses in seeking advice about the level of risk (if any) involved. Imposing a need to obtain competition advice would be particularly burdensome for small businesses in the early stages of innovation, when the costs of IP protection are high and the generation of income arising from their innovations is embryonic.

The lack of an exact analogue to section 51(3) in overseas jurisdictions is not a reason for change. There are a number of important features of Australian competition law, such as the notification and authorisation processes, which are not replicated in the laws of most of our major trading partners. In recommending that these procedures be expanded to cover the notification of resale price maintenance, the Draft Report appears to acknowledge that Australia should implement laws that best meet the objectives of competition law in an Australian context, rather than simply following overseas practice.

In any event, I note that the Draft Report (at page 88) calls for a comprehensive review of Australia's intellectual property laws. In advance of such a review, it would be premature to make substantial changes to the laws governing the overlap of competition and intellectual property laws. Indeed, I note that the Draft Report (at page 88) states that *"[t]he review should look at competition policy issues"*. As such, any action to substantially amend, or repeal, section 51(3) should be considered as part of the foreshadowed review of Australia's intellectual property laws. That inquiry could also consider other competition-related intellectual property provisions, such as sections 144 and 145 of the *Patents Act 1990* (Cth).

For these reasons, I submit that, while the drafting of section 51(3) could, and should, be improved, there is no case for a repeal of the exemption. Certainly, any action to repeal section 51(3) should be considered as part of the foreshadowed review of Australia's intellectual property laws.

Yours faithfully

R Hoad

Richard Hoad

Brave new world or much ado about nothing? Practical effect of proposed changes to Trade Practices Act, s 51(3)

Richard R L Hoad*

In Australia, the interface between intellectual property and competition laws is regulated by s 51(3) of the Trade Practices Act 1974 (Cth). Section 51(3) provides certain intellectual property transactions with a limited exemption from some of the competition provisions which are set out in Pt IV of the Act. The scope of s 51(3) has always been unclear, and that lack of clarity has been accentuated by the fact that it has not been amended in light of changing intellectual property laws. This article examines the protection currently afforded by s 51(3) and considers the practical effect which the government's proposed changes will have for intellectual property owners and the community in general. It outlines the approach which should be taken by the Australian Competition and Consumer Commission in preparing guidelines regarding the effect of the changes, and considers some of the most common intellectual property scenarios in light of the existing law and the proposed reforms. The article concludes that intellectual property owners have little to fear from the proposed changes provided they are implemented in the manner which is suggested.

I. INTRODUCTION

Few people would argue that dealings in intellectual property rights should have absolute immunity from competition laws.[1] Equally, however, intellectual property rights should not be entirely subordinated to competition laws. Although both sets of laws serve similar ends to a large extent, they can and sometimes do conflict.[2] When they do conflict, some accommodation must be found which recognises the legitimate purposes for which each set of laws exists. The difficulty is, of course, to strike an appropriate balance.

The way in which that delicate balance between intellectual property and competition is currently achieved in Australia is on the brink of change. When the *Trade Practices Act 1974* (Cth) (TPA) was first passed, the legislature enacted a specific provision which provided intellectual property dealings with a limited exemption from the application of Pt IV of the TPA (which deals with restrictive trade practices or competition laws). The exemption is set out in s 51(3). Several inquiries have recommended various changes to this provision, and the Commonwealth Government has partially accepted the recommendations of one of those inquiries. For reasons which are unclear, there have been delays in introducing legislation to give effect to the government's policy, although the policy officially remains in place.[3]

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[1] The arguments put by Microsoft Corporation in *United States v Microsoft Corp* 253 F 3d 34 (2001), however, approached this position. Those arguments were rejected by the Court of Appeals for the District of Columbia with the withering statement that they were "no more correct than the proposition that the use of one's personal property, such as a baseball bat, cannot give rise to tort liability" (at 63).

[2] Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation Under the Competition Principles Agreement* (September 2000) (Ergas Committee Final Report) pp 25-27.

[3] In March 2005, the government announced that amendments "will be introduced as soon as an appropriate legislative vehicle

II. Interface of intellectual property and competition Laws in Australia

Competition laws are premised on the assumption that competition is a means of achieving maximum social welfare.[4] Australia's principal competition laws – which are set out in Pt IV of the TPA – can be grouped into the three categories described below, although their scope is subject to the authorisation and notification provisions in Pt VII.

(A) Competition tested prohibitions

The first set of provisions require the conduct to have the purpose or likely effect of substantially lessening competition.

- Section 45 prohibits the making of an arrangement[5] including a provision, or the giving effect to a provision, which has the purpose or likely effect of substantially lessening competition (s 45(2)). Section 45 has no operation in relation to provisions in so far as they relate to resale price maintenance (s 45(5)(c)),[6] exclusive dealing (s 45(6)), or acquisitions of shares or assets (s 45(7)). These practices are covered by other provisions in Pt IV. Also, s 45 does not apply where the only parties to the arrangement in question are related to one another (s 45(8)).
- Section 47 prohibits the "practice of exclusive dealing" (s 47(1)).[7] Most (but not all) exclusive dealing practices only contravene the TPA if they have the purpose or likely effect of substantially lessening competition (or if the conduct, in combination with other conduct of the same or a similar kind engaged in by the corporation or its related entities, has the likely effect of substantially lessening competition) (s 47(10)). The types of prohibited exclusive dealing practices that are not subject to this limitation are considered in the next section. The types of exclusive dealing which are only prohibited if they have the purpose or likely effect of substantially lessening competition are as follows:
  - *supplying* goods or services on the *condition* that the *purchaser does not acquire goods or services from a competitor* of the supplier (s 47(2)) or refusing to supply as a result of the purchaser failing to comply with such a condition (s 47(3));
  - *supplying* goods or services on the *condition* that the *purchaser accepts some restriction on the resupply* of goods or services (s 47(2)) or refusing to supply as a result of the purchaser failing to accept such a restriction (s 47(3)); and
  - *acquiring* goods or services on the *condition* that the *supplier accepts some restriction regarding the right to supply* third parties (s 47(4)) or refusing to acquire as a result of the purchaser failing to accept such a restriction (s 47(5)).

  It is often said that s 45 applies to "horizontal arrangements" (ie, arrangements between competitors), whereas s 47 applies to "vertical arrangements" (ie, arrangements between parties at different functional levels in the distribution chain, such as a manufacturer and a retailer).[8]

becomes available": *Commonwealth Regulatory Plan – March 2005 – Planned Activities*, p 8 (http://www.treasury.gov.au/contentitem.asp?NavId=&ContentID=936). However, with an election pending, the amendments were omitted from the Coalition Government's regulatory plan: *Treasury – Annual Regulatory Plan – June 2007 Update – Planned Activities* (http://www.treasury.gov.au/documents/936/PDF/20070703_Planned.pdf). It is unclear how the change in government will impact on these proposals.

[4] *Trade Practices Act 1974* (Cth), s 2; Ergas Committee Final Report, n 2, p 24.

[5] *Trade Practices Act 1974* (Cth), ss 45, 45A concern provisions in "a contract, arrangement or understanding". For the purposes of convenience in this article, the term "arrangement" will be used to encompass a "contract" and an "understanding" as well as an "arrangement".

[6] The exception covers provisions insofar as they (a) contravene s 48, or (b) would contravene s 48 but for an authorisation pursuant to s 88(8A), or (c) would contravene s 48 if it prohibited maximum resale price maintenance.

[7] The phrase "the practice of exclusive dealing" is defined to mean the conduct referred to in s 47(2)-(9) inclusive: *Trade Practices Act 1974* (Cth), s 4(1).

[8] However, the High Court has recently stated that describing arrangements using terms such as "horizontal" or "vertical" is not helpful: *Visy Paper Pty Ltd v ACCC* (2003) 216 CLR 1 at 10-11.

However, while it is true that s 47 only applies to vertical arrangements, s 45 in fact operates more broadly to cover a wide range of anti-competitive arrangements (whether horizontal or vertical).

- Section 50 prohibits the direct or indirect acquisition of shares or assets if the acquisition would have the effect, or would be likely to have the effect, of substantially lessening competition.[9]

All of these prohibitions are subject to a substantial lessening of competition test (SLC test), ie, the prohibition only operates if there is the effect or likely effect of substantially lessening competition (or, in the case of ss 45 and 47, if the conduct has the purpose of substantially lessening competition). The TPA provides only limited assistance in understanding this key phrase. The definition of "competition" states that it "includes competition from imported goods or from services rendered by persons not resident or not carrying on business in Australia" (s 4(1)). In other words, import competition must be considered. In the mergers and acquisitions context, the TPA lists additional relevant factors as including the height of barriers to entry, the level of market concentration, the degree of countervailing market power, the ability to raise prices or margins, the dynamic characteristics of the market (such as innovation and product differentiation), and the degree of vertical integration in the market (s 50(3)). Essentially the same factors will be relevant for the other prohibitions which are subject to an SLC test.[10]

More broadly, the term "competition" has been described as the "striving or potential striving of two or more persons or organisations against one another for the same or related objects".[11] It therefore "expresses itself as rivalrous market behaviour".[12] "Perfect" competition requires that no one competitor has the ability to profitably "give less" or "charge more" than its competitors.[13] Competition is a dynamic process,[14] which occurs in a market, which is "the area of close competition between firms or, putting it a little differently, the field of rivalry between them".[15] The TPA provides that (except where a contrary intention appears) "market" means "a market in Australia and, when used in relation to any goods or services, includes a market for those goods or services that are substitutable for, or otherwise competitive with, the first-mentioned goods or services".[16] The process by which market boundaries are set has been described by the Trade Practices Tribunal (as it then was) as follows:

> Within the bounds of a market there is substitution – substitution between one product and another ["demand side substitution"], and between one source of supply and another ["supply side substitution"], in response to changing prices. So a market is the field of actual and potential transactions between buyers and sellers amongst whom there can be strong substitution, at least in the long run, if given a sufficient price incentive …
>
> It is the possibilities of such substitution which sets the limits upon a firm's ability to "give less and charge more". Accordingly, in determining the outer boundaries of the market we ask a quite simple but fundamental question: If the firm were to "give less and charge more" would there be, to put the matter colloquially, much of a reaction? And if so, from whom? In the language of economists, the question is

[9] This is a simplification: the actual legislative structure is more complex for constitutional reasons. *Trade Practices Act 1974* (Cth), s 50(1) applies to acquisitions of shares or any assets of a person by a corporation; s 50(2) applies to acquisitions of shares or any assets of a corporation; whereas the uniform State Competition Policy Reform Acts extend the prohibition to individuals acquiring any assets of another person.

[10] Explanatory Memorandum, *Trade Practices Legislation Amendment Bill 1992* (Cth), para 14; Corones S, "Substantial Lessening of Competition – Twenty Years On" (1994) 22 ABLR 239 at 253.

[11] Independent Committee of Inquiry, *National Competition Policy* (1993) (Hilmer Report), p 2.

[12] *Re Queensland Co-operative Milling Association Ltd* (1976) 25 FLR 169 at 188; [1976] ATPR 40-012 at 17,246; *Telstra Corporation Ltd v Optus Networks Pty Ltd* (2002) 121 FCR 317 at 328-329.

[13] *Re Queensland Co-operative Milling Association Ltd* (1976) 25 FLR 169 at 190; [1976] ATPR 40-012 at 17,245, citing the report, United States Attorney General's National Committee to Study the Antitrust Laws (1955) p 320.

[14] *Re Queensland Co-operative Milling Association Ltd* (1976) 25 FLR 169 at 188; [1976] ATPR 40-012 at 17,245.

[15] *Re Queensland Co-operative Milling Association Ltd* (1976) 25 FLR 169 at 190; [1976] ATPR 40-012 at 17,247; *Boral Besser Masonry Ltd v ACCC* (2003) 215 CLR 374 at 414, 422-423, 454-455.

[16] *Trade Practices Act 1974* (Cth), s 4E.

> this: From which products and which activities could we expect a relatively high demand or supply response to price change, ie a relatively high cross-elasticity of demand or cross-elasticity of supply?[17]

The term "substantial" has been given various meanings, but essentially it requires there to be a meaningful effect on the competitive process.[18] The TPA provides that the term "lessening" includes preventing or hindering (s 4G). More important for present purposes is the evaluative process for determining whether there has been (or is likely to be) a substantial lessening of competition. The Federal Court has described this process as follows:

> [O]ne must look at the relevant significant portion of the market, ask oneself how and to what extent there would have been competition therein but for the conduct, assess what is left and determine whether what has been lost in relation to what would have been, is seen to be a substantial lessening of competition.[19]

In other words, this assessment is made by comparing two scenarios: the nature of the market if the impugned conduct does not (or did not) occur (ie, the market without the conduct), and the nature of the market after the impugned conduct has occurred (ie, the market with the conduct). The two states to be compared can be described more pithily as the "future with the conduct" and the "future without the conduct".[20]

(B) "Per se" prohibitions

The second group of prohibitions in Pt IV of the TPA do not require any effect on competition or any intention to create such an effect. Rather, the conduct in question is prohibited per se. There are currently four such per se prohibitions:

- Section 45A operates as a deeming provision for s 45 by declaring that certain provisions are deemed to have the purpose or likely effect of substantially lessening competition for the purposes of s 45. It applies to any provision in an arrangement which has the purpose or likely effect of fixing, controlling or maintaining prices (including discounts, allowances, rebates or credits) relating to goods or services supplied or acquired by any of the parties to that arrangement (or any of their related companies) where those parties are (or but for the arrangement would be (s 45A(8))) in competition with one another (s 45A(1)). There are limited exceptions for certain joint venture arrangements (s 76D(1)) and for certain joint buying and selling groups (s 45A(4)), although these arrangements will still fall to be determined under the general prohibition in s 45 which requires the application of the SLC test.
- As well as prohibiting arrangements having the purpose or likely effect of substantially lessening competition (as discussed above, see text, II(A)), s 45 also prohibits the making of an arrangement which includes an "exclusionary provision" or the giving effect to such a provision (s 45(2)). An exclusionary provision is a provision in an arrangement between persons, any two or more of whom are competitive with one another, which has the purpose of preventing, restricting or limiting the supply of goods or services to, or the acquisition of goods or services from, particular persons or classes of persons (either generally or in particular circumstances) by any of the parties to the arrangement or any of their related companies (s 4D(1)). The parties are only competitive if they or their related companies are or are likely to be competitive in relation to the supply or acquisition of any of the goods or services to which the provision relates (or would be or would be likely to be so competitive but for a provision or a proposed provision in an arrangement) (s 4D(2)). As in the case of price fixing, there is an exception for certain joint venture arrangements (s 76C(1)), but those arrangements will nonetheless fall to be determined under the general prohibition in s 45 which requires the application of the SLC test.

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[17] *Re Queensland Co-operative Milling Association Ltd* (1976) 25 FLR 169 at 190; [1976] ATPR 40-012 at 17,247; see also *Boral Besser Masonry Ltd v ACCC* (2003) 215 CLR 374 at 414, 422-423, 454-455.

[18] *Rural Press Ltd v ACCC* (2003) 216 CLR 53 at 71.

[19] *Dandy Power Equipment Pty Ltd v Mercury Marine Pty Ltd* (1982) 64 FLR 238 at 259-260; 44 ALR 173 at 191.

[20] See further the principles expressed in the context of s 50 in *Australian Gas Light Co v ACCC (No 3)* (2003) 137 FCR 317; [2003] ATPR 41-966 at 47,706.

- As noted above, most, but not all types of exclusive dealing require there to be a demonstrated purpose or likely effect of substantially lessening competition. The exception concerns what is commonly known as "third line forcing".[21] This term describes the prohibition in s 47(6) on the supply of goods or services on the condition that the purchaser acquires goods or services from a third party.[22] Section 47(7) prohibits refusals to supply arising from a failure to accept such a condition. These activities are currently prohibited regardless of whether or not they have the purpose or likely effect of substantially lessening competition.
- Section 48 provides that a person must not engage in the practice of "resale price maintenance". In essence, this provision prohibits a supplier of goods or services attempting to induce a person not to sell the supplier's goods or services below a specified price, making it known that supply will cease if the person fails to agree not to sell below the specified price, and entering into an agreement containing a provision that a person will not sell below the specified price (ss 4(1), 96-96A).

(C) Misuse of market power

The third category of prohibition in Pt IV of the TPA concerns the misuse of market power. In essence, s 46 prohibits the taking advantage of substantial market power for any one of the three proscribed purposes.[23] The concept of "market power" involves similar concepts to those discussed in relation to the SLC test.[24] It has been described by the High Court as "the ability of a firm to raise prices above the supply cost without rivals taking away customers in due time, supply cost being the minimum cost an efficient firm would incur in producing the product"[25] or, more broadly, as the "capacity to behave in a certain way (which might include setting prices, granting or refusing supply, arranging systems of distribution), persistently, free from the constraints of competition"[26].

In addition, recent amendments have introduced an additional prohibition on corporations with a substantial market share supplying or offering to supply goods or services at below cost price for a sustained period for one of three proscribed purposes (s 46(1AA)).[27]

Section 46 does arguably raise significant issues in relation to the use of intellectual property rights. These issues have been considered extensively elsewhere.[28] However, for reasons which will become apparent given the scope of s 51(3), this article does not consider s 46 in any great detail.

[21] *Trade Practices Legislation Amendment Bill (No 1) 2005* (Cth), Sch 7, Pt 1, proposed to subject s 47(6) and (7), like the remainder of s 47, to an SLC test, however, those proposed changes were removed from the legislation before it was passed due to Senate opposition.

[22] As a result of recent amendments, whereas previously the prohibition applied even where the third party is related to the supplier, it now excludes conduct between related bodies corporate: *Trade Practices Legislation Amendment Act (No 1) 2006* (Cth), Sch 7, Pt 2.

[23] *Trade Practices Act 1974* (Cth), s 46(1): "A corporation that has a substantial degree of power in a market shall not take advantage of that power for the purpose of: eliminating or substantially damaging a competitor of the corporation or of a body corporate that is related to the corporation in that or any other market; preventing the entry of a person into that or any other market; or deterring or preventing a person from engaging in competitive conduct in that or any other market."

[24] In assessing market power, one must examine the degree of constraint imposed by competitors, suppliers and customers: *Trade Practices Act 1974* (Cth), s 46(3).

[25] *Queensland Wire Industries Pty Ltd v Broken Hill Pty Co Ltd* (1989) 167 CLR 177 at 189 (per Mason CJ and Wilson J).

[26] *Melway Publishing Pty Ltd v Robert Hicks Pty Ltd* (2001) 205 CLR 1 at 27.

[27] This new prohibition has raised considerable debate and creates significant uncertainty for corporations which have "a substantial share of a market". Inevitably it will be extremely difficult to assess (a) whether a corporation has "a substantial share of a market" and (b) the level of the "relevant cost" below which pricing decisions will be called into question. The difficulty of establishing a relevant cost base is amply demonstrated in international competition law jurisprudence.

[28] See, eg, Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property*, Background Paper (July 1991) (TPC Background Paper) pp 15-21; Van Melle A, "Refusals to License Intellectual Property Rights: The Impact of RTE v EC Commission (Magill) on Australian and New Zealand Competition Law" (1997) 25 ABLR 4; Tucker P, "Refusal to License Intellectual Property Rights and Misuse of Market Power: Where is the Line in the Sand?" (1999) 10 AIPJ 78; Adams G and McLennan D, "Intellectual Property Licensing and Part IV of the Trade Practices Act: Are the TPA's Pro-Competitive Provisions Anti-IP Commercialisation?" (2002) 51 IP Forum 10; McKeough J, "Is Intellectual Property

(D) Authorisations and notifications

Certain conduct otherwise falling within the terms of some of the provisions of Pt IV of the TPA can be granted immunity by a process called "authorisation".[29] This is in stark contrast to the position under the anti-trust laws in the US, where there is no equivalent process. In essence, authorisation can be granted by the Australian Competition and Consumer Commission (ACCC) if the public benefits arising from the proposed conduct outweigh the anti-competitive effects of that conduct, each of which must be considered by comparing the future with and without the conduct for which authorisation is sought.[30] There are some limitations in the authorisation process. First, as a general rule it is only possible to obtain authorisation for conduct which is yet to occur.[31] Second, it is not possible to authorise a misuse of market power; however, the prohibition in s 46 does not apply to conduct which does not contravene ss 45, 47 or 50 by reason of an authorisation being in force (s 46(6)). Third, authorisation is only available on a case-by-case basis and does not exempt types of conduct generally (in contrast to the technology transfer block exemptions which have been implemented in Europe).

In addition, it is possible to obtain immunity in relation to conduct falling with the terms of s 47 (and also s 45 in certain collective bargaining scenarios) through the "notification" procedure (s 93(1)).[32] Engaging in the notified conduct after the making of the notification will be deemed not to have the purpose or likely effect of substantially lessening competition unless the ACCC gives notice that it considers that the conduct has such a purpose or likely effect and that the public benefits do not outweigh the public detriments (s 93(3), (7)).[33] A notification therefore provides immunity from the provisions of s 47 which are subject to an SLC test. In the case of third line forcing, the immunity only takes effect after 14 days following the lodgment of the notification or when the ACCC announces that it does not intend to give notice that it considers the public detriments outweigh the public benefits (whichever occurs earlier) (s 93(7), (7A)).[34] As in the case of other types of exclusive dealing, the third line forcing immunity can be withdrawn at any time if the ACCC later decides that the public detriments outweigh the public benefits (s 93(3A)).[35]

Different, or are all Unhappy Monopolists Similar?" (2003) 9 UNSWLJ 40; Hanks F, "Intellectual Property Rights and Competition in Australia" in Anderman SD (ed), *The Interface Between Intellectual Property Rights and Competition Policy* (2007) p 315.

[29] *Trade Practices Act 1974* (Cth), ss 88(1) (exclusionary provisions and anti-competitive arrangements (including price fixing arrangements)), 88(8) (exclusive dealing and third line forcing), 88(8A) (resale price maintenance), 88(9) and Div 3 of Pt VII (mergers and acquisitions). The ACCC cannot authorise the making of an arrangement which has already been reached (s 88(12)), however, the *making* of an arrangement falling within the terms of s 45 subject to a condition precedent that authorisation be granted will not contravene s 45 if an application for authorisation is made within 14 days (however, this does not permit the *giving effect* to such an arrangement) (s 45(9); a similar provision applies to mergers and acquisitions (s 50(4)), however, there is no equivalent provision for exclusive dealing.

[30] *Trade Practices Act 1974* (Cth), ss 90(6)-(7) (anti-competitive arrangements (including price fixing)), 90(6) (exclusive dealing *other than* third line forcing), 90(8) (exclusionary provisions, third line forcing, and resale price maintenance), 90(9), 95AZH (mergers and acquisitions). The tests for authorisation are expressly slightly differently, falling into two basic categories – (1) Is there such a public benefit that the conduct should be authorised?, and (2) Do the public benefits outweigh the anti-competitive effects? – however, both require public benefits to be balanced against anti-competitive effects in analysing the future with and without the conduct: *Re 7-Eleven Stores Pty Ltd* (1994) ATPR 41-357.

[31] See, however, *Trade Practices Act 1974* (Cth), ss 45(9), 50(4); see also n 29 above.

[32] However, conduct may *not* be notified if: (a) an authorisation application has been granted (whether or not still in force) or rejected by the ACCC in respect of the conduct or proposed conduct and (b) the Tribunal has made a determination on an application for review of that determination or the time for review has expired without an application being made (s 93(2)). As in the case of an authorisation, a notification will provide protection against a contravention of s 46 (s 46(6)); see also s 45(7) in relation to conduct falling within the terms of s 45. As a result of amendments made to the TPA in 2006, notification is now also permitted in relation to conduct falling within the terms of s 45 in certain collective bargaining scenarios (s 93AB).

[33] The ACCC must offer a pre-decision conference before withdrawing the immunity and provide reasons for any such withdrawal: *Trade Practices Act 1974* (Cth), ss 93(3B), (4), 93A.

[34] *Trade Practices Regulations 1974* (Cth), reg 9(2).

[35] The ACCC must offer a pre-decision conference before withdrawing the immunity and provide reasons for any such withdrawal: *Trade Practices Act 1974* (Cth), ss 93(3B), (4), 93A.

(E) Application to intellectual property

This article is, of course, concerned with the application of these provisions to intellectual property transactions. In this context, it is important to note that the term "services" is defined very broadly under the TPA as including "any rights … that are, or are to be, provided granted or conferred in trade or commerce" (s 4). It is therefore clear that the grant of a licence to use intellectual property is the provision of a service.

Consideration of the application of Pt IV of the TPA to intellectual property transactions requires an understanding of what is meant by the term "intellectual property". The term is used to describe a broad range of statutory and non-statutory rights that are generally said to be designed to reward innovation and creativity.[36] However, the nature of the protection varies markedly between the different species of intellectual property rights.

As a consequence of the different nature of the protection which they afford, the different species of intellectual property rights give rise to varying degrees of potential concerns under the TPA.[37] The potential issues arising under the provisions of Pt IV which are subject to an SLC test (and also s 46) will differ markedly depending upon the intellectual property right at issue. This is because these provisions require there to be a demonstrated impact on (or intention to impact) competition. As we have seen, this requires an analysis of the relevant market which encompasses substitutable products.

Generally speaking, a good or a service which is protected by an intellectual property right will compete in a market with other goods or services which are substitutable in an economic sense.[38] This is particularly so for trade marks which essentially protect a trader's reputation and do not prevent someone else selling the same product under a different trade mark.[39] Fundamentally, trade marks serve a pro-competitive purpose in minimising consumer search costs (because consumers can rely upon their knowledge of the quality of goods and services provided under the trade mark).[40] For example, there is clearly no market for chocolate sold under the "Cadbury" trade mark; the market would inevitably be broader than that, although its precise definition will depend upon the nature of the impugned conduct. At the other extreme, patents (protecting, as they do, function) may in some circumstances provide a degree of protection which means that it is not possible to supply a substitutable product without infringing the patent.[41] The classic case is a remedy or a vaccine for a previously incurable medical condition.[42] Accordingly, the National Competition Council (NCC) has

[36] Ergas Committee Final Report, n 2, pp 22-24.

[37] Most literature in this area tends to have one of two limitations. First, many articles deal with only one intellectual property right; this is not a concern, of course, so long as it is understood that the same conclusions may not apply to other intellectual property rights; secondly, more egregiously, it has been common to conflate the various different types of intellectual property rights and to treat them as if they all give rise to the same issues, which ignores the important distinctions between them: Wyburn M, "Recent Developments in Australian Copyright Law" (2000) 18 *Copyright Reporter* 112 at 120.

[38] TPC Background Paper, n 28, p 15; Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (1984) (Stonier Report) p 24; National Competition Council, *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974* (March 1999) (NCC Final Report) pp 157-158, 214; Ergas Committee Final Report, n 2, p 138; see also *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd* (1992) 22 IPR 215 (Federal Court), however, Australian courts have accepted that intellectual property rights can by themselves confer market power: *NT Power Generation Pty Ltd v Power & Water Authority* (2004) 219 CLR 90 at 136; 210 ALR 312 at 345. In the US it has been held that there is a rebuttable presumption that (at least in a tying scenario) a patent creates market power: *Independent Ink, Inc v Illinois Tool Works, Inc* 396 F 3d 1342 (Fed Cir, 2005); cf *Image Technical Services, Inc v Eastman Kodak Co* 125 F 3d 1195 (9th Cir, 1997).

[39] A possible exception could be the protection which was introduced under the *Trade Marks Act 1995* (Cth) for shapes, although the Full Federal Court has sensibly construed the protection for shape trade marks in a manner consistent with the purpose of trade mark legislation: *Kenman Kandy Australia Pty Ltd v Registrar of Trade Marks* (2002) 122 FCR 494. It is very unlikely that the other "new" species of trade marks (colour, scent and sound) would give rise to issues under an SLC test: eg, re colour trade marks, *Philmac Pty Ltd v Registrar of Trade Marks* (2002) 126 FCR 525.

[40] Smith R, Round D and Trindade R, "Protecting the Brand: Options and Risks" (2001) 8 CCLJ 234.

[41] Stonier Report, n 38, p 24; Ergas Committee Final Report, n 2, p 9.

[42] NCC Final Report, n 38, p 172; Ergas Committee Final Report, n 2, p 9.

stated that patents, and (to a lesser extent) copyright, may raise concerns under Pt IV, while designs, trade marks and circuit layouts will rarely if ever permit the rights owner to substantially lessen competition in a market.[43]

It should be noted that recent reforms to the *Patents Act 1990* (Cth) (*Patents Act*) create an added imperative for patentees to comply with the provisions of Pt IV of the TPA. An application may now be made to the Federal Court for an order granting a compulsory licence to exploit a patented invention in cases where the patentee has contravened Pt IV of the TPA "in connection with the patent".[44] While the Patents Act does provide for the payment of a licence fee, that fee (if required to be set by the court rather than agreed between the parties) is determined by reference to the economic value of the licence and also the desirability of discouraging contraventions of Pt IV of the TPA.[45] An unusual feature of these reforms is that the applicant for a compulsory licence will need to first establish a contravention of Pt IV. In effect, these laws provide a further remedy for contraventions of Pt IV in cases relating to a patent.

The application of the provisions of Pt IV of the TPA to particular intellectual property scenarios is considered further below (see text, VI). Before considering those scenarios, however, it is important to understand the scope of the current exemption in s 51(3) of the TPA and the nature of the proposed reforms.

III. Section 51(3) of the Trade Practices Act

Statutory intellectual property laws give intellectual property owners certain exclusive rights, which include the right to authorise other people to exercise those rights.[46] In other words, intellectual property owners may license their rights to others. In addition, intellectual property is capable of assignment.[47]

(A) No blanket exception for intellectual property

The licensing and assignment of intellectual property may raise issues under the provisions in Pt IV of the TPA and there is no blanket exception for intellectual property from the full force of those provisions. Section 51(1)(a) provides that, in assessing whether Pt IV has been contravened, one must disregard "anything specified in, and specifically authorised by … an Act (*not including* an Act relating to patents, trade marks, designs or copyrights); or … regulations made under such an Act" (emphasis added). In other words, although generally speaking legislative authority confers immunity from Pt IV, the mere fact that an owner of the specified intellectual property rights is given the right to act in a certain way pursuant to the applicable legislation does not in itself provide any protection in the case of an alleged contravention of Pt IV.

It is interesting to note the curious omission of the statutory regimes for the protection of plant varieties and circuit layouts. This is presumably a legacy of the fact that these sui generis regimes were not in place when the TPA was passed (s 51(1)(a) is in substantially the same terms as it was when the TPA was first enacted). No amendment was made when the plant varieties and circuit layouts regimes were introduced, and the oversight has never been corrected. Theoretically, it could mean that an act which was authorised by these statutory regimes is given full protection from Pt IV,[48]

[43] NCC Final Report, n 38, p 219.

[44] *Patents Act 1990* (Cth), s 133(1), (2). These laws were introduced as the government's response to changes to Australia's compulsory patent licensing laws which were recommended in the Ergas Committee Final Report, although the laws diverge significantly from the actual recommendations.

[45] *Patents Act 1990* (Cth), s 133(5).

[46] *Patents Act 1990* (Cth), s 13(1); *Copyright Act 1968* (Cth) ss 13(2), 196; *Designs Act 2003* (Cth), s 10(1)(f); *Trade Marks Act 1995* (Cth), s 20(1); *Circuit Layouts Act 1989* (Cth), s 9; *Plant Breeders Rights Act 1994* (Cth), s 11.

[47] *Patents Act 1990* (Cth) ss 13(2), 14; *Copyright Act 1968* (Cth) ss 16, 196; *Designs Act 2003* (Cth), ss 10(2), 11; *Trade Marks Act 1995* (Cth), s 106; *Circuit Layouts Act 1989* (Cth), s 45; *Plant Breeders Rights Act 1994* (Cth), s 20.

[48] NCC Final Report, n 38, p 245.

although the ACCC's predecessor has argued that the exemption would only cover refusals to license and infringement actions, and not conditions in licences and assignments.[49]

(B) Wording of s 51(3)

Despite the fact that there is no blanket exception for intellectual property, since its promulgation the TPA has provided certain intellectual property transactions with a limited shield against the full armoury of Pt IV.[50] The shield is provided by s 51(3), which has taken various forms over the years.[51] Although it is rather convoluted and verbose, it is important to set out s 51(3) in its entirety in order to understand the scope of protection which it currently provides.

> 51(3) A contravention of a provision of this Part other than section 46, 46A or 48 shall not be taken to have been committed by reason of:
>
> (a) the imposing of, or giving effect to, a condition of:
>
> (i) a licence granted by the proprietor, licensee or owner of a patent, of a registered design, of a copyright or of EL rights [eligible circuit layout: *Circuit Layouts Act 1989* (Cth), s 5] within the meaning of the *Circuit Layouts Act 1989*, or by a person who has applied for a patent or for the registration of a design; or
>
> (ii) an assignment of a patent, of a registered design, of a copyright or of such EL rights, or of the right to apply for a patent or for the registration of a design;
>
> to the extent that the condition relates to:
>
> (iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention;
>
> (iv) goods in respect of which the design is, or is proposed to be, registered and to which it is applied;
>
> (v) the work or other subject matter in which the copyright subsists; or
>
> (vi) the eligible layout in which the EL rights subsist;
>
> (b) the inclusion in a contract, arrangement or understanding authorizing the use of a certification trade mark of a provision in accordance with rules applicable under Part XI of the *Trade Marks Act 1955*, or the giving effect to such a provision; or
>
> (c) the inclusion in a contract, arrangement or understanding between:
>
> (i) the registered proprietor of a trade mark other than a certification trade mark; and
>
> (ii) a person registered as a registered user of that trade mark under Part IX of the *Trade Marks Act 1955* or a person authorized by the contract to use the trade mark subject to his or her becoming registered as such a registered user;
>
> of a provision to the extent that it relates to the kinds, qualities or standards of goods bearing the mark that may be produced or supplied, or the giving effect to the provision to that extent.

There are a number of important aspects of s 51(3) which should be noted:

- No exemption is provided for either misuse of market power (ss 46, 46A[52]) or resale price maintenance (s 48).
- Section 51(3)(a) deals with patents, designs, copyrights and circuit layouts, whereas s 51(3)(b) and (c) deal with trade marks. It is notable that, while circuit layouts are subject to the exception, plant varieties are not protected.[53] Nor are non-statutory rights of action protecting common law

[49] TPC Background Paper, n 28, p 11.

[50] Similar exemptions were provided pursuant to the competition legislation which preceded the TPA: *Trade Practices Act 1965* (Cth), s 38(1); *Restrictive Trade Practices Act 1971* (Cth), s 35(5). Neither the Explanatory Memorandum nor the *Second Reading Speech* (House of Representatives, 25 October 1973) p 2738, for the *Trade Practices Act 1974* (Cth) provide any real explanation regarding the purpose of the exemption: NCC Final Report, n 38, p 156.

[51] One significant change was made early in its legislative history. In its initial form, the exception in s 51(3) for conditions in patent, design and copyright licences and assignments only applied to the extent that the condition related "exclusively" to the relevant subject matter. The qualifier "exclusively" was removed with effect from 1 July 1977 by the *Trade Practices Amendment Act 1977* (Cth).

[52] *Trade Practices Act 1974* (Cth), s 46A deals with misuse of power in a Trans-Tasman market (ie, a market for goods or services in Australia, New Zealand or both), but is otherwise in substantially the same terms as s 46.

[53] TPC Background Paper, n 28, p 12; NCC Final Report, n 38, p 183.

trade marks (ie, the doctrine of passing off and its statutory analogue in ss 52 and 53) or confidential information (whether protected in contract or in equity).[54]

- The scope of the exception is much narrower for trade marks. There are two important limitations on the exemption applying to trade marks other than certification marks.[55] First, s 51(3) only exempts provisions relating to the "kinds, qualities or standards of *goods* bearing the mark" (emphasis added – the exclusion of "services" is a curious anomaly). Second, it only applies to agreements between the registered proprietor and a registered user. The "registered user" concept no longer exists under the current legislation; it may therefore be that there is no longer any exemption in the case of trade marks (although in the remainder of this article it is assumed that the exemption will apply in an agreement between a registered proprietor and its licensee). There are also other express references to the *Trade Marks Act 1955* (Cth), which by apparent oversight survived the repeal of that legislation.
- The exemption presumably covers conditions in both exclusive and non-exclusive licences, and (except in the case of trade marks) conditions in both complete and partial assignments.[56] However, the actual assignment itself is not exempted (and hence may give rise to concerns under s 50 of the TPA).[57] Nor are conditions in trade mark assignment agreements exempted.[58]
- The exemption does not operate in the case of licences or assignments of future intellectual property such as future copyright, ie, dealings in copyright for subject matter which has not yet been created.[59] However, the exemption does operate in respect of patent and design applications as well as registered rights.[60]
- The exemption only covers contractual provisions. It therefore does not operate in relation to refusals to license intellectual property or the commencement of infringement actions.[61] However, allegations of anti-competitive conduct in relation to such actions would most likely be brought under s 46 of the TPA, which as noted above is not subject to the exemption in any event.[62]
- It has been said that the exception in s 51(3) only operates in relation to intellectual property which is protected under Australian legislation (and not, for example, in relation to a patent which has only been granted overseas).[63] This would certainly appear to be the case for circuit layouts and trade marks because the Australian legislation is expressly cited, although it is less clear that

[54] NCC Final Report, n 38, p 183.

[55] A "certification trade mark" is a trade mark used to distinguish goods or services which are certified by the owner of the mark as having a certain quality, accuracy or other characteristic, including the origin, materials or mode of manufacture of goods: *Trade Marks Act 1995* (Cth), s 169. Classic examples of certification trade marks include the "Woolmark" logo (eg, Australian Registered Trade Mark No 328924) and the "Australian Made" logo (eg, Australian Registered Trade Mark No 451318). *Trade Practices Act 1974* (Cth), s 51(3)(b) provides an exemption in relation to certain arrangements involving certification marks.

[56] Ricketson S and Creswell C, *The Law of Intellectual Property: Copyright, Designs and Confidential Information* (Lawbook Co, online subscription service) at [15.190] (1 April 2005, http://www.thomson.com.au/resources/p_login.asp).

[57] TPC Background Paper, n 28, p 12.

[58] TPC Background Paper, n 28, p 12; Eagles I and Longdin L, "Competition in Information and Computer Technology Markets: Intellectual Property Licensing and Section 51(3) of the Trade Practices Act 1974" (2003) 3 QUTLJJ 28 at 32.

[59] Copyright Law Review Committee, *The Importation Provisions of the Copyright Act 1968* (September 1988) (CLRC Report) p 46; NCC Final Report, n 38, p 183; *Re Applications by Australasian Performing Right Association* [1999] ACompT 3 at [32]; *Copyright Act 1968* (Cth), s 197, makes provision for future copyright.

[60] TPC Background Paper, n 28, p 12. This is not an instance of distinct treatment, but rather recognises the manner in which the different rights are created (ie copyright is automatically protected upon creation and does not require registration, whereas an application must be made for the grant of a patent or a design). Future copyright is therefore not analogous to a patent or design application.

[61] TPC Background Paper, n 28, p 12; NCC Final Report, n 38, p 183.

[62] Note, however, that in *Universal Music Australia Pty Ltd v ACCC* (2003) 131 FCR 529, the Full Federal Court found that a refusal to supply contravened *Trade Practices Act 1974* (Cth), s 47 (because the purpose of the defendants' conduct was to substantially lessen competition even though it did not have that effect) but did not contravene s 46 (because the defendants did not have market power).

[63] LexisNexis, *Copyright and Designs* (online subscription service 64) at [32,010] (22 April 2005); Ricketson and Creswell, n 56 at [15.190] (1 April 2005).

the same applies in relation to the other statutory intellectual property rights. However, the point is essentially an academic one in relation to the competition-tested provisions in Pt IV of the TPA because it is difficult to conceive how licensing or assigning an overseas intellectual property right could have an impact on competition in Australia.[64]

Finally, with the exception of s 51(3)(b) which deals with certification trade marks, the exemption in each case is limited by the use of the words "relates to". The scope of the protection provided by s 51(3) depends critically on the meaning of those two words. It has been argued that a great weakness in the current regime is that there is no certainty regarding the correct interpretation of those words.[65]

(C) Interpretation of "relates to"

(1) Transfield v Arlo

The only decision to consider s 51(3) in any detail is *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 in the High Court.[66] Arlo was the licensee of a patented process for the manufacture and erection of electricity poles. It granted Transfield an exclusive sublicence to use the patented process for the making of electricity and similar poles (the "Arlo pole") in the territory (essentially Australia). The sublicence agreement required Transfield to use its "best endeavours" in the selling of the Arlo pole and to promote and develop the greatest possible market for the Arlo pole (the "Obligations"). Transfield submitted a tender for a project which was based on the use of the Arlo pole, but the customer expressed doubts regarding its suitability. Transfield then proposed an alternative pole and was awarded the contract based on the use of that alternative pole. Arlo sued Transfield for breach of contract for failing to comply with the Obligations, and Transfield argued that the Obligations were unenforceable because they contravened s 45 of the TPA (and also a provision of the *Patents Act 1952* (Cth), which will be discussed below). Arlo contended that the exemption in s 51(3) of the TPA meant that s 45 was not applicable. The only issues before the High Court were the issues under the TPA and the *Patents Act 1952*; Transfield did not challenge the finding by the courts below that it had breached the Obligations. For the moment, it is only necessary to consider the TPA issues.

Four of the five High Court judges found that s 45 was not contravened. The remaining judge, Murphy J, did not express an opinion on the issue. Despite the near unanimity of finding, no clear ratio emerges from the High Court's decision. Five separate judgments were delivered and it is not easy to reconcile their reasoning. Barwick CJ held that s 51(1)(a) excepted matters authorised by the *Patents Act 1952* – which suggests that his Honour did not appreciate the impact of the words "not including" which are highlighted earlier – and so did not consider s 51(3) at all (at 92).[67] Nor did Stephen J, who was content to simply state that the conduct did not fall within the terms of s 45 in any event (at 97). Wilson J stated that the conduct did not have the purpose or likely effect of substantially lessening competition, and that in any event s 51(3) "would appear to provide a complete answer" (although no explanation of that answer is provided in the course of his judgment) (at 108).

[64] TPC Background Paper, n 28, p 30; see also *Trade Practices Act 1975* (Cth), s 4E.

[65] See, eg, Submissions to NCC: Allen Allen & Hemsley (Submission 39) at 13, Licensing Executives Society of Australia & New Zealand (Submission 19) at 5, ACCC (Submission 30) at 3, as cited in NCC Final Report, n 38, p 183. The NCC accepted these submissions: NCC Final Report, n 38, p 186.

[66] Other court decisions have made passing reference to s 51(3) but not outlined the way in which it should be interpreted: *ASX Operations Pty Ltd v Pont Data Australia Pty Ltd* (1990) 27 FCR 460 at 470-471 (Full Federal Court); *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd* (1992) 22 IPR 215 (Federal Court); *NT Power Generation Pty Ltd v Power & Water Authority* (2004) 219 CLR 90 at 121–122; 210 ALR 312 at 334 (HC). The scope of the exemption provided by s 51(3) did not need to be closely considered by the Australian Competition Tribunal in its review of an authorisation decision by the ACCC because an authorisation application must proceed on the basis of the legislative tests regardless of whether the application may be unnecessary (eg, because s 51(3) applies): *Re Applications by Australasian Performing Right Association* [1999] ACompT 3 at [30]. The same comments were also made by the then Trade Practices Commission in relation to two authorisation applications: *EMI Records (Australia) Ltd* [1985] ATPR (Com) 50-096 at 55,200; *Phonographic Performance Co of Australia Ltd* [1991] ATPR (Com) 50-105 at 54,345.

[67] Barwick CJ is not alone in this regard; see also *Monroe Topple & Associates Pty Ltd v Institute of Chartered Accountants in Australia* (2002) 122 FCR 110 at 133 (Heerey J).

The only judgment which provides any real assistance as to the scope of s 51(3) is that of Mason J. His Honour held that Transfield had not established that s 45 applied and that, even if it did, the exemption in s 51(3) applied (at 102). He explained the meaning of s 51(3) as follows (at 102-103):

> In bridging the different policies of the *Patents Act* and the *Trade Practices Act*, s 51(3) recognizes that a patentee is justly entitled to impose conditions on the granting of a licence or assignment of a patent in order to protect the patentee's legal monopoly. Even under American antitrust law, where there is no equivalent exception to s 51(3), the patentee is entitled to exercise some measure of control over the licensee consistent with the scope of the patent monopoly, though there has been some controversy as to the scope of permissible control …Section 51(3) determines the scope of restrictions the patentee may properly impose on the use of the patent. Conditions which seek to gain advantages collateral to the patent are not covered by s 51(3).

It was argued by Transfield that s 51(3) did not apply because the Obligations went beyond merely relating to the invention or articles made using the invention and instead extended to not using other products. Mason J held that this "attributes to the word 'relates' a meaning which is too narrow, thereby giving s 51(3) an overly restrictive operation" (at 102). Given that the Obligations were not conditions which sought to gain advantages collateral to the patent grant, s 51(3) applied.

(2) Competing interpretations

In the absence of definitive judicial exegesis, the NCC has advanced three possible interpretations regarding the meaning of the words "relates to" in s 51(3):

- *Narrow interpretation*: A narrow reading is that the exemption only applies to conditions which relate directly to the goods (or, presumably, services) which are protected by the intellectual property right, such that a territorial restriction on the sale of the goods would not be protected because it relates to the market for the goods rather than the goods themselves.[68]
- *Intermediate interpretation*: An intermediate interpretation is that the "relates to" wording is satisfied if the condition seeks to protect the intellectual property owner's rights or to secure an advantage which is not collateral to the owner's exclusive rights, such that a territorial restriction would be exempted.[69]
- *Broad interpretation*: The broad interpretation is that any condition in an intellectual property licence or assignment is subject to the exemption "unless it seeks to apply to an almost entirely unrelated transaction or arrangement", such that not only territorial restrictions but also exclusive grant-back clauses and no challenge provisions would fall within the exemption.[70]

An alternative and extremely narrow reading of the scope of the exemption in the case of copyright has been proposed by Sam Ricketson:

> It is very uncertain what this [the phrase "to the extent that the condition relates to … the work or other subject matter in which the copyright subsists"] means. Copyright only subsists in a work or other subject matter when it is first reduced to material form. In this context, it should be noted that the *Copyright Act 1968* draws a distinction between "works" and "other subject matter", on the one hand, and "reproductions", "copies" (in relation to cinematograph films) and "records" (in relation to sound recordings), on the other hand. Copyright does not subsist in such reproductions, copies and records but only in the works or subject matter in their first material form… [I]f the condition relates to a reproduction, copy or record of the work or subject matter it is outside the exception. Furthermore, it would not seem apt to include conditions relating to the exploitation of the rights comprised in the copyright in the work or other subject matter, as this would make the references to "the work or other subject matter" superfluous … As a result, s 51(3)(a)(v) becomes virtually meaningless as the only conditions to which it will apply are conditions relating to the first material embodiment of the work or

[68] NCC Final Report, n 38, p 184. In its analysis, the NCC refers to "intellectual property" but describes the owner of the intellectual property as "the patentee". Certainly, the analysis of the narrow interpretation applies more logically to patents, designs and copyright than it does to trade marks.

[69] NCC Final Report, n 38, p 184.

[70] NCC Final Report, n 38, p 184.

other subject matter. Such conditions are unlikely to be of any importance, except where that first material embodiment is of great intrinsic value, such as a painting or manuscript.[71]

It seems extremely unlikely that the legislature intended s 51(3) to have such a limited operation.[72] The Copyright Law Review Committee has rejected Ricketson's interpretation,[73] and it is likely that a court would also adopt a broader reading of the exemption for copyright. The better view is that the grant of a licence to exercise any of the copyright owner's exclusive rights does relate to the subject matter in which the copyright subsists: it is that subject matter which is protected by the copyright, and without a licence the exercise of any of the exclusive rights would infringe that copyright.

As the NCC notes, the judgment of Mason J in *Transfield* supports the intermediate reading.[74] It is the reading which has been adopted in the past by the ACCC and its predecessor,[75] and it is the interpretation which will be adopted in the remainder of this article. In other words, the "relates to" requirement will be met if the condition does not seek to extend the intellectual property owner's rights beyond the scope of the statutory grant in terms of the scope, territory or duration of protection.[76] As discussed later in this article, this "scope of grant"[77] approach is the most logical basis for resolving conflicts between intellectual property and competition laws.

IV. Sections 144-146 of the Patents Act

It should be noted that, even in cases where s 51(3) of the TPA provides an exemption for provisions in a patent licence, there are specific provisions under ss 144 to 146 of the *Patents Act 1990* (Cth) which may impact on the legality of those provisions. In summary, s 144 voids any condition[78] relating to the sale, lease or licence of a patented invention[79] which has the effect of either:

(a) prohibiting or restricting the buyer, lessee or licensee (the "licensee") from using[80] a product or process supplied or owned by any person other than the seller, lessor or licensor or its nominee (the "licensor"); or

(b) requiring the licensee to acquire a product not protected by the patent from the licensor (s 144(1)).[81]

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[71] Ricketson and Creswell, n 56 at [15.190] (1 April 2005); see also LexisNexis, n 63 at [32,020] (22 April 2005).

[72] For example, it seems unlikely that the exemption for copyright would be intended to be so limited, while the exemption for other rights has a much broader operation.

[73] CLRC Report, n 59, pp 47-48.

[74] See Gummow W, "Abuse of Monopoly: Industrial Property and Trade Practices Control" (1976) 7 Syd LR 339 at 356.

[75] TPC Background Paper, n 28, p 13 ("the purpose and scope of the exclusive rights granted by the specific intellectual property regime will be considered to determine whether a collateral advantage has been achieved by the condition"); see also submission to NCC by the ACCC (Submission 30) at 4, as cited in NCC Final Report, n 38, p 185. In an authorisation decision, the Trade Practices Commission noted that the scope of the exemption is unclear: *Phonographic Performance Co of Australia Ltd* [1991] ATPR (Com) 50-105 at 54,345. See also the extra-curial endorsement of this approach given by Justice Lindgren of the Federal Court of Australia: Lindgren K, "The Interface Between Intellectual Property and Antitrust: Some Current Issues in Australia" (2005) 16 AIPJ 76.

[76] LexisNexis, n 63 at [32,010] (22 April 2005).

[77] Eagles I, "Intellectual Property and Competition Policy: The Case For Neutrality" in Rickett CER and Austin GW (eds) *International Intellectual Property Law and the Common Law World* (2000) p 327.

[78] The term "condition" is not used in its strict sense but rather merely means a provision: *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 93, 102.

[79] This presumably means a product or process in respect of which a patent has been granted: Bucknell D, Beattie K, Goatcher P and Rofe H, *Australian Patent Law* (2004) p 224.

[80] The term "using" has been construed narrowly to exclude selling: *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 94; *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* [1955] 2 All ER 657. It has also been construed to exclude promotion: *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 91, 94-95.

[81] A condition relating to an innovation patent cannot prohibit the licensee from applying for examination, nor can it impose restrictions on the circumstances in which an application for examination can be made: *Patents Act 1990* (Cth), s 144(1A). The same conduct may well be caught by *Trade Practices Act 1974* (Cth), s 47(2), (3), subject to the application of the SLC test.

It is sufficient that the condition has the impermissible effect only indirectly or impliedly.[82] However, a condition will not be void if it is proved that: (a) the licensee could have entered into a contract on reasonable terms without the condition; *and* (b) the licensee is entitled to be relieved of the condition on the giving of three months' written notice and the payment of compensation to the licensor (s 144(2)). The mere fact that the licensee admitted that the terms were reasonable does not preclude the obtaining of relief (s 144(3)).

A defence to infringement is available if the patented invention is (or was when the litigation was commenced) the subject of a condition which was inserted by the patentee and which is void pursuant to s 144 (s 144(4)).[83] However, the defence ceases to apply if the patentee offers a new contract without the void condition but otherwise on the same terms (although the patentee will not be able to obtain damages or an account of profits for infringements before the date of the offer) ((s 144(5)). It seems that the defence will operate even if the licensee rejects the offer.[84] The presence of this defence has led to the provisions being construed narrowly.[85] It is notable, however, that there is no reported decision in Australia in which this defence has been sustained.[86]

Furthermore, a patent licence agreement may be terminated on the giving of three months' written notice at any time after the patent has expired (s 145(1)). This is so even if there is a provision to the contrary in the licence agreement (s 145(2)). This provision is designed to prevent the patentee effectively extending the duration of the monopoly by contract.[87]

These provisions in the *Patents Act* have a limited operation: they do not invalidate a prohibition on the *sale* of products "other than those of a particular person" (s 146(a)); nor do they invalidate a condition that reserves to the licensor the right to supply spare parts (s 146(d)). However, conduct which avoids the application of ss 144 to 146 of the *Patents Act* may nonetheless contravene s 45 or 47 of the TPA

In *Transfield*, Mason J stated that the equivalent of s 144 under the then current legislation (s 112 of the *Patents Act 1952* (Cth)) was:

> enacted to deal with a limited abuse: where the owner of a lawful monopoly, the patentee, imposed conditions on the licensee or purchaser of the patent in order to obtain advantages which were closely linked to the patent itself but outside the protection of the patent.[88]

In that case, the impugned provision required Transfield to use its best endeavours to promote and sell the Arlo pole, which the court held did not prohibit or restrict Transfield from using competing poles and therefore did not fall foul of s 112 of the *Patents Act 1952*.[89]

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[82] *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 99.

[83] Given the language used, it appears that any person (and not merely the licensee) is entitled to rely on this defence: CCH, *Australian Industrial and Intellectual Property Law* (online subscription at 55-760 (22 April 2005). For another person to rely on the defence, of course, they would need to somehow become aware that the condition exists.

[84] LexisNexis, *Patents, Trade Marks & Related Rights* (online subscription, service 113) at [24,030] (22 April 2005).

[85] *Fischera v Felgates* [1984] RPC 257 at 289. This decision concerns equivalent provisions in the UK which were in very similar terms.

[86] LexisNexis, n 84 (service 127) at [24,030] (9 October 2007).

[87] LexisNexis, n 84 at [24,025] (22 April 2005).

[88] *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 99. The current provisions can be traced back to: *Patents and Designs Act 1907* (UK), s 38; *Patents Act 1909* (Cth), s 15. The former provision addressed the concerns that "patentees were seeking, by virtue of their patents, to obtain a collateral advantage by imposing conditions upon licensees, such as that the patented article should not be used save in conjunction with some other article produced by the patentee, or that the patented article alone should be used, or that the user should purchase his raw materials from the patentee": *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* [1955] 2 All ER 657 at 658 (per Viscount Simonds). See also *Sarason v Frenay* (1914) 31 RPC 330 at 334.

[89] *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 91-92, 94-97, 101-102, 108; cf Murphy J at 105.

V. PROPOSED REFORMS

(A) Inquiries prior to the Ergas Committee

The exemption provided by s 51(3) of the TPA has been examined by a number of different inquiries. In August 1976, the Swanson Committee dismissed the suggestion that the exemption be expanded to include transactions involving confidential information.[90]

In August 1984, the Industrial Property Advisory Committee (IPAC) recommended that s 51(3) be repealed, that (at least in the case of patent-related conduct) the per se prohibitions (ie, exclusionary provisions, price fixing and third line forcing) be subject to an SLC test, but that resale price maintenance remain a per se prohibition.[91] IPAC also stated that s 112 of the *Patents Act 1952* "has been consistently and narrowly interpreted and applied by the courts, and so has been of little practical effect" and therefore recommended that – if s 51(3) were repealed – s 112 *Patents Act 1952* should also be repealed.[92] Those recommendations by IPAC were never implemented.

More recently, the NCC conducted an inquiry solely in relation to ss 51(2) and 51(3) of the TPA.[93] In its draft report, the NCC recommended that s 51(3) be repealed and that intellectual property arrangements which create public benefits rely on the authorisation and notification procedures.[94] In its final report, however, it reached a different conclusion. It concluded that s 51(3) provides some benefits in terms of greater business certainty (which may in turn reduce compliance costs and encourage greater licensing),[95] but that it also carries certain costs, particularly in the case of horizontal arrangements and price and quantity restrictions.[96] After considering a number of options, the NCC recommended that s 51(3) be retained but amended to remove price and quantity restrictions and horizontal arrangements from the scope of the exemption.[97] It also recommended that the ACCC issue guidelines regarding the application of Pt IV of the TPA to intellectual property arrangements.[98]

As in the case of the IPAC recommendations, the NCC recommendations were never acted upon. It is fair to say that it would be extremely difficult to draft legislation to implement those recommendations in a way that provides sufficient clarity regarding their effect.[99] Instead of deciding

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[90] Trade Practices Act Review Committee, *Report to the Minister for Business and Consumer Affairs* (August 1976) pp 223-224 (Chairman of the Committee was T B Swanson).

[91] Stonier Report, n 38, pp 25-26. As the name of its report (*Patents, Innovation and Competition in Australia*) suggests, IPAC's terms of reference only related to patents, however it did state that "Similar arguments may well apply" to trade marks, designs and copyright (p 26).

[92] Stonier Report, n 38, p 27.

[93] The inquiry was commissioned after the so-called Hilmer Committee recommended that the exemption be examined closely: Hilmer Report, n 11, pp 2, 149-151. *Trade Practices Act 1974* (Cth), s 51(2) provides an unrelated exemption for employment and other matters.

[94] NCC, *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974: Draft Report* (November 1998) p 94. Although *Agreement on Trade Related Aspects of Intellectual Property Rights*, Art 40(2), only refers to the ability of member countries to impose restrictions on conditions "having an adverse effect on competition", it would nonetheless appear that a per se contravention could apply to intellectual property arrangements for at least two reasons: first, the per se provisions effectively deem the prohibited conduct to have an anti-competitive effect; and second, and more importantly, Art 40(2) is only permissive rather than directive and therefore does not restrict the manner in which competition laws may apply to intellectual property arrangements (NCC Final Report, n 38, pp 229-230).

[95] NCC Final Report, n 38, p 200.

[96] NCC Final Report, n 38, p 213.

[97] NCC Final Report, n 38, p 243.

[98] NCC Final Report, n 38, pp 244-245; it also recommended (pp 243-246) that the references to the *Trade Marks Act 1955* (Cth) be replaced with references to the *Trade Marks Act 1995* (Cth), that *Trade Practices Act 1974* (Cth), s 51(1) be amended to include legislation relating to plant breeders' rights and circuit layouts and s 51(3) be expanded to encompass the *Plant Breeder's Rights Act 1994* (Cth), and that the equivalent provisions be amended under the Competition Codes in the States and Territories.

[99] Walker J, "Copyright, Competition Law and the Case of APRA" (2001) 13 AIPLB 103 at 104.

whether to adopt the NCC's recommendations, the government instead referred the issue to the Intellectual Property and Competition Review Committee (Ergas Committee), chaired by economist Henry Ergas.

(B) The Ergas Committee

The Ergas Committee was charged with reviewing many aspects of the intersection between intellectual property and competition laws, one of which was the exemption provided by s 51(3) and the recommendation made by the NCC.[100] Submissions to the Ergas Committee largely opposed the NCC's proposal.[101]

The Ergas Committee decided that "intellectual property has important features that differentiate it, to a greater or lesser extent, from other property or assets", including the fact that it is non-excludable (ie, it is difficult and often impossible to prevent misuse in the absence of a system of statutory rights) and non-rivalrous (ie, consumption by one person does not reduce the scope for consumption by others).[102] It observed that licensing and assignment of intellectual property is important because initial owners are often not best placed to exploit the rights, commercial products often involve the use of many patents which may be owned by different people, and impeding efficient licensing and assignment can result in wasteful duplication of research and development efforts.[103] It is therefore important that overly burdensome regulation not be imposed on the licensing and assignment of intellectual property.[104] The Ergas Committee stated that statutory intellectual property rights should be capable of being effectively exercised, but that conduct extending beyond the scope of those rights should not be permissible.[105]

In relation to ss 144 to 146 of the *Patents Act 1990* (Cth) the Ergas Committee identified the following benefits which may be obtained by tying arrangements:

> [T]ie-ins are not necessarily anti-competitive. Indeed, in most instances, they can enhance efficiency and more frequently reduce the social costs arising from a patent grant. They can also serve to enhance price discrimination, and as a result increase output by better aligning prices with the customer's willingness to pay (this would prevent low-value customers from being excluded from consumption). Tie-ins can also prevent inefficient substitution where relative prices of complements in production or consumption would, in the absence of the tie-in, be distorted. Further, they can secure better risk-sharing, especially where consumption of the tied good can be used to measure demand ex post, and hence recoup the lower margin made on initial sale of the tying good by higher eventual income from the tied good. Last, but not least, tie-ins allow or can facilitate price competition in markets where competitive discounting would otherwise be limited.[106]

In light of the above comments, the Ergas Committee rejected the repeal of s 51(3) of the TPA as an option, and it also rejected the NCC's recommendation on the basis that, because "the vast majority of intellectual property licences could be said to fall within these categories" (ie, horizontal arrangements and price and quantity restrictions), it would effectively amount to a repeal of the exemption.[107] Instead, it made the following recommendations:[108]

- ss 144 to 146 of the Patents Act should be repealed;
- s 51(1) of the TPA should be expanded to encompass legislation governing circuit layouts and plant breeder's rights;

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[100] Ergas Committee Final Report, n 2, pp 216-217.

[101] Intellectual Property and Competition Review Committee, *Interim Report* (April 2000) (Ergas Committee Interim Report) p 31; Ergas Committee Final Report, n 2, p 208.

[102] Ergas Committee Final Report, n 2, p 210.

[103] Ergas Committee Final Report, n 2, pp 210-211.

[104] Ergas Committee Final Report, n 2, p 211.

[105] Ergas Committee Final Report, n 2, p 211.

[106] Ergas Committee Final Report, n 2, pp 161-162.

[107] Ergas Committee Final Report, n 2, p 212-213.

[108] Ergas Committee Final Report, n 2, p 162, 215.

- s 51(3) of the TPA should be repealed and replaced with a provision which provides that a contravention of Pt IV "shall not be taken to have been committed[109] by reason of the imposing of conditions[110] in a licence, or the inclusion of conditions in a contract, arrangement or understanding, that relate to[111] the subject matter of that intellectual property statute,[112] so long as those conditions do not result, or are not likely to result,[113] in a substantial lessening of competition" (with "substantial lessening of competition" having a meaning consistent with existing case law); and
- the ACCC should issue guidelines regarding "the manner in which it will implement any enforcement activities related to these provisions".

Importantly, the Ergas Committee also recommended that the amended s 51(3) apply to refusals to license intellectual property (subject to any compulsory licensing provisions under the relevant intellectual property statute).[114] The effect of this recommendation has been misunderstood as imposing some form of obligation on intellectual property owners to grant licences.[115] On the contrary, the recommendation would have extended the scope of the exemption beyond merely imposing conditions in a licence or assignment so that it also encompassed a refusal to grant a licence, for example where such conditions were not accepted.

It is unclear whether the Ergas Committee proposed that the exemption in the case of trade marks would continue to be limited to conditions relating to "the kinds, qualities or standards of goods bearing the mark", although one assumes not given that such conditions are unlikely to substantially lessen competition in any event.

(C) Government's response

The government accepted each of these recommendations subject to a number of modifications.[116] Two of those modifications will be mentioned here. First, the exemption will not operate in relation to s 46, 46A or 48 of the TPA.[117] As a result of the exclusions of ss 46 and 46A, the exemption will not apply generally to refusals to license. The continued exclusion of resale price maintenance – which the Ergas Committee said had no policy rationale[118] – is unexplained. Second, the remaining per se provisions of Pt IV (ie, price fixing, exclusionary provisions, and third line forcing) will "be subject to a substantial lessening of competition test".[119] It may be that this is merely intended as shorthand for the Ergas Committee's recommendation that the overlay be an effect or likely effect of substantially lessening competition, however, the phrase could well encompass a *purpose* of substantially lessening

[109] The statutory provision would presumably take the form "shall be taken not to have been committed" (determinative form) rather than "shall not be taken to have been committed".

[110] It would be preferable (and more consistent with the language of *Trade Practices Act 1974* (Cth), s 45) if the word "provision" had been used in place of "condition".

[111] The continued use of the phrase "relate to" is revealing: see n 128 and accompanying text.

[112] Ergas Committee Final Report, n 2, p 215.

[113] It will be noted that it is an "effects" test which is proposed and that the purpose of the parties is therefore irrelevant: Eagles and Longdin, n 58 at 33.

[114] Ergas Committee Final Report, n 2, p 213.

[115] Telstra Corporation Ltd, *Intellectual Property and Competition Review Committee: Interim Report* (May 2000), p 3 (Submission 26 in response to the Ergas Committee Interim Report) (http://www.ipaustralia.gov.au/pdfs/ipcr/Sub26.pdf).

[116] Commonwealth of Australia, *Government Response to Intellectual Property and Competition Review Recommendations: Information Package* (28 August 2001) (Government Response) pp 8, 11-12. The Government Response has been severely criticised: Eagles and Longdin, n 58 at 36-37; Centre for Law and Genetics, *Supplementary Submission to the Australian Law Reform Commission Public Inquiry: Gene Patenting and Public Health* (Submission P117 to the ALRC inquiry) (May 2004) p 5.

[117] Government Response, n 116, p 12.

[118] Ergas Committee Final Report, n 2, p 212.

[119] Government Response, n 116, p 12.

competition.[120] The difference is significant because the Full Federal Court has held that someone can have the purpose of substantially lessening competition even when there is no such effect or likely effect.[121] Accordingly, "licensing practices intended to bring about an anti-competitive outcome could continue to be at risk irrespective of whatever outcome was achieved or even achievable".[122] It would be concerning in the extreme if this were to occur.

For the remainder of this article, it is assumed that the government will adopt the Ergas Committee's formulation. The ACCC has suggested that this formulation will be adopted.[123]

It is also worth noting that the government announced that a saving provision will be inserted into the TPA to preserve the effect of the current exemption in relation to licences and assignments entered into prior to the amendment.[124] While this appears sensible in the context of the substantive changes, it is to be hoped that the drafting errors (such as references to the *Trade Marks Act 1955* (Cth) and concepts which have no place under the *Trade Marks Act 1995* (Cth)) will be rectified for existing arrangements.

Since the government published its response to the Ergas Committee's recommendations, the Australian Law Reform Commission (ALRC) has conducted an inquiry regarding gene patenting and public health. One issue considered by the ALRC was the impact of competition law on patent law, and in particular s 51(3) of the TPA and proposals for its amendment. In its final report, the ALRC accepted that s 51(3) should be amended to provide certainty (without recommending whether the amendments should take the form proposed by the Ergas Committee or the government's response, or indeed some other form entirely) and that the ACCC should issue guidelines explaining when conduct might be exempted and when it might be authorised.[125]

The analysis above (see text, III) clearly indicates that s 51(3) is in need of reform given the anomalies in its drafting and the confusion as to its correct interpretation. Both the NCC and the Ergas Committee recognised the inadequacies of s 51(3) but supported the retention of some exemption. The "scope of grant" approach is the most logical basis for an exemption[126] and it is certainly superior to the very limited exemption that was proposed by the NCC. However, it is likely that the government's stated policy would (if implemented in the manner suggested below) achieve a very similar effect. This appears to be implicitly recognised by the Ergas Committee, which refers to conduct beyond the scope of the grant as falling outside the proposed exemption.[127]

The likely operation of the government's stated policy is considered next.

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[120] This is the formulation used in *Trade Practices Act 1974* (Cth), ss 45, 47; cf s 50.

[121] *Universal Music Australia Pty Ltd v ACCC* (2003) 131 FCR 529 at 587 (Full Federal Court).

[122] Eagles and Longdin, n 58 at 36.

[123] ACCC, *Submission to ALRC: Intellectual Property Rights over Genetic Materials and Genetic and Related Technologies – Gene Patenting and Human Health Issues Paper* (Submission P64) (December 2003) (ACCC First Submission to ALRC Inquiry) at 5.

[124] Government Response, n 116, p 12.

[125] ALRC, *Genes and Ingenuity: Gene Patenting and Human Health: ALRC Report 99* (June 2004) (ALRC Final Report) pp 569-570.

[126] Advisory Council on Industrial Property, *Response to the Intellectual Property and Competition Review Interim Report* (May 2000) (Submission 16) p 2 (http://www.ipaustralia.gov.au/pdfs/ipcr/Sub16.pdf); Licensing Executives Society of Australia & New Zealand, *Submission to the Intellectual Property and Competition Review Committee on the Interim Report* (May 2000) (Submission 23 in response to the Ergas Committee Interim Report), pp 4-5, 16 (http://www.ipcr.gov.au/submis/index.htm); cf Eagles and Longdin, n 58.

[127] Ergas Committee Interim Report, n 101, p 34; Ergas Committee Final Report, n 2, pp 11, 24, 211. The continued use of the phrase "relate to" may support the view that the government's policy would (if implemented in the manner discussed in text, VI) achieve a "scope of grant" approach: Eagles and Longdin, n 58 at 34; Lawson C, *Submission to the Australian Law Reform Commission Gene Patenting and Human Health Inquiry* (2004) p 129. However, it seems more likely that the use of the phrase "relate to" was merely intended to require that the conditions deal with the intellectual property right in some way, rather than directly importing the "collateral advantage" approach adopted by Mason J in *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83.

VI. INTELLECTUAL PROPERTY GUIDELINES

(A) Drafting of the ACCC's guidelines

The Ergas Committee proposed that the ACCC issue guidelines regarding the application of the amended s 51(3) and the behaviour which is likely to result in a substantial lessening of competition, and outlining a means for obtaining written clearances from the ACCC regarding proposed conduct.[128] It recommended that the guidelines be "drafted in close consultation with the public and, in particular, with intellectual property owners, users, licensees and facilitators" and that the ACCC undertake a public awareness program in relation to the effects of the changes.[129] The government has announced that the ACCC will prepare guidelines outlining when licences and assignments might breach Pt IV of the TPA, when the amended s 51(3) might apply, and when authorisation might be available.[130] However, it appears that the government has not accepted the recommendation that there be a formal clearance procedure for intellectual property transactions.[131]

Although the ACCC's guidelines will clearly not be binding on third parties or the courts, they should nonetheless provide considerable assistance to the intellectual property community. There are a number of useful precedents when considering the approach that should be taken by the ACCC in preparing these guidelines, in particular, equivalent guidelines that have been issued overseas,[132] and also the background paper issued by the ACCC's predecessor.[133]

It will be interesting to see whether the ACCC's guidelines provide a "safe harbour" or "safety zone" setting out circumstances in which conditions will generally not be challenged. This approach has been adopted by the ACCC in its Merger Guidelines.[134] It has also been adopted by competition regulators in the US, the UK and Canada in their intellectual property guidelines, and the ACCC has specifically stated that it will consider the approaches adopted in those guidelines.[135]

In the US, a condition will not be challenged by the regulators if: (a) the condition does not impose a restriction which is "facially anti-competitive";[136] and (b) the licensor and the licensee collectively hold no more than 20% of any market affected by the condition.[137] If market shares cannot be calculated with some degree of accuracy, then the regulators will not challenge the condition if: (a) it is not "facially anti-competitive"; and (b) there are at least four independently controlled entities which are not party to the licence and have the assets and incentives to engage in research and development activities that are a close substitute for the research and development activities subject to the restraint.[138]

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[128] Ergas Committee Final Report, n 2, p 213.

[129] Ergas Committee Final Report, n 2, p 213.

[130] Government Response, n 116, p 12.

[131] However, an informal clearance may still be an option.

[132] United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (6 April 1995) (US IP Guidelines); Canadian Competition Bureau, *Intellectual Property Enforcement Guidelines* (2000) (Canadian IP Guidelines); Office of Fair Trading (UK), *Intellectual property rights: A draft Competition Act 1998 guideline* (November 2001) (UK IP Guidelines); European Commission, Reg No 2004/C 101/02, *Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements* (27 April 2004) (EC Technology Transfer Guidelines).

[133] TPC Background Paper, n 28.

[134] ACCC, *Merger Guidelines* (30 June 1999) (ACCC Merger Guidelines) pp 44-45.

[135] Fels A, "Intellectual Property and Competition" (paper delivered at *Protecting Intellectual Property or Protecting Consumers: Is There A Trade-Off?* Conference, Melbourne Business School, 6 December 2002) at 10.

[136] This phrase is used to refer to restraints which are typically outlawed *per se* as well as other restraints which almost always reduce output or increase prices: US IP Guidelines, n 132, p 22.

[137] US IP Guidelines, n 132, p 22.

[138] US IP Guidelines, n 132, p 23.

Similarly, the competition regulator in Canada has said that it will generally not challenge arrangements where the parties have a combined market share of less than 35%,[139] while in the UK, the market share threshold is set at 25%.[140] In Europe, the threshold has been set at a 20% combined share (in the case of agreements between competitors) or 30% individual shares (in the case of agreements between non-competitors), although the safe harbour does not apply to certain "hardcore restrictions".[141]

It is to be hoped that the ACCC does not adopt the concept of "innovation markets" (ie, markets for the research into and development of particular new and improved products and processes).[142] The innovation market can be contrasted with what has been labelled the "technology market" (ie, the market for the licensed intellectual property and its close substitutes).[143] The technology market reflects the traditional characterisation of a market for competition law purposes. In functional terms, the innovation market is the "market" which is immediately upstream from the technology market. The concept of "innovation markets" has been used in intellectual property guidelines in the US[144] and Europe.[145] However, it has correctly been criticised as a flawed concept which extends the scope of competition laws and is likely to lead to errors in analysing whether conduct is anti-competitive.[146] As Carlton and Gertner note in a merger context (although their comments are equally applicable in other scenarios):

> In order to identify an "innovation market", one must include the innovation activity of all those firms with R&D efforts that might result in products competitive to the ones that the merged firm may develop. This means that there typically will be firms in the "innovation market" who do not compete in any way with the firms that propose to merge. Indeed, because the results of R&D are so difficult to predict, the analyst may be unable to determine all, or even most, of the relevant firms who might produce competitive products in the future. This problem becomes increasingly severe the longer it takes before any new products are expected to come to market and the more uncertain and rapidly changing is the industry.
>
> Indeed, it is often impossible to predict which industry, let alone which firm, will develop a particular type of new product. R&D in one product has frequently led to unpredictable applications elsewhere.[147]

The concept of "innovation markets" is therefore not only difficult to apply, but moreover is likely to lead to analytical errors. To the extent that concerns may arise in an innovation "market", those problems should be revealed in an analysis of the relevant technology market as they will be reflected in the barriers to entry to that technology market. However, despite the inherent limitations in the concept of innovation markets, unfortunately it appears that the ACCC may adopt the concept in its guidelines because it referred to innovation markets in one of its submissions to the ALRC.[148]

(B) Appropriate "counter-factual"

The application of the proposed reforms to an intellectual property arrangement will depend critically on the application of the SLC test. As we have seen, the SLC test requires a consideration of "the

[139] Canadian IP Guidelines, n 132, p 12.

[140] UK IP Guidelines, n 132, p 9.

[141] European Commission, Reg No 772/2004, *On the Application of Article 81(3) of the Treaty to Categories of Technology Transfer Agreements* (27 April 2004), Art 3-4 (this Regulation commenced operation 1 May 2004, replacing Reg No 240/96); application of this Regulation is explained by the EC Technology Transfer Guidelines, n 132.

[142] Blayse A, *Subsection 51(3) of the Trade Practices Act 1974 and the Interaction of Intellectual Property and Competition Laws* (paper presented at 2nd Australian Business Law Workshop, Canberra, 11-13 May 2001) at 8-9.

[143] US IP Guidelines, n 132, pp 8-10.

[144] US IP Guidelines, n 132, pp 10-13.

[145] EC Technology Transfer Guidelines, n 132, para 25.

[146] Carlton D and Gertner R, *Intellectual Property, Antitrust and Strategic Behaviour*, http://gsbwww.uchicago.edu/fac/dennis.carlton/more/My%20Papers.htm; Merges R, Menell P and Lemley M, *Intellectual Property in the New Technological Age* (2nd ed, 2000) p 1115, cited in Blayse, n 142 at 9.

[147] Carlton and Gertner, n 146 at 15.

[148] ACCC First Submission to ALRC Inquiry, n 123 at 10.

future with and without" the conduct in question.[149] Consider the case of a licence of intellectual property subject to a particular (allegedly anti-competitive) condition. The "future with" scenario is obvious – it is the proposed licence including the impugned condition. But what is the appropriate alternative scenario (or "counter-factual" to use the language of competition law)? There are two possible counter-factuals: the future *without* the grant of a licence at all; and the future *with* the grant of a licence but *without* the impugned condition.[150] The choice is obviously crucial.

The difference between the two possible counter-factuals can be demonstrated by taking the example of the grant of an exclusive licence.[151] A counter-factual taking the second form (ie, the future with a licence excluding the condition) would be a scenario where the licence was non-exclusive and would therefore permit the licensor and other third parties to use the licensed intellectual property. In those circumstances, the grant of an exclusive licence operates to lessen competition; if the reduction is substantial (which, as we have seen, will depend upon market definition including consideration of available substitutes), then there will be a substantial lessening of competition.[152] However, if the counter-factual takes the first form which is discussed above (ie, the future without any licence), then it is unlikely that there would be less competition under the impugned arrangement than if there had been no grant of a licence at all[153] (unless the licence constrained the licensee's use of the intellectual property in a way which did not apply to the licensor).

It is the first proposed counter-factual (the future without a licence) which should be adopted.[154] This is the approach adopted by the NCC[155] and it is consistent with the position taken by regulators in Australia[156] and overseas.[157] It recognises the fact that there is no general duty on intellectual property owners to license their intellectual property rights to third parties.[158] However, it remains to be seen whether Australian courts will actually adopt this approach.[159] It is to be hoped that the ACCC will do so despite the fact that it maintained that s 51(3) should be abolished entirely even after the Ergas Committee announced its recommendations.[160]

(C) Areas of potential concern

Having made these general comments, it is appropriate to consider how the proposed laws would apply to some common intellectual property transactions. Although it is expected that the guidelines will address the application of s 46 of the TPA to intellectual property (eg, enforcement actions and

[149] See also NCC Final Report, n 38, p 172.

[150] NCC Final Report, n 38, p 174.

[151] An exclusive licence is a licence which entitles only the licensee (and no one else, including the licensor) to use the licensed intellectual property.

[152] NCC Final Report, n 38, p 175. If this analysis were adopted, the exclusivity condition would be likely to contravene *Trade Practices Act 1974* (Cth), s 47(4) or, failing that, s 45.

[153] NCC Final Report, n 38, p 174.

[154] TPC Background Paper, n 28, pp 9-10; NCC Final Report, n 38, p 175; Blayse, n 142 at 9; Adams and McLennan, n 28 at 19.

[155] NCC Final Report, n 38, p 175.

[156] TPC Background Paper, n 28, pp 9-10.

[157] US IP Guidelines, n 132, p 7; Canadian IP Guidelines, n 32, pp 6-7; EC Technology Transfer Guidelines, n 132, paras 10-12.

[158] But note, eg, the statutory compulsory licensing provisions in *Patents Act 1990* (Cth), s 133, and the statutory licensing schemes established under the *Copyright Act 1968* (Cth); also application of *Trade Practices Act 1974* (Cth), s 46, although it will not operate where the intellectual property owner's purpose was the protection of the intellectual property rights (*Australasian Performing Right Association Ltd v Ceridale Pty Ltd* (1990) 97 ALR 497) rather than a proscribed purpose, there may be a proscribed purpose where the right is used as leverage in a secondary market (such as in *Radio Telefis Eireann and Independent Television Publications Ltd v Commission of the European Communities* [1995] ECR 1-743 (the Magill case)): Lindgren, n 75 at 83.

[159] NCC Final Report, n 38, p 176.

[160] Fels, n 135 at 9; ACCC, *ACCC welcomes release of Ergas report on intellectual property* (8 December 2000), media release, http://www.accc.gov.au/content/index.phtml/itemId/87583/pageDefinitionItemId/16940.

refusals to license), for the reasons explained previously these issues are not addressed below.[161] The law in this respect will be unchanged given that neither s 51(3) in its current form, nor the proposed reforms, provide any exemption to conduct falling within s 46. Accordingly, even where the current or proposed exemption in s 51(3) applies to the conditions discussed below, it will still be necessary to consider whether s 46 has been contravened.

(1) Exclusive licence grants and assignments

As discussed above, the grant of an exclusive licence per se will not result in a substantial lessening of competition assuming the correct counter-factual is used.[162] In effect, the exclusive licensee is standing in the shoes of the intellectual property owner.[163] In other words, such conduct should be exempted by s 51(3) in its proposed form. Except in the case of trade mark licences (where the condition would arguably not relate to the "kinds, qualities or standards" of products bearing the mark[164]), the same conclusion would be reached under the current exemption.[165] However, there may be a substantial lessening of competition if there are additional conditions which result in driving competitors out of the market, preventing entry to the market, market sharing, cross-licensing, tying arrangements, or leveraging into other markets – as discussed below, such provisions may contravene s 45 or 47 of the TPA (and potentially s 46 as well).[166]

An assignment of intellectual property involves the acquisition of assets which, if it resulted or was likely to result in substantial lessening of competition, would contravene s 50 of the TPA. In addition, the grant of an exclusive licence could be considered to be result in an acquisition.[167] Such conduct will not be exempt under s 51(3) in its current form. The current exemption only applies to conditions in licences or assignments – and not the actual underlying transaction – so it will not exempt the acquisition itself.[168] The proposed amendments will not have any impact on the application of s 50 because that prohibition is already subject to an SLC test.

(2) Territorial restraints and similar conditions

The same analysis applies to territorial restraints (ie, a licence to use the intellectual property, and to sell products resulting from such use, only in a specified geographic area) as applies to exclusive licence grants.[169] Without other restrictive conditions, the grant of separate exclusive licences for different territories is simply a division of the rights held by the intellectual property owner and will therefore not result in a substantial lessening of competition. Such conduct should therefore be exempted by s 51(3) in its proposed form. The position should be the same under the exemption

[161] However, some useful guidance has been provided by the ACCC's predecessor: TPC Background Paper, n 28, pp 19-21. It is also worth noting that typically it will not be possible to find a proscribed purpose in such cases, eg,, the Full Federal Court has held that a copyright owner's refusal to license "was merely to prevent unauthorised use of its material … as we see it, this is a straightforward case of a copyright holder seeking to restrain a group of people from using copyright material unless and until they first obtain the necessary licences": *Australian Performing Right Association Ltd v Ceridale Pty Ltd* (1990) 96 ALR 497 at 510-511. Settlements of infringement actions may involve cross-licences or other restrictive conditions: TPC Background Paper, n 28, p 19. The implications of such cross-licences and similar arrangements are discussed in detail below, see text VI(C)(11).

[162] NCC Final Report, n 38, p 176.

[163] This is recognised by the fact that in certain cases an exclusive licensee may sue for infringement: *Copyright Act 1968* (Cth), s 119; *Patents Act 1990* (Cth), s 120(1); *Circuit Layouts Act 1989* (Cth), s 30.

[164] It could be argued that such conditions do relate to the quality of the marked goods because exclusivity is necessary to maintain quality standards. In any event, a trade mark licence is very unlikely to contravene any of the prohibitions subject to an SLC test for the reasons discussed above, see text II(E).

[165] TPC Background Paper, n 28, pp 21-22; cf Gummow, n 74 at 358.

[166] NCC Final Report, n 38, pp 176-80.

[167] This possibility arises from the broad and inclusive definition of the term "acquire": *Trade Practices Act 1974* (Cth), s 4(1); NCC Final Report, n 38, p 182.

[168] NCC Final Report, n 38, p 182.

[169] NCC Final Report, n 38, p 176; TPC Background Paper, n 28, pp 22-23.

currently provided in s 51(3), except in the case of trade marks because a territorial restraint arguably does not relate to the "kinds, qualities or standards" of products bearing the mark.[170]

The same analysis applies to a licence of only some of the licensor's rights (eg, the right to reproduce a literary work, but not the right to adapt it), a licence which is for only part of the term of protection, and a licence limited to uses in particular fields.[171]

A *non-exclusive* licence including territorial restraints might appear to raise greater concerns (eg, a non-exclusive licence granted by a patentee pursuant to which it is agreed that the patentee will only supply the licensed drug to certain classes of customers while the patentee reserves to itself the exclusive right to supply other classes of customers). As the patentee and licensee are competitors with one another (or would be but for the territorial restraint), such a licence condition could constitute an exclusionary provision and therefore be illegal per se.[172] However, it is submitted that the arrangement would be exempted by the proposed s 51(3) on the basis that it would not result in a substantial lessening of competition – provided that the correct counter-factual is adopted. Equally, it is unlikely that the arrangement would be held to secure an advantage which is collateral to the grant of the intellectual property right. As a result, the arrangement would also be likely to fall within the exemption currently provided in s 51(3) (although, as noted above, a different conclusion is likely in the case of a trade mark licence).

(3) Price or quantity restrictions

A licensor may seek to impose restrictions as to the minimum *price* at which licensed products may be sold ("price restrictions") or concerning the *number* of licensed products which may be sold ("quantity restrictions" or "quota restrictions"). Both types of restrictions can be used to achieve the same result: by limiting supply, a quantity restriction can lead to higher prices than might otherwise prevail. This is the reason why they were singled out for attention by the NCC in its proposed reforms.

Price and quantity restrictions could contravene s 45. As both types of conditions have the purpose or likely effect of controlling prices, if the licensor and licensee are competitors[173] (or would be but for the condition) then the condition will be a price fixing provision as defined in s 45A. Even where the parties are not competitors, such conditions may contravene s 45 if they have the purpose or likely effect of substantially lessening competition. However, such conditions are likely to be exempted by s 51(3) in its current form – except in the case of trade marks because such conditions arguably do not relate to the "kinds, qualities or standards" of products bearing the mark.[174] Unless the licence agreement is coupled with a distribution arrangement, the resale price maintenance prohibition in s 48 will not apply because the licensee is not resupplying the services which are supplied by the licensor (ie, the licence).[175]

The position could be different under the proposed amendments. The NCC has stated that price or quantity restrictions are very likely to substantially lessen competition.[176] If so, they would fall outside the proposed exemption. However, such restrictions per se do not actually limit competition beyond that which would have pertained without a licence (the appropriate counter-factual scenario). If the licensor had not granted a licence at all, it could obviously have controlled the sale price and the

[170] TPC Background Paper, n 28, p 22; CCH, *Trade Practices Commentary* (online subscription service) at 14-435 (4 March 2005); Goldsworthy P, "The Application of the Trade Practices Act 1974 (as amended) to Restrictions in Patent, Know-How and Trade Mark Licensing Arrangements" (1977) 3 Mon LR 289 at 304; cf the discussion at n 164.

[171] Goldsworthy, n 170 at 317.

[172] *Trade Practices Act 1974* (Cth), ss 4D, 45; however, to the extent that the restraint fell within the terms of s 47, the conduct would not be treated as a per se contravention of s 45: s 45(6).

[173] For example, where the licence granted to the licensee is non-exclusive and therefore leaves open the possibility of the licensor also using the intellectual property, or alternatively where the licensor provides substitutable products which do not involve the use of the licensed intellectual property.

[174] TPC Background Paper, n 28, p 24; cf the discussion at n 164.

[175] TPC Background Paper, n 28, p 24; CCH, n 170 at 14-435 (4 March 2005).

[176] NCC Final Report, n 38, pp 202, 212; hence the NCC recommended (p 243) that *Trade Practices Act 1974* (Cth), s 51(3) be amended such that it does not apply to price or quantity restrictions.

quantity of licensed products sold. By imposing conditions of this kind, the licensor is merely retaining that ability. Accordingly, a mere restriction on price or quantity is unlikely to substantially lessen competition and will therefore continue to be exempted under the proposed amendments.[177]

The same position applies in the case of conditions which require a minimum royalty payment or the imposition of minimum quantity requirements.[178]

(4) Quality requirements

A licence condition requiring that certain quality standards be met is currently exempted by s 51(3).[179] It is difficult to conceive how such conditions could be said to lessen competition and therefore they will (and should) continue to be exempted in the future.[180] It should be noted that these comments only apply to the specification of quality *standards*, and not to conditions requiring dealings with particular parties (even where such conditions are stated to be for the purposes of maintaining quality levels).

In relation to the latter type of condition, see the discussion below, text VI(C)(10).

(5) Post-expiry restrictions

A licensor is entitled to impose restrictions on the use of the intellectual property by the licensee after the termination or expiry of the licence agreement, provided that the restrictions do not extend beyond the duration of the intellectual property protection.[181] Except in the case of trade mark licences, such restrictions would be protected by the current s 51(3) exemption.[182] They would also be protected by the proposed exemption as such restrictions will not substantially lessen competition.[183]

The same cannot be said of restrictions which continue to operate (whether during the term of the licence or after its expiry or termination) once intellectual property protection has expired. Such conditions clearly extend beyond the scope of the grant by effectively extending the term of protection. Neither the current nor the proposed exemption will apply and the restrictions may well contravene s 45 or 47 of the TPA.[184] If a patent licence contains such a condition, it may currently be terminated after the expiry of the patent on the giving of three months' notice pursuant to s 145 of the Patents Act.

(6) Restrictions on sublicensing

Intellectual property licences commonly restrict sublicensing by the licensee. Such restrictions (except in trade mark licences) will most likely fall within the terms of s 51(3) in its current form.[185] Restrictions of this kind do not, without more, lessen competition and therefore the proposed exemption would also apply.[186]

(7) Grant back or licence back provisions

An intellectual property licence sometimes requires that the licensee either assign or license to the licensor any improvements on the licensed intellectual property which are created by the licensee. Such conditions are common in a licence for any statutory intellectual property except trade marks. As

[177] TPC Background Paper, n 28, pp 24-25.

[178] In terms of the scope of the current exemption, see TPC Background Paper, n 28, p 26.

[179] TPC Background Paper, n 28, p 25; Gummow, n 74 at 358.

[180] TPC Background Paper, n 28, p 25.

[181] TPC Background Paper, n 28, p 26.

[182] TPC Background Paper, n 28, p 26.

[183] TPC Background Paper, n 28, p 26.

[184] TPC Background Paper, n 28, p 26; see also Eagles and Longdin, n 58 at 46.

[185] The ACCC's predecessor has doubted whether this is the case on the basis that "the exemption extends to terms which relate to the subject matter of the licence, but not the intellectual property right itself" (TPC Background Paper, n 28, p 27), however, the better view is that a condition which restricts sublicensing of a patent for a product, for example, does operate in relation to the product because it prevents the licensee granting third parties the right to make that product.

[186] TPC Background Paper, n 28, p 26.

such conditions do not relate to the subject matter of the licensed intellectual property (rather, they relate to the improvements), they fall outside the exemption currently provided in s 51(3).[187] Given the continuing use of the "relate to" limitation, the same conclusion will presumably hold if the proposed amendments are enacted. In that case, they will be subject to the full force of Pt IV.

The application of Pt IV will depend on the precise nature of the condition. A "licence back" which takes the form of a non-exclusive licence will not substantially lessen competition; indeed, it may be pro-competitive as it expands the number of people who may use the intellectual property.[188] At the other extreme, however, both an exclusive "licence back", and also a "grant back" condition which does not provide for a licence to flow back to the licensee, may well substantially lessen competition for two reasons.[189] First, they may discourage innovation by the licensee.[190] Second, they may serve to enhance the licensor's market power.[191] A "grant back" condition which provides for a licence to flow back to the licensee falls somewhere between these extremes. These types of conditions raise similar issues to those which are discussed in below, see text VI(C)(11). Where the SLC test is satisfied, the condition will contravene s 45.

It might also be argued that such conditions are prohibited regardless of their effect on competition as they are exclusionary provisions (eg, an exclusive licence back prevents the supply of licences to third parties). However, the better view is that s 4D will not apply in this scenario because the parties are not competitive in relation to the services to which the condition relates (ie, the grant of the licence). It is not sufficient to attract the application of s 4D that the parties compete in the same market (indeed, the concept of "market" is not used in s 4D).

If the grant back condition applies to intellectual property which is not an improvement on the licensed intellectual property but rather an independent creation made through the use of the licensed intellectual property (eg, a design drawing made using copyright computer assisted design software), then the condition may well have the purpose or likely effect of substantially lessening competition (as it is an attempt to leverage market power from one market into another market) and thereby contravene s 45.[192]

An analogous type of condition in a trade mark licence requires the licensee to acknowledge that any goodwill accruing from the licensee's use of the trade mark enures to the benefit of the licensor – in other words, the goodwill which is generated by the licensee will be enjoyed by the licensor. The current exemption in s 51(3) will probably not apply because the condition does not relate to the "kinds, qualities or standards" of products bearing the mark, but the proposed exemption may apply because the condition probably relates to the subject matter of the intellectual property statute. Given the nature of the protection provided by a registered trade mark, such a condition would not have the purpose or likely effect of substantially lessening competition in a market. Indeed, such a condition is an integral feature of most trade mark licences.

(8) No challenge provisions

A licensor may seek to impose an obligation on the licensee not to challenge the validity of the intellectual property. Sometimes such conditions are limited to the term of the licence, but frequently they survive the termination or expiry of the licence. Such conditions do not "relate to" the subject matter of the intellectual property (to use Mason J's language, this is a clear case of attempting to obtain a "collateral advantage"[193]), and so the exemption (whether in its current or the proposed form)

[187] TPC Background Paper, n 28, p 27; Gummow, n 74 at 358.

[188] TPC Background Paper, n 28, p 27.

[189] TPC Background Paper, n 28, p 27; the Trade Practices Commission notes, however, this reasoning will not apply where the reason for the grant of the licence was to develop improvements (p 27).

[190] TPC Background Paper, n 28, p 27; Adams and McLennan, n 28 at 20.

[191] Adams and McLennan, n 28 at 20.

[192] Eagles and Longdin, n 58 at 46.

[193] See *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 102-103.

will not apply.[194] As a result, such conditions will contravene s 45 if the SLC test is satisfied. However, a condition which entitles the licensor to terminate the licence if the licensee challenges the validity of the licensed intellectual property will probably not contravene s 45.[195]

(9) Non-compete and best endeavours clauses

An intellectual property licence may also impose conditions requiring the licensee not to compete with the licensor. Such provisions may take various forms and could operate during the term of the licence or after its termination or expiry.

A "non-compete" clause which takes the form of a territorial restraint was discussed above, see text VI(C)(2). Here we consider a different type of non-compete clause – one which restrains the licensee from dealing in products which compete with the licensed products. Neither the current or the proposed exemption would apply to such a condition because the condition relates to unlicensed products (and not the licensed intellectual property).[196] If there is a purpose or likely effect of substantially lessening competition, then the condition will contravene s 47 (as a restriction on the resupply of goods or services provided by a competitor of the licensor) or, failing that, s 45.[197] The inclusion of such provisions is very common in trade mark licences (particularly where they take the form of franchise agreements), however they are most unlikely to result in a substantial lessening of competition given the nature of protection afforded by a registered trade mark.

Even less problematic is a provision requiring the licensee to use its best endeavours to manufacture and sell the licensed products.[198] As noted by the only two judges in *Transfield* to consider s 51(3), a condition of this kind is subject to the current exemption (although not in the case of a trade mark licence).[199] Such a condition in a trade mark licence is unlikely to be protected by the current exemption as it probably does not relate to the "kinds, qualities or standards" of products bearing the mark. The proposed exemption is likely to apply to such conditions because they are unlikely to have the effect of substantially lessening competition (except where competition is foreclosed due to such obligations being placed on a number of licensees in the market).[200]

(10) Full or third line forcing ("tying" or "bundling")

A licensor may seek to impose a condition that the licensee acquire products which are not protected by the licensed intellectual property either from the licensor ("full line forcing") or from third parties ("third line forcing"). The use of such conditions is often referred to as "tying" or "bundling". Neither the current nor the proposed exemption will apply to such conduct as the condition does not relate to the licensed intellectual property – rather, it relates to entirely distinct products.[201] Third line forcing conditions are currently prohibited per se by s 47(6),[202] but the conduct may be authorised or notified. On the other hand, full line forcing conditions will contravene s 47 (or, failing that, s 45) only if there is a purpose or likely effect of substantially lessening competition.[203] Current economic theory holds

[194] TPC Background Paper, n 28, p 27; CCH, n 170 at 14-435 (4 March 2005); Goldsworthy, n 170 at 315.

[195] TPC Background Paper, n 28, p 28.

[196] TPC Background Paper, n 28, p 28; Gummow, n 74 at 358.

[197] TPC Background Paper, n 28, p 28. The anti-overlap provision in *Trade Practices Act 1974* (Cth), s 45(6) provides that s 45 is not contravened by conduct which falls for consideration under s 47.

[198] However, if a condition which is characterised as a "best endeavours" clause in fact operates as a non-compete clause, then the condition should clearly be analysed in that way.

[199] *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 102 (Mason J), 108 (Wilson J); TPC Background Paper, n 28, p 28.

[200] TPC Background Paper, n 28, p 28; NCC Final Report, n 38, pp 211-212; the effect of such licences may be considered jointly for the purposes of s 45: *Trade Practices Act 1974* (Cth), s 45(4).

[201] TPC Background Paper, n 28, p 29; Heydon JD, *Trade Practices Law* (Lawbook Co, online subscription service) at [3.810] (4 March 2005).

[202] A recent proposal to subject *Trade Practices Act 1974* (Cth), s 47(6), (7) (like the remainder of s 47) to an SLC test has been rejected: see n 21 above.

[203] TPC Background Paper, n 28, p 28.

that ties will rarely have such an effect unless perhaps they are used to protect or create market power.[204] Ties are most likely to be a concern in a patent licence, in which case both full and third line forcing conditions are currently void under s 144 of the *Patents Act* unless one of the exceptions applies.

Where tying provisions are used in order to maintain quality control (as they sometimes are), the risk of contravention can be avoided by specifying quality standards rather than the sources of products (see the discussion above, text VI(C)(4)).

(11) Cross-licensing and "patent pooling"

Thus far we have considered conditions in a one-way licence of intellectual property from licensor to licensee. Additional concerns beyond those outlined above are posed by cross-licensing agreements – where several parties license each other to use their respective intellectual property – and agreements by which various parties assign their rights to an intellectual property holding company. The aggregation of patents into a single vehicle through assignments by a number of patentees is sometimes referred to as "patent pooling". While cross-licensing and patent pooling may be pro-competitive in that they may facilitate the settlement of legal proceedings or allow the integration of complementary technologies, they can also be a vehicle for anti-competitive conduct.[205]

As we have seen, s 51(3) only exempts *conditions* in a licence or assignment, not the actual licence or assignment itself. In a patent cross-licensing scenario, the condition may be construed as the grant of a licence by one party (the licensor) to another party (the licensee) on the proviso that the licensee also license its patent to the licensor. Except perhaps in the case of complementary patents, the condition will not relate to the licensed intellectual property or articles made by the use of that intellectual property and so the exemption in s 51(3) (whether in its current or its proposed form) will not apply. In the case of complementary patents which are both worked to make the same product, s 51(3) – at least in its current form – may apply on the basis that the condition relates to articles made by use of the licensed intellectual property; the fact that the articles are also made using the cross-licensed intellectual property would not appear to matter.[206]

Where s 51(3) does not apply, a cross-licence may contravene s 45 if it has the purpose or likely effect of substantially lessening competition. (It is unlikely that the arrangement would constitute an exclusionary provision[207] or price fixing[208].)

The ACCC has indicated that it will treat cross-licences and patent pools differently depending upon whether the technology in issue is competing (ie, substitutable), complementary, blocking, or unrelated.[209] It has stated that patent pools are less likely to raise concerns when they meet the

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[204] Carlton D and Waldman M, "The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries" (2002) 33 *RAND Journal of Economics* 194. It has been suggested that ties in intellectual property licences typically have pro-competitive ends in that they enable metering (calculation of use of the licensed rights) and also permit quality control: Adams and McLennan, n 28 at 21. Metering is one reason why prevailing economic theory is generally ambivalent about tying arrangements: see Carlton D and Perloff J, *Modern Industrial Organization* (3rd ed, 2000) Ch 10. However, the second argument is less convincing as quality control may be exercised without imposing a tie; see also n 106 and accompanying text.

[205] Pengilley W, "Patents and Trade Practices – Competition Policies in Conflict" (1977) 5 ABLR 172 at 194; Eagles and Longdin, n 58 at 42; ACCC First Submission to ALRC Inquiry, n 123 at 10-11.

[206] Heydon, n 201 (4 March 2005) at [3.800].

[207] A cross-licensing arrangement may contravene *Trade Practices Act 1974* (Cth), s 45 even if there is no purpose or likely effect of substantially lessening competition if it is an exclusionary provision within the meaning of s 4D; there are two difficulties with such an approach, first, the persons who are excluded would most likely need to be defined by the fact of exclusion, an approach which the High Court has rejected (*Rural Press Ltd v ACCC* (2003) 216 CLR 53; *News Ltd v South Sydney District Rugby League Football Club Ltd* (2003) 215 CLR 563), sewcond, the parties will not be competitive with each other in relation to the service to which the provision relates if that service is defined as the grant of the particular intellectual property licence. Even if s 4D does apply, if the provision is for the purposes of a joint venture, then the recently inserted defence in s 76C will mean that the conduct only contravenes the TPA if it has the purpose or likely effect of substantially lessening competition.

[208] Although note that *ACCC v CC (NSW) Pty Ltd* (1999) 92 FCR 375 may suggest otherwise.

[209] ACCC First Submission to ALRC Inquiry, n 123 at 10.

following criteria: they combine complementary (rather than substitutable) patents; they do not restrict access to the pooled technology by third parties; and they do not facilitate the sharing of or access to competitively sensitive information.[210] However, in reality it is unlikely that many patent pools would meet all three of those criteria. In addition, the mere fact that patents in a patent pool are competing is not determinative. One commentator has suggested that, even though a patent pool involves competing patents, it may still be pro-competitive.[211]

A cross-licence or patent pool may have the effect of substantially lessening competition if it facilitates price fixing or market sharing, if it includes output restraints, or if it raises barriers to entry[212] or deters competitive conduct.[213] It may also have such an effect if it results in a reduction of research and development activities.[214] Such arrangements can also have pro-competitive aspects if they enable the integration of complementary technologies, the reduction of transaction costs, the removal of blocking technologies,[215] the settlement of litigation,[216] or the dissemination of technologies.[217]

If a cross-licensing arrangement does substantially lessen competition, it could nonetheless be authorised if it creates public benefits which outweigh those anti-competitive effects. Such public benefits could include cost savings arising from the avoidance of duplicative research and development, economies of scale, and economies of scope.[218] An example of an arrangement which is likely to be authorised is collaborative research through bodies such as Cooperative Research Centres and universities.

In Canada, a cross-licensing agreement as part of a settlement may be outlawed as a price fixing arrangement where not all of the parties are likely to infringe the others' intellectual property rights.[219] A competition regulator, however, seems very poorly placed to make such an assessment which requires considerable legal and expert knowledge.[220] It is to be hoped that such an approach is not adopted by the ACCC in its guidelines.

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[210] ACCC First Submission to ALRC Inquiry, n 123 at 11.

[211] Kato A, "Patent Pool Enhances Market Competition" (2004) 24 *International Review of Law and Economics* 255.

[212] It may also be anti-competitive if it maintains barriers to entry which would otherwise fall; Australian courts have accepted that intellectual property can act as a barrier to entry: *Queensland Wire Industries Pty Ltd v Broken Hill Pty Co Ltd* (1989) 167 CLR 177 at 189-190; *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313 at 338 (Full Federal Court); *ACCC v Boral Ltd* (1999) 166 ALR 410 at 438 (Federal Court); see also ACCC Merger Guidelines, n 134, p 49.

[213] ACCC First Submission to ALRC Inquiry, n 123 at 10; US IP Guidelines, n 132, p 28. The risk of cartelisation (ie, price fixing, output restrictions and market sharing) has been described as "The single greatest concern facing competition authorities when reviewing intellectual property licensing arrangements": Organisation for Economic Cooperation and Development, *Competition Policy and Intellectual Property Rights* (1989) p 23; see also NCC Final Report, n 38, p 202; Fels, n 135 at 5-6.

[214] Adams and McLennan, n 28 at 20.

[215] For example, in a patent context, where a patent (the dependent patent) cannot be lawfully worked without also working another patent (the blocking patent); the term "blocking patent" is not pejorative, ie, it does not necessarily imply that the blocking patent is purely defensive.

[216] This could, however, be characterised as merely a private (rather than a public) benefit.; there are a number of US authorities regarding the antitrust implications of settlement of patent disputes: see *Re Cardizem; Louisiana Wholesale Drug Co v Hoechst Marion Roussel, Inc & Andrix Pharmaceuticals* Fed App 0-195P (6th Cir, 2003) regarding a patent settlement which was found to be an anti-trust violation; cf *Valley Drug Co v Geneva Pharmaceuticals, Inc* 344 F 3d 1294 (11th Cir, 2003). More recently, recognising the policy of encouraging settlements of litigation, a "scope of grant" approach has been applied to overturn the regulator's determination that a settlement agreement was anti-competitive: *Schering-Plough Corporation v Federal Trade Commission* 402 F 3d 1056 (11th Cir, 8 March 2005).

[217] US IP Guidelines, n 132, p 28; ACCC First Submission to ALRC Inquiry, n 123 at 10.

[218] ACCC First Submission to ALRC Inquiry, n 123 at 11.

[219] Canadian IP Guidelines, n 132, pp 22-23.

[220] Eagles and Longdin, n 58 at 43. A patent is construed (and its validity is determined) by reference to expert evidence given by a person skilled in the relevant area.

(12) Refusals to license

It is worth making a brief comment about refusals to license intellectual property. Such conduct could be said to be a misuse of market power in contravention of s 46 of the TPA. As noted above, s 51(3) – in both its present form and after the proposed amendments – provides no exemption in relation to s 46. However, it would appear unlikely that (even if the other elements of s 46 were satisfied) there would be a "taking advantage" of market power by refusing to license a third party to use one's intellectual property if there was a legitimate business reason for doing so.[221]

VII. CONCLUSION

While it is now generally accepted that intellectual property laws and competition laws are not diametrically opposed, they nonetheless can sometimes come into conflict.[222] There needs to be some mechanism in order to resolve such conflict. That mechanism should be premised on the basis that neither set of laws has a greater right to existence than the other. The best approach to dealing with issues at the intersection of intellectual property and competition laws is to amend s 51(3) in order to clarify that it enacts a "scope of grant" or "collateral advantage" test.[223] As one commentator has observed:

> The focus of competition law should not be to attack the existence or scope of the intellectual property right, but to restrain the exercise of intellectual property rights *beyond* the scope of the original statutory grant … If the scope of an intellectual property right is too wide, or altogether unjustified, then this is a matter for direct legislative action. It is not for competition law to second-guess the legislature by disrupting the intellectual property incentive scheme.[224]

Nonetheless, the approach which was recommended by the Ergas Committee and broadly adopted by the government does recognise that intellectual property licensing is generally pro-competitive.[225] Intellectual property owners have little to fear from the proposed changes to s 51(3) of the TPA – provided that the correct counter-factual analysis is employed, which by definition embodies a "scope of grant" style approach. Whether the ACCC will adopt the correct counter-factual analysis will be revealed in its guidelines, which it has said it will release in draft once the legislation to amend s 51(3) is introduced into Parliament.[226] The great mystery is when the legislation will be introduced into Parliament. The proposed changes are essentially identical to the recommendations made in relation to patents by IPAC more than 20 years ago, which shows that reform in this area of the law has been a very long time coming. The government had previously indicated that legislation to reform s 51(3) would be introduced in late 2004 and then in 2005,[227] but the intellectual property community is still waiting.

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[221] Hanks, n 28, p 332; see also n 161 above.′

[222] Ergas Committee Final Report, n 2, pp 25-27; Canadian IP Guidelines, n 132, p 5; US IP Guidelines, n 132, p 2; see also above, text VI(C).

[223] While the interpretation of *Trade Practices Act 1974* (Cth), s 51(3) is uncertain, the better view is that it legislates a "scope of grant" approach (see above, text III(C)); this is certainly the approach used in NZ in *Commerce Act 1986* (NZ), s 45; Eagles, n 77, pp 335-337.

[224] Van Melle, n 28 at 14.

[225] NCC Final Report, n 38, p 151.

[226] ACCC, *Submission to ALRC: Intellectual Property Rights over Genetic Materials and Genetic and Related Technologies – Gene Patenting and Human Health Discussion Paper DP68* (Submission P114) (April 2004) at 3; the ACCC also stated (at 6) that the level of detail which will be provided in its draft guidelines will be similar to that currently provided in ACCC Merger Guidelines, n 134.

[227] ALRC Final Report, n 125, p 566; see also n 3 above.