

Tie-ins in the Patents Act 1990 (Cth), s 144: Perhaps it's time to modernise?

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The Patents Act 1990 (Cth) limits certain dealings involving tie-ins with patent protected products and processes, and the Competition and Consumer Act 2010 (Cth) (formerly named the Trade Practices Act 1974 (Cth)) limits certain exclusionary, collusive, limiting and exclusive dealings. With the overlap between the Patents Act 1990 (Cth) and the Competition and Consumer Act 2010 (Cth), the question is whether two schemes are necessary or whether a single scheme might be more appropriate. This article reviews the legislative history, interpretation and policy justifications for the Patents Act 1990 (Cth) limitations, concluding that two different schemes addressing the same regulatory problem are inefficient, and that the more specific Patents Act 1990 (Cth) provisions should be repealed in favour of a single generally applicable, pro-competition scheme in the Competition and Consumer Act 2010 (Cth).

INTRODUCTION

A central tenet of modern market economies is the idea that competitive markets are best placed to make decisions about how society's scarce resources are best allocated for the benefit of the majority of consumers.¹ The rationale of government regulation in maintaining (and enforcing) competition laws is to keep markets open for competition by protecting the competitive process rather than favouring particular sectors of the economy,² and limiting conduct that is detrimental to the competition that benefits consumers.³ A tension remains, however, in some dealings with patents under the *Patents Act 1990 (Cth)* (*Patents Act*) where the statutory patent privilege results in monopoly pricing or restricts access to the patent protected product or process *more* than the social advantage secured by the property right.⁴ Significantly, the privileges granted by patents under the *Patents Act* are of a different character to other forms of property,⁵ essentially being a right to the sale of the idea in the patent protected product or process, *together with* a statutory privilege to control how the patent protected product or process is used.⁶ It is this control of downstream uses of the patent protected product or process, and its leverage to achieve other business purposes that is the

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¹ See, for example, Independent Committee of Inquiry into Competition Policy in Australia, *National Competition Policy* (AGPS, 1993) (Hilmer Committee) pp 1-6.

² See, for example, Hilmer Committee, n 1, p 26.

³ See, for example, Hilmer Committee, n 1, pp 1-16.

⁴ See Landes W and Posner R, *The Economic Structure of Intellectual Property Law* (Harvard University Press, 2003) pp 372-385; Scotchmer S, "Standing on the Shoulders of Giants: Cumulative Research and the Patent Law" (1991) 5 *Journal of Economic Perspectives* 29 at 30-32; Gifford D, "Antitrusts Troubled Relations with Intellectual Property" (2003) 87 *Minnesota Law Review* 1695 at 1695-1718. See also Torrance A and Tomlinson B, "Patents and the Regress of Useful Arts" (2009) 10 *Columbia Science & Technology Law Review* 130.

⁵ See Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (IP Australia, 2000) (Ergas Committee) p 11.

⁶ Boldrin M and Levine D, "The Case Against Intellectual Monopoly" (2004) 45 *International Economic Review* 327 at 328. Notably, patent privileges have been likened to other forms of property, but clearly recognizing that the "bundle of rights" associated with patent privileges may not be the same as other forms of property: see, for example, US Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) p 3. Although contrast this with the Intellectual Property and Competition Review Committee's "assumption" that "intellectual property is comparable to other forms of property, so that ownership provides the same rights and responsibilities": Ergas Committee, n 5, p 26.

concern of competition law, recognising that it is only when a dealing (or a refusal to deal) with the patent protected product or process lessens competition in the "market" that pro-competition laws become relevant.⁷

Regulating these competition concerns is achieved, at least in part, in the *Patents Act* limiting certain dealings involving using, or not using, another material related to the patent protected products and processes (tie-ins),⁸ and in the *Competition and Consumer Act 2010* (Cth) (formerly named the *Trade Practices Act 1974* (Cth)) (the *Competition and Consumer Act*) limiting certain exclusionary provisions, collusive conduct, price limitations and exclusive dealings.⁹ With the overlap between the *Patents Act* and the *Competition and Consumer Act*,¹⁰ the question is whether two schemes are necessary or whether a single scheme might be more appropriate. The next part reviews the legislative history of the *Patents Act* provisions; then there is a review of the interpretation of these and similar provisions in decided English and Australian cases; then there is some historical background provided about the development and evolution of competition provisions in patent and competition laws; and then there is a discussion about likely avenues of reform. The article concludes that two different schemes addressing the same regulatory problem are inefficient and that the more specific *Patents Act* provisions should be repealed in favour of a single generally applicable, pro-competition scheme in the *Competition and Consumer Act*.

THE CURRENT PATENT SCHEME

The *Patents Act* s 144(1) expressly limits some tie-in arrangements:

A condition in a contract relating to the sale or lease of, or a licence to exploit, a patented invention is void if the effect of the condition would be:

- (a) to prohibit or restrict the buyer, lessee or licensee from using a product or process (whether patented or not) supplied or owned by a person other than the seller, lessor or licensor, or a nominee of the seller, lessor or licensor; or
- (b) to require the buyer, lessee or licensee to acquire a product not protected by the patent from the seller, lessor or licensor, or a nominee of the seller, lessor or licensor.

The *Patents Act* s 144(2) then limits the operation of s 144(1):

Subsection (1) does not apply if:

- (a) the seller, lessor or licensor proves that, at the time the contract was made, the buyer, lessee or licensee had the option of buying the product, or obtaining a lease or licence, on reasonable terms without the condition; and
- (b) the contract entitles the buyer, lessee or licensee to be relieved of the liability to comply with the condition on giving the other party 3 months' notice in writing and paying, in compensation for the relief:
 - (i) in the case of a sale – such sum as is fixed by an arbitrator appointed by the Minister; or
 - (ii) in the case of a lease or licence – such rent or royalty as is so fixed for the rest of the term of the contract.

These provisions are also tempered by *Patents Act* s 146:

⁷ Noting that "[a]lthough the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power": US Department of Justice and the Federal Trade Commission, n 6, s 2.2. See also Adams G and McLennan D, "Intellectual Property Licensing and Pt IV of the Trade Practices Act: Are the TPA's Pro-Competitive Provisions Anti-IP Commercialization?" (2002) 51 *Intellectual Property Forum* 10 at 11-12 listing the "perceived conflicts" as being market power, competition time-frame (short-term or long-term allocation efficiency), distinctive economics of intellectual property (low marginal costs and ease of appropriation) and whether intellectual property licensing imposes vertical or horizontal restraints.

⁸ *Patents Act 1990* (Cth), ss 144 and 146.

⁹ *Competition and Consumer Act 2010* (Cth), ss 4D (exclusionary provisions), 45 (collusive conduct), 45A (price limitations) and 47 (exclusive dealings).

¹⁰ While the overlap is not examined in this article, the scope of the overlap has been considered and accepted: see Ergas Committee, n 5, pp 162 and 215 (essentially recommending that *Competition and Consumer Act 2010* (Cth) be amended to make any conduct within Pt IV (that includes ss 45 (collusive conduct), 45A (price limitations) and 47 (exclusive dealings)) and s 4D (exclusionary provisions) unlawful if it "substantially lessens competition").

Nothing ...:

- (a) affects a condition in a contract that prohibits a person from selling products other than those of a particular person; or
- (b) validates a contract that would otherwise be invalid; or
- (c) affects a right to terminate a contract, or to terminate a condition of a contract, being a condition exercisable independently of this section; or
- (d) affects a condition in a contract for the lease of, or a licence to exploit, a patented product, that reserves to the lessor or licensor the right to supply new parts of the patented product that are required to put or keep it in repair.

The other relevant provisions provide that "reasonableness" of the disputed condition is not a defence,¹¹ and that a void condition is a defence to infringement¹² unless an equivalent contract without the offending condition is offered and then damages or an account of profit for an infringement will only be available from the date of the new contract (in effect providing a defence to past infringement).¹³ A contract for the lease or licence to exploit may also be terminated by either party giving three months notice in writing.¹⁴

These provisions in the *Patents Act* were followed from the *Patents Act 1952 (Cth)*¹⁵ that had followed a similar provision from an amendment to the *Patents Act 1903 (Cth)*¹⁶ by the *Patents Act 1909 (Cth)*.¹⁷ A similar provision that was copied in Australia was introduced into the English *Patents and Designs Act 1907 (IMP)* (with subsequent equivalents in the *Patents Act 1949 (UK)* and the *Patents Act 1977 (UK)*), although it has now been repealed by the *Competition Act 1998 (UK)*.¹⁸ The instigator English *Patents and Designs Act 1907 (IMP)* provision was introduced to expressly address tie-in arrangements:

[This] new provision obviously intended to deal with matters with which the courts were very familiar, under which the patentee was in the habit of only supplying the patented article on the terms of the purchaser buying something else from him. That was something which was thought – rightly or wrongly – to be objectionable.¹⁹

¹¹ *Patents Act 1990 (Cth)*, s 144(3).

¹² *Patents Act 1990 (Cth)*, s 144(4).

¹³ *Patents Act 1990 (Cth)*, s 144(5).

¹⁴ *Patents Act 1990 (Cth)*, s 145(1).

¹⁵ *Patents Act 1952 (Cth)*, s 112.

¹⁶ *Patents Act 1903 (Cth)*, s 87B(1). See also Committee Appointed to Consider What Alterations Are Desirable in the Patent Law of the Commonwealth, *Report of the Committee Appointed to Consider What Alterations Are Desirable in the Patent Law of the Commonwealth* (Commonwealth Government Printer, 1952) pp 90-91.

¹⁷ *Patents Act 1909 (Cth)*, s 15.

¹⁸ See *Competition Act 1998 (UK)*, s 70; *Patents Act 1977 (UK)*, s 44; *Patents Act 1949 (UK)*, s 57 and *Patents and Designs Act 1907 (IMP)*, s 38(1)(a). See also Heal M, "Loosening the Ties: Tie-in Clauses to be Assessed Under 'Effects'-Based Competition Act 1998" (1999) 21 *European Intellectual Property Review* 414.

¹⁹ *Sarason v Frenay* [1914] 2 Ch 474 (Cozens-Hardy MR). The *Patents and Designs Act 1907 (IMP)* was introduced to address a number of perceived failings in the British patent scheme that was considered to be being used to hinder and suppress British industrial development: the taking out of British patents to prevent the working of the invention in the United Kingdom, the making of overly broad chemical invention claims that included compositions that had never been tried in practice, and the imposing of enforceable but unreasonable terms and conditions in patent licence and assignments. In respect of the latter the Second Reading speech by the mover of the Bill stated: "There is another way in which foreign patents work in restraint of British trade. Before a manufacturer, say in the boot trade – a trade in which this grievance has been particularly felt – can use the patent he is obliged to sign a kind of lease for twenty years, during which period he is prohibited from using any other machinery. There may be a considerable improvement in machinery discovered meanwhile by a British inventor, or by some other foreign inventor, but the manufacturer, under the conditions of his lease, will not be allowed to put the improved machinery into his works. It was thought that such conditions, acting in restraint of trade, could be set aside; but according to the decision of Mr Justice Wills, the patentee has the right to impose any conditions, however unreasonable, he pleases. There are many people in this country working under these impossible conditions, which at any time may have the most serious consequences to the industries of this country. I propose that in future these conditions shall be nugatory": UK, *House of Commons Debates* (19 March 1907) Vol 171 c 686 (The President of the Board of Trade, David Lloyd-George). See also Schuster G, "The Patents and Designs Act, 1907" (1909) 19 *The Economic Journal* 538 at 538-539.

Other courts have identified a similar intent and scope.²⁰ Unfortunately, however, the provision proved difficult to interpret,²¹ leading to a difficulty in comprehensively determining the outer limits of the restriction other than as a generalisation:

These observations show that [the *Patents Act 1952* (Cth),] s 112 (like s 38 of the English Act) 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. The overall scope of the section was correctly summarized by Lord Oaksey in the [*Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd*]: "The purpose and effect of s 38 is to prevent the licensor from limiting the right of the licensee to trade with others so as, in effect, to compel the licensee to trade with him".

Section 144 of the *Patents Act* followed the same policy considerations albeit using some different language to avoid some of the identified difficulties in interpretation.²² The following reviews some of the leading decisions in England and Australia.

THE ENGLISH CASES

The leading English case is *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* (1955) 72 RPC 209.²³ There Tool Metal Manufacturing Co Ltd (TMMC) entered into two agreements (a deed and a non-exclusive license) with Tungsten Electric Co Ltd (TECO) and Tungsten Industrial Products Ltd (at 216 and 226). By the license agreement TMMC licensed TECO to import, make, use and sell patent protected materials in one defined territorial region (the United Kingdom) and export to another defined territorial region (the Commonwealth except Canada) (at 216 and 227). The patent claimed a process of manufacturing a hard metal alloy from iron or steel (at 227). A clause of that agreement provided for additional payments to apply if the amounts of the manufactured patent protected product sold or used, "whether made before or after expiry of such patent or patents", exceeded a quota (at 217 and 227).²⁴ Some of the patents expired during the term of the license – "it is also clear that after the iron grade patents had expired TECO was still liable to pay compensation in respect of iron grade contract materials manufactured by themselves" (at 218). TECO exceeded the quota and TMMC sought payment of the additional amounts (at 227-231). As a part of its defence TECO argued that the then provision in s 38(1)(a) of the *Patents Act 1907* (UK) applied to make the agreement unlawful (at 217, 218 and 231). In essence, TECO argued that the clause of the agreement did not prevent TECO buying from outsiders, but instead, was an inducement to purchase from TMMC as purchases from outsiders would attract compensation payments to TMMC and so restrict TECO from dealing with outsiders (at 220).

In the House of Lords, Viscount Simonds (in dissent) considered that in applying s 38(1) of the *Patents Act 1907* (UK) the first step was to determine whether the offending clause had an "essential quality" of "prohibiting or restricting a certain course of conduct" (at 214). The "prohibiting" or "restricting" were broadly understood "it being the plain purpose of the section to prohibit (or prevent) the licensor from using his monopoly to obtain a collateral advantage" (at 215). Viscount Simonds concluded that TECO would be limited in its dealings with others in obtaining materials or competing in the market, in intention and effect, thus being "compelled" to deal with TMMC (at 216).

²⁰ See *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 96 (Stephen J), 99 (Mason J), 103 (Murphy J) and 107 (Wilson J); *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* (1955) 72 RPC 209 at 213-214 (Simonds LJ) and 219 (Oaksey LJ).

²¹ See *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 93 (Stephen J); *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* (1955) 72 RPC 209 at 219 (Oaksey LJ).

²² See, for example, *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 93 (Stephen J) and 99-100 (Mason J).

²³ Other earlier cases were *Huntoon Company v Kolynos (Incorporated)* [1930] 1 Ch 528 (Hanworth MR, Lawrence and Romer LJJ); *Sarason v Frenay* (1914) 2 Ch 474 (Cozens-Hardy MR, Swifen, Eady and Pickford LJJ).

²⁴ Importantly, the compensation provision (cl 5) set out the formula for quantifying the compensation applying to "the aggregate quantity of contract material sold or used by TECO" (at 217 and 227). The term "contract material" was then defined as "[h]ard metal alloys made in accordance with the inventions the subject of the said patents or any of them whether made before or after expiry of such patent of patents" (at 227). The relevant patents for the "iron grade" patent protected products expired during the term of the license (at 217 and 227).

The assumption is that TECO want to obtain their material from an outsider either because they can get it cheaper or because they think it better material for some other good commercial reason. If there was no clause, they would do so. But the clause is there and at once the position is changed. They can pursue their chosen course only at the expense of a penalty which will not be borne by their competitors in the market, and so they are compelled to buy from their licensors [TMMC].

On this basis Viscount Simonds found the condition unlawful and void (at 216).

In the majority, Lord Oaksey (adopting Lord Reid's judgement and with whom Lords Tucker and Cohen agreed: at 226 and 234 respectively), considered that s 38(1) of the *Patents Act 1907* (UK) was "not an easy subsection to interpret" (at 219).²⁵ He considered the provision's "purpose and effect ... is to prevent the licensor from limiting the right of the licensee to trade with others so as in effect to compel the licensee to trade with him" (at 219). So, like Viscount Simonds (at 216), Lord Oaksey considered that s 38 of the *Patents Act 1907* (UK) had effect where the licensee was "compelled" (or "obliged": at 220). But he differed from Lord Simonds in considering that the clause only offered TECO an inducement that was not an obligation (at 221):

The legality of the condition has to be determined at the time when the licence is granted and if the terms and conditions are such as to restrict the licensee's right to use an article in certain circumstances then it can properly be said that its effect will be to restrict him from using it. But if, as in the present case, all that can be said is that the effect of the condition in some circumstances will be to offer a financial advantage, which may be considerable or may be small, if the licensee uses the licensor's goods, I do not see how it can be said that its effect will be to restrict the licensee from using other goods. The licensee may be influenced by this financial advantage or he may, perhaps for good reason, choose to disregard it; it is impossible to say in advance what the effect will be.

Lord Oaksey then goes on to acknowledge that his interpretation and application of s 38 of the *Patents Act 1907* (UK) leaves open the possibility "for evasion" by imposing burdens on licensees (at 221). He concludes, however, that the consequences of the provision are penal and of significant consequence for licensors, making the licence condition void and providing an effective defence to infringement, and so should be construed narrowly (at 221). He also states (at 221):²⁶

At best the section is ambiguous, and if a penal provision is ambiguous it ought not, in my view, to be construed in a wider sense than the ordinary meaning of its terms requires. This section appears to have been enacted to deal with a definite and limited abuse, and if Parliament failed to take the opportunity to deal with the whole matter comprehensively, then the remedy was an amending Act of Parliament.

The result for Lords Oaksey, Reid, Tucker and Cohen was that s 38 of the *Patents Act 1907* (UK) did not void the provision or provide a defence to infringement.

Later *Fichera v Flogates Ltd* [1984] RPC 257 considered s 44 of the *Patents Act 1977* (UK) that was based on the earlier s 38 of the *Patents Act 1907* (UK) and s 57 of the *Patents Act 1949* (UK). Perhaps significantly, there had been no decided cases under that latter enactment. In *Fichera v Flogates Ltd* the exclusive licensee of a patent Fichera entered into an agreement with Thomas Marshall & Co (Loxley) Ltd (TM) for the exclusive agency to sell the patent protected product (at 271). The offending clauses were addressed sequentially although each of the defendant's arguments was finally rejected (at 272-273).

The first group of clauses concerned undertakings by TM not to be involved in manufacturing or assisting in the manufacturing of the patent protected product and that TM would not do anything that might adversely affect the adoption of the patent protected product (at 271-272). The defendant asserted that these provisions amounted to a prohibition or restriction on the right to use the patent protected product (at 272). Justice Whitford rejected this argument on the basis that it was not an agreement for supply, but rather an agency agreement for the "appointment of TM as sole selling agent for parts which, when assembled with parts made and supplied by TM themselves, will constitute a patented product" (at 272). With this characterisation of the agreement the statutory defence did not apply.

²⁵ See also *Fichera v Flogates Ltd* [1984] RPC 257 at 289 (Dunn LJ).

²⁶ See also *Fichera v Flogates Ltd* [1984] RPC 257 at 289 (Dunn LJ).

The next objectionable clause provided (at 272):

TM undertake to ensure that all Fichera Devices, Metal Components and metal replacement parts shall at all times be purchased from Fichera and TM will use their best endeavours at all times to procure all Auxiliaries from Fichera. Fichera agrees that where Auxiliaries supplied by Fichera are agreed to be non-competitive with potential indigenous supplies of Auxiliaries to any Customer or are the subject of importation problems such Auxiliaries may be purchased from the indigenous source by that Customer.

Justice Whitford concluded this provision did not attract the statutory defence, but if it did, it was no more than a promise to use their "best endeavours" to promote sales of Fichera products (at 272).²⁷

A group of agreements between TM and its potential customers providing for the loan of some parts of the patent protected product and the sale of others were also objected too (at 272-273).²⁸ These agreements loaned certain materials for three months and imposed a 15 year restraint on the customer! The provision provided (at 273):

The Customer is prohibited during the term of the Preliminary Supply Contract and for a period of at least 15 years thereafter to design (directly or indirectly) manufacture (directly or indirectly) or sell (directly or indirectly) sliding valve systems in principle according to or in any way similar to the FSV Device shown in the enclosed British Patent Specification No 1115199 (even if improved and/or modified in any way) and/or its metal components and/or its metal replacement parts or the Refractory Components or the Auxiliaries (even if improved and/or modified in any way).

Justice Whitford considered that this was merely "a restraint on competing manufacturers and sale" and outside the ambit of s 44 of the *Patents Act 1977* (UK) (at 273).

Another provision required "The Customer may only use the FSV Device if all the necessary components for operation are supplied by or through TM" (at 273). Justice Whitford considered this did not offend because the "components" were part of the patent protected product and they were only available for use under the license, whether originally or for repair (at 273).

On appeal to the Court of Appeal Lord Dunn affirmed Justice Whitford's conclusions and decided that license undertakings restricting manufacture and activities adverse to the licensor, terms and conditions in loan arrangements, and restrictions applying to the patent protected product were not within the ambit of the statutory defence (at 290-291). This decision confirmed the very narrow operation of s 44 of the *Patents Act 1977* (UK).

More recently, the matter was again considered in detail in *Chiron Corp v Murex Diagnostics Ltd* [1996] RPC 535. Before its patent had been granted in the United Kingdom Chiron entered into a worldwide exclusive licensing agreement with Ortho Inc and Abbott for the supply of certain materials used in the manufacture of a virus detection kit including buying some non-patented "raw" materials from Chiron (at 583 and 586-587). This agreement with Ortho Inc was later modified with a waiver (at 585). Chiron also entered into another agreement with Ortho Inc granting an exclusive license to Ortho Ltd (Ortho Inc's United Kingdom subsidiary) for certain dealings in the United Kingdom, with Ortho Inc retaining its exclusive licence under the United Kingdom patent in all other respects (at 586). The defendant Murex (including the various other defendants) manufactured and sold another virus detection kit that was found to infringe the Chiron patent (at 555-556). In the Court of Appeal Murex's challenge to the validity of the majority of patent claims failed,²⁹ except for the vaccine and tissue culture claims.³⁰ Murex then argued that the agreement between Chiron, Ortho Inc and Abbott was void and so was a statutory defence to any infringement under s 44 of the *Patents Act 1977* (UK) (at 584).

²⁷ Interestingly, Justice Whitford was "fortified in this view by the judgment of the High Court of Australia in *Transfield Pty Ltd v Arlo International Ltd*": *Fichera v Flogates Ltd* [1984] RPC 257 at 272 (Whitford J).

²⁸ Another form of agreement was the "Long Term Supply Contract", and the objections to these were rejected for the same reasons as the "Preliminary Supply Contract": *Fichera v Flogates Ltd* [1984] RPC 257 at 273 (Whitford J).

²⁹ *Chiron Corporation v Murex Diagnostics Ltd* [1996] RPC 535 at 574 (obviousness), 575 (non-patentable discovery), 575 (industrial application), 575 (method of treatment) and 578 (sufficiency) (Aldous J).

³⁰ *Chiron Corporation v Murex Diagnostics Ltd* [1996] RPC 535 at 578-580 (vaccine) and 580-582 (tissue culture) (Aldous J).

Murex mounted two arguments in support of the statutory defence to infringement. Murex's first argument was that by requiring Ortho Inc to acquire from Chiron certain unpatented "raw" materials to manufacture and sell the patent protected product this satisfied the statutory defence of "to require the licensee to acquire from the licensor ... anything other than the product which is the patented invention" (s 44(1)(b) of the *Patents Act 1977* (UK)). The relevant clause in the agreement provided (at 584):

Supply. Chiron, within the limitations contained in this Article, shall supply Ortho such quantities of Raw Material manufactured under GMP conditions as Ortho may require for manufacture and sale of Products. Ortho agrees during the term of this Agreement to obtain solely from Chiron all raw material that Ortho requires.

In response to the Murex argument the plaintiffs (Chiron, Ortho Inc and Ortho Ltd) variously asserted that there was no valid patent in the United Kingdom at the time the agreement was entered into (at 584-585), that a subsequent waiver agreement allowed Ortho Inc to acquire materials from others in the United Kingdom although some restrictions still remained on manufactures for export (at 585-586), and that the agreement had not been adopted by Ortho Ltd (at 586). These assertions were rejected finding that the agreement was within the statutory provision and thus a defence to infringement against Chiron, Ortho Inc and Ortho Ltd (at 585-586).

Importantly, the waiver varied the agreement to allow Ortho Inc to acquire "raw" materials in the United Kingdom so as to avoid the statutory defence provisions – "Chiron hereby waives any rights it may have to require Ortho ... to obtain from Chiron those quantities of Raw Material required for the manufacture of Units of Product made, used, imported or sold in the United Kingdom" (at 585). Murex argued that the waiver did not apply to "Raw Material" that was acquired in the United Kingdom and used to manufacture a patent protected product in another jurisdiction (at 586). And further, "the waiver appears to have been carefully drafted to allow the United Kingdom market to be supplied with kits without restriction, but to leave the agreement restricting the right of Ortho to manufacture or buy Antigens for export" (at 586). As a consequence of there still being some tying, the waiver was *not* effective in avoiding the statutory defence and Murex avoided infringement (at 586).

Murex's second argument was that by requiring Abbott to acquire from Chiron certain unpatented materials to manufacture the patent protected product this satisfied the statutory defence of "to prohibit the person supplied or licensee from using articles (whether patented products or not) which are not supplied by ... the supplier or licensor ... or to restrict the right of the person supplied or licensee to use any such articles" (s 44(1)(c) of the *Patents Act 1977* (UK)). The relevant clause in the agreement provided (at 587):

During the term of this agreement and in consideration for the payment by Abbott of the total monies due as determined in accordance with provisions hereafter, Chiron agrees to supply Abbott with such quantities of Antigen and Antibody as Abbott requires, subject to the provisions of this Article IV, for the development and manufacture of Product, and subject to the terms of Article III and this Article IV and during the term of this Agreement, Abbott agrees to obtain solely from Chiron all Antigen and Antibody required by Abbott and its Affiliates, directly or indirectly, for the manufacture of Product.

Murex's argument was rejected (at 588). The statutory defence was interpreted (following the decision of Lord Oaksey in *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* (1955) 72 RPC 209, 219 discussed above) to apply only to where there was a restriction limiting manufactures outside the patent claims (at 588). As Murex had not established that the license restrictions had any affect on the manufacture of virus detection kits outside the ambit of the Chiron patent, then the statutory defence did not apply (at 588).

On appeal to the House of Lords, Murex's challenge to the validity of the majority of patent claims again failed,³¹ except for some polypeptide claims.³² The House of Lords then considered s 44

³¹ *Chiron Corporation v Murex Diagnostics Ltd* [1996] RPC 535 at 606 (discovery), 607-608 (industrial application), 620 (insufficiency) and 620-624 (other objections) (Morritt LJ).

³² *Chiron Corporation v Murex Diagnostics Ltd* [1996] RPC 535 at 607-608 (polypeptides) (Morritt LJ).

of the *Patents Act 1977* (UK), statutory defence to infringement (at 624-633). On the Ortho obligations to Chiron argument, Chiron argued (i) that before the waiver there was no causal nexus between the exclusive license and the patent, (ii) that before the waiver there was no relevant patent (it was a mere application in the United Kingdom), (iii) that after the waiver there was no tying as Ortho could acquire the "Raw Material" in the United Kingdom and the remaining obligations had no connection with the United Kingdom (that is, the use of "Raw Material" acquired in the United Kingdom and used to manufacture the patent protected product in another jurisdiction), and (iv) that the tying arrangements were only a defence against Chiron and Ortho Inc, and not for the infringement of the exclusive licensee Ortho Ltd's privileges (at 628). The House of Lords rejected each of the arguments (i)-(iii),³³ essentially looking to the circumstances and consequences of the tying arrangements and finding that in each case the tying arrangements had the effect of restricting Ortho (at 628-631). On the last argument, however, the House of Lords considered that the patent owner Chiron and exclusive licensee Ortho Ltd held separate and distinct "exclusive rights", and that the tying arrangement was only relevant as a defence against Ortho Inc's claim of infringement as Ortho Inc had consented to the arrangement (at 633). Meanwhile the exclusive licensee Ortho Ltd was not a party to the tying agreement between Chiron and Ortho Inc (although presumably it was the recipient of the "Raw Materials" as the United Kingdom subsidiary of Ortho Inc and relying on that arrangement), and so had not consented to the tying arrangement (at 633).

On the Abbott obligations to the Chiron argument, the House of Lords confirmed the lower court decision (at 626) citing the proposition of Lord Dunn from *Fichera v Flogates Ltd* [1984] RPC 257 (at 626):

The mischief to which the section was directed [referring to the corresponding provision in the earlier *Patents Act 1907* (UK), s 38(1)] was to prevent a patentee from abusing his monopoly by placing restrictions on the acquisition and use of products other than the patented products.

As there was no evidence of Abbott being prevented from acquiring or using any materials beyond the patent claims, the statutory defence was not available (at 626). Perhaps importantly, Murex made arguments citing examples that might have been sufficient, but these were not considered as this evidence was not addressed at trial and was therefore not open to Murex on appeal (at 626).

Most recently, s 44 of the *Patents Act 1977* (UK) statutory defence to infringement was argued in *Schutz (UK) Ltd v Werit UK Ltd* [2010] FSR 22. There a licensee was allowed to assemble parts and to use and sell the patent protected products (at 574). The offending clause provided: "Licensee agrees to purchase the Parts for assembling only from Licensor or from A-licensees" (at 574). The defendant argued that the parts were not the patent protected product and so were within s 44 of the *Patents Act 1977* (UK), and so the license required the licensee to acquire parts from the licensor, prohibited the licensee from acquiring parts from anyone else, and prohibited the licensee from using the parts to assemble the patent protected product unless they were supplied by the licensor (at 574). Justice Floyd rejected the defendant's argument pointing to the purpose of the provision and stating: "[t]he restriction does not relate to something other than the patented product ... it is simply a requirement that the patented product be acquired from the patentee ... albeit in the form of the constituent parts" (at 574-575).

THE AUSTRALIAN CASES

In *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 the license agreement concerned the use of a patent protected process for the manufacture and erection of steel poles. A "best endeavours" clause provided (at 87):

The Licensee covenants during the period of the Power Transmission Line Licence at all times to use its best endeavours in and towards the design fabrication installation and selling of the ARLO PTL pole throughout the licensed territory and to energetically promote and develop the greatest possible market for the ARLO PTL pole.

³³ *Chiron Corporation v Murex Diagnostics Ltd* [1996] RPC 535 at 628-629 (nexus), 629-630 (date) and 630-631 (waiver) (Morrill LJ).

Following Transfield Pty Ltd's (Transfield) contract with Arlo International Ltd (Arlo), Transfield had used Arlo's pole to construct a transmission line and encountered some technical difficulties (at 88). In a subsequent tender for a transmission line Transfield had calculated its costs based on the using the Arlo pole, but had not expressly provided that it would use those poles (at 88). During the tender discussions some doubts were expressed about the suitability of the Arlo pole and Transfield had "overcome the apprehensions" by not pressing the use of the Arlo pole, but rather offering its own pole developed in reliance on some information provided by Arlo about its pole (at 88). The tender was finally awarded to Transfield on the basis of using Transfield's pole (and not Arlo's pole) (at 88).

Arlo subsequently brought an action against Transfield claiming that it had not used its "best endeavours" to promote the Arlo pole as required by the contract (at 89). It was common ground that "as the result of the use of the Transfield pole, the potential market for the Arlo pole in Australia was effectively destroyed" (at 89). The trial judge and Court of Appeal had found that Transfield had not used its best endeavours as it was required to do according to the contract (at 90), and that Arlo had lost a substantial share of the market as a result of its pole not being used as it had intended by its contract.³⁴ The issue before the High Court was whether the "best endeavours" clause confined Transfield to using *only* Arlo's pole (at 91 (Barwick CJ), 92 (Stephen J), 97 (Mason J), 104 (Murphy J) and 105-106 (Wilson J)), and in its defence Transfield argued, in part,³⁵ that the clause was a prohibited term under s 112 of the *Patents Act 1952* (Cth) as the clause prevented Transfield "from using an article or process supplied or owned by some other person other than the licensor [Arlo]" (at 91).³⁶

The result was that a High Court majority rejected Transfield's defence under s 112 of the *Patents Act 1952* (Cth) finding that the "best endeavours" clause did not prevent Transfield from using poles other than Arlo's poles, and so the condition was not void (at 91-92 (Barwick CJ), 97 (Stephen J), 101-102 (Mason J), 107 (Wilson J)). Of particular interest, Justices Stephen, Mason and Wilson provided some guidance about what the provision might mean, albeit Justice Stephen considered that the "section is [not] easy to construe with confidence" (at 93). Justice Mason considered that the scope of the provision was limited and confined to (at 99):

[W]here 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 ... Within these boundaries the section may cover conditions, inserted to obtain such a collateral advantage, whereby the purchaser, lessee or licensee is restricted or prohibited from using articles or processes supplied by others or developed by itself.

Justices Stephen, Mason and Wilson all considered that the term "using" did not include selling (at 96 (Stephen J), 100 (Mason J) and 106 (Wilson)),³⁷ and that, there was a specific and limited pro-competition effect for the provision (at 96 (Stephen J), 100 (Mason J) and 107 (Wilson)), all citing Lord Oaksey in *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* [1955] 2 All ER 657 at 669 (at 96 (Stephen J), 99 (Mason J) and 106 (Wilson J)):

The purpose and effect of [the equivalent English section] is to prevent the licensor from limiting the right of the licensee to trade with others so as in effect to compel the licensee to trade with him.

In short, the provision applies, in the words of Justice Mason, where the "the effect of the condition must be to extend the patentee's monopoly to products or processes not covered by the patent" (at 99-100). The outcome of the High Court's decision in *Transfield Pty Ltd v Arlo*

³⁴ According to the trial judge this was a 20% chance of capturing the Australian market and according to the Court of Appeal this was 50%: see *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 89-90 and 91 (Barwick CJ).

³⁵ Transfield's other argument was that the clause was unlawful because s 45(1) of the *Competition and Consumer Act 2010* (Cth) prohibited a clause with the purpose, effect or likely effect of substantially lessening competition: *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 91 and 92 (Barwick CJ), 97 (Stephen J), 97 and 102-103 (Mason J) and 106 and 108 (Wilson J).

³⁶ Noting that the contractual arrangement between Transfield and Arlo was 27 June 1973, therefore requiring reliance on the relevant transition provisions: *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 91 (Barwick CJ).

³⁷ Notably, this distinction was addressed by including the term "exploit" in s 144(1) of the *Patents Act 1990* (Cth) that includes selling: see s 3 and Sch 1 ("exploit").

International Ltd has, however, been to entrench a limited application of the provision to *only* those conditions that impose an absolute legal obligation of restriction or prohibition on buying and using unrelated materials with the patent protected product or process. This requirement for an absolute legal obligation of restriction or prohibition can be traced back to the divergent approaches of Viscount Simonds in dissent and the other judges (Lords Oaksey, Reid, Tucker and Cohen) in *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd*. There Viscount Simonds considered that the financial penalty for overproducing an agreed quota was a sufficient compulsion: "I repeat that the compulsion of economic conditions is as truly prohibitive or restrictive as a direct contractual obligation. Its intention and its effect are to confine them to purchase from their licensor, when unhampered by the clause they would be free to purchase from another" (at 216). Meanwhile, Lords Oaksey (and Lord Reid), with whom Lords Tucker and Cohen agreed (at 226 and 234 respectively), considered that the restriction was not a compulsion: "the effect of the condition must be to limit the right of the licensee to make a choice, and I do not think that these words are appropriate to cover a case such as the present where the licensee remains free to choose but the presence of the condition will in some circumstances create an inducement to choose to buy from the licensor" (at 220). Similarly, in *Transfield Pty Ltd v Arlo International Ltd* Justice Murphy in dissent considered that the requirement to use "best endeavours" was in effect a sufficient compulsion (at 104-105):

The practical effect of the existence of cl 7 (if valid) is, if not to prohibit, at least to restrict Transfield from using any pole other than the Arlo pole ... it was suggested that Transfield could have complied with cl 7 by first tendering on the basis of using an Arlo pole, and if that was rejected, then tendering on the basis of its own. That ignores the fact that generally there is only one opportunity to tender.

Meanwhile the majority of Chief Justice Barwick and Justices Stephen, Mason and Wilson considered that there was no absolute compulsion on Transfield to use the Arlo pole and so the condition was not void (at 91 (Barwick CJ), 93-94 (Stephen J), 101-102 (Mason J) and 108 (Wilson J)). In effect, the High Court's decision in *Transfield Pty Ltd v Arlo International Ltd* limits the operation of s 144 of the *Patents Act* to only those conditions that impose an absolute restriction or prohibition, irrespective of the practical consequences in the particular circumstances.³⁸

HISTORICAL CONTEXT

The concern about controlling downstream uses and leveraging the patent to achieve other business purposes was a concern for patents well before the modern competition statutes, such as the *Competition and Consumer Act*. The *Australian Industry Preservation Act 1906* (Cth) was, in part, an early Australian lead demonstrating an enthusiasm for the United States' approach to regulating monopolies and other business practices that were detrimental to competition.³⁹ Unfortunately, the Australian High Court terminated this early legislative intervention⁴⁰ leaving little enthusiasm for regulating restrictive trade practices in Australia until the 1960s.⁴¹ A notable exception was the pro-competition laws affecting patents through amendments to the *Patents Act 1903* (Cth) by the *Patents Act 1909* (Cth) that included measures promoting local working in Australia and limiting certain tying conditions in dealings with patent protected products and processes.⁴²

³⁸ Although Justice Stephens did consider that it was the "effect" of a condition that was important, here focussing on the "best endeavours" that "involve[d] no implied prohibitions or restraints upon the use of any particular article or process": *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 at 93 (Stephens J).

³⁹ See Hunter A, "Restrictive Practices and Monopolies in Australia" (1961) 37 *Economic Record* 25; Castles A, "Australian Anti-Monopoly Legislation" (1959) 8 *American Journal of Comparative Law* 82; Stalley D, "Federal Control of Monopoly in Australia" (1956) 3 *University of Queensland Law Journal* 258.

⁴⁰ See *Huddart Parker & Co Pty Ltd v Moorehead* (1909) 8 CLR 330 (Griffith CJ, Barton, O'Connor, Isaacs and Higgins JJ); *Attorney-General v Adelaide Steamship Company* (1912) 15 CLR 65 (Griffiths CJ, Barton and O'Connor JJ) that was upheld on appeal to the Privy Council (1913) 18 CLR 30 (Haldane, Shaw, Moulton and Parker LJ).

⁴¹ See generally Steinwell R, "Tensions in the Development of Australian Competition Law" in Steinwell R (ed), *25 Years of Australian Competition Law* (Butterworths, Sydney, 2000) pp 9-12. See also Barton A, "The Proposed Legislation for the Control of Restrictive Trade Practices and Monopolies in Australia - An Appraisal" (1963) 2 *Australian Economic Papers* 125.

⁴² *Patents Act 1909* (Cth), s 15 (inserting ss 87A and 87B into the *Patents Act 1903* (Cth)).

This lack of enthusiasm for regulating restrictive trade practices changed in the 1960s with the revival of competition fervour reflecting the then Australian Government's concern about the likely inflationary effects of restrictive trade practices on the Australian economy.⁴³ The *Trade Practices Act 1965* (Cth) was a fresh attempt to regulate competition albeit suffering a similar constitutional fate before the High Court to the earlier attempts to regulate restrictive trade practices.⁴⁴ The *Restrictive Trade Practices Act 1971* (Cth) substantially re-enacted the *Trade Practices Act 1965* (Cth) relying on a different constitutional power.⁴⁵ These schemes were modelled on the United Kingdom *Restrictive Trade Practices Act 1956* (UK).⁴⁶ The replacement *Competition and Consumer Act* (the *Trade Practices Act 1974* (Cth)) articulated a number of general rules and some detailed prohibitions generally modelled on the United States experience from the *Sherman Act 1890* (US) and the *Clayton Act 1914* (US) as they had been implemented and interpreted by the United States courts.⁴⁷ This contrasted with the approach in the *Australian Industry Preservation Act 1906* (Cth) that had merely articulated "open textured" general principles consistent with the *Sherman Act 1890* (US),⁴⁸ and the highly prescriptive formula approach in the *Restrictive Trade Practices Act 1971* (Cth).⁴⁹ The *Competition and Consumer Act* was thus a "generally prescriptive approach",⁵⁰ codifying much of the United States experience from its broad expression of principle that had been implemented through various *per se* prohibitions and the "rule of reason" for conduct that was considered to be unacceptably anticompetitive.⁵¹

The role and place of patents in these evolving pro-competition laws has been reviewed extensively by government appointed review committees. Each of these committees has recommended the repeal of the *Patents Act* provisions. The following sets out the significant reviews directly considering the interaction and desirability of separate schemes in the *Patents Act* and the *Competition and Consumer Act*.

⁴³ See, for example, Commonwealth Attorney-General, *Australian Proposal for Legislation for the Control of Restrictive Practices and Monopolies* (Commonwealth Government Printer, 1963). See also Richardson J, "The Law Relating to the Australian Trade Practices Plan" (1963) 37 *Australian Law Journal* 203; Barton, n 41.

⁴⁴ The High Court struck down significant parts of the *Trade Practices Act 1965* (Cth) in *Strickland v Rocla Concrete Pipes Ltd* (1971) 124 CLR 468 (Barwick CJ, McTiernan, Menzies, Windeyer, Owen, Walsh and Gibbs JJ), but not the resale price maintenance provisions in *Mikasa (NSW) Pty Ltd v Festival Stores Industries Pty Ltd* (1972) 127 CLR 617 (Barwick CJ, McTiernan, Menzies, Walsh, Gibbs and Stephen JJ).

⁴⁵ See Explanatory Memorandum, *Trade Practices Bill 1974* (Cth) p 3; *Australian Constitution*, s 51(xx), corporations power.

⁴⁶ For an overview of the scheme see Trade Practices Act Review Committee, *Report to the Minister for Business and Consumer Affairs* (AGPS, 1976) (Swanson Committee) p 7-9. See also Explanatory Memorandum, *Trade Practices Bill 1974* (Cth) p 2.

⁴⁷ For an overview of developments see Commonwealth, *House of Representatives Hansard* (16 July 1974), pp 227-228 (Minister for Manufacturing Industry, Kep Enderby). Noting that the *Federal Trade Commission Act 1914* (US) (or 15 USC §§41 - 51) provides the administrative element to implementing the competition (antitrust) scheme in the United States, and that it has had a significant role in pursuing particular perspectives about competition through its litigation program: see generally Kovacic W and Shapiro C, "Antitrust Policy: A Century of Economic and Legal Thinking" (2000) 14 *Journal of Economic Perspectives* 43.

⁴⁸ For example, the *Australian Industry Preservation Act 1906* (Cth), s 4 provided: "(1) [a]ny person who, either as principal or as agent, makes or enters into any contract, or is or continues to be a member of or engages in any combination, in relation to Trade or Commerce with other Countries or among the States (a) ... with intent to restrain Trade or Commerce ... to the detriment of the public ... is guilty of an offence ... (2) [e]very contract made or entered into in contravention of this section shall be absolutely illegal and void" with the margin note providing "Cf US *Sherman Act 1890* s 1 [15 USC §1]".

⁴⁹ See House of Representatives Hansard, n 47, p 228.

⁵⁰ See Swanson Committee, n 46. Note also "other provisions, particularly those describing the prohibited restrictive trade practices, have been drafted along general lines using, where possible, well understood expressions ... The Courts will be afforded an opportunity to apply the law in a realistic manner in the exercise of their traditional judicial role": House of Representatives Hansard, n 47.

⁵¹ Although, the United States Supreme Court in *California Dental Association v Federal Trade Commission* (1999) 526 US 756 (Souter J) stated: "there is generally no categorical line to be drawn between restraints that give rise to an intuitively obvious inference of anticompetitive effect [*per se* prohibitions] and those that call for more detailed treatment [rule of reason]" (at 780) essentially establishing that every case must be looked at closely with plausible claims about the pro-competitive justifications casting the burden of proof on the party wishing to condemn the conduct.

Industrial property advisory committee (Stonier Committee) 1984

The interaction between the *Patents Act 1952* (Cth) and the *Competition and Consumer Act* was considered in 1984 by the Stonier Committee as part of a review of the Australian patent system from an economic perspective.⁵² In considering the interaction between the *Patents Act 1952* (Cth) and the pro-competition laws in Pt IV of the *Competition and Consumer Act*, the Committee identified its underlying view that neither competition (according to the *Competition and Consumer Act*) nor innovation (according to the *Patents Act 1952* (Cth)) were an "absolute goal".⁵³ Instead, each was "a valid objective only in so far as it contributes positively to the overall economic goal of maximising production of what consumers want at the lowest costs" which they equated with the "national interest".⁵⁴ The *Patents Act 1952* (Cth) and the *Competition and Consumer Act* should each, "so far as practical, accommodate the legitimate operation of the other".⁵⁵

We see no reason why competition laws proscribing conduct which has substantially anti-competitive effects should not have full application in relation to anti-competitive conduct which involves patents. In those cases where the patent of itself creates extreme monopoly power, this will mean that the patentee must limit the exploitation of his exclusive right so as to avoid substantially lessening competition. In some circumstances this could mean that he will be obliged to license others on reasonable terms.⁵⁶

The Committee considered that s 112 of the *Patents Act 1952* (Cth) should be repealed leaving the matters to be addressed by Pt IV of the *Competition and Consumer Act*.⁵⁷ This was qualified, however, by the other recommendations that the s 51(3) exception from Pt IV of the *Competition and Consumer Act* of certain conditions in patent licenses and assignments to which the "patent relates or articles made by the use of that invention"⁵⁸ should be repealed⁵⁹ and the application of the exclusionary provisions be subjected to a substantially lessening of competition threshold.⁶⁰ The effect of the Committee's recommendations was that patent-related conduct, except misuse of market power and resale price maintenance,⁶¹ would be "impugned ... according to whether that conduct has the purpose, or is likely to have the effect, of substantially lessening competition" (and subject to authorisation).⁶² Perhaps unsurprisingly, these recommendations were not adopted and s 144 of the *Patents Act* maintained the earlier s 112 of the *Patents Act 1952* (Cth), albeit using slightly different text.⁶³

⁵² Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (AGPS, 1984) (Stonier Committee) pp 22-35.

⁵³ Stonier Committee, n 52, p 23.

⁵⁴ Stonier Committee, n 52, p 23.

⁵⁵ Stonier Committee, n 52, p 23.

⁵⁶ Stonier Committee, n 52, p 24.

⁵⁷ Stonier Committee, n 52, p 27.

⁵⁸ *Competition and Consumer Act* (Cth), s 51(3)(a)(iii).

⁵⁹ Notably the National Competition Council conducted a similar review of the *Competition and Consumer Act* (Cth), s 51(3) in 1999 and "accepted" that the existing exemption "has some continuing relevance in terms of providing businesses with greater certainty when engaging in licensing and assignment activity" with the benefit that "[t]his greater certainty can help reduce the costs associated with compliance with trade practices law and encourage more licensing activity": National Competition Council, *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974* (CanPrint Communications, 1999) (Samuel Committee) pp 150 and 167. This "acceptance" carried through to the analyses of the benefits (at 193-200) and costs (at 201-213) of the exemption, and then to the conclusion (at 213).

⁶⁰ Stonier Committee, n 52, pp 25-27.

⁶¹ *Competition and Consumer Act* (Cth), ss 46 and 48.

⁶² Stonier Committee, n 52, p 27.

⁶³ Notably, the *Patents Amendment (Innovation Patents) Act 2000* (Cth), s 3 and Sch 1 (item 75) inserted a new provision to extend the limitation to "innovation patents".

Intellectual Property and Competition Review Committee (Ergas Committee) 2000

The Ergas Committee again reviewed the patent scheme in 2000 according to the *Competition Principles Agreement* standard (“guiding principle”) that “legislation should not restrict competition unless it can be demonstrated” that the “benefits of the restriction to the community as a whole outweigh the costs” and the “objectives of the legislation can only be achieved by restricting competition”.⁶⁴ The Committee’s perspective was that:

[T]he rights granted by the intellectual property laws can be used for anti-competitive ends. This occurs when the rights are used to claim for the creator not merely a share of the gains society obtains from the creation, but also rents that arise from market power: that is, when the rights are used to add to the income that comes from differential efficiency, gains from reducing output in ways unrelated to that differential efficiency (for example, by the use of intellectual property licenses to effect a horizontal price-fixing agreement). It is in these instances – where the rights are used for purposes that go beyond their grant – that significant competition policy issues arise and need to be addressed.⁶⁵

The Committee’s analysis of s 144 of the *Patents Act* was that “tie-ins are not necessarily anti-competitive” and that they can “enhance efficiency and more frequently reduce the social costs arising from a patent grant”, “serve to enhance price discrimination, and as a result increase output by better aligning prices with the customer’s willingness to pay”, “prevent inefficient substitution where relative prices of complements in production or consumption would, in the absence of a tie-in, be distorted”, “secure better risk-sharing, especially where consumption of the tied good can be used to measure demand *ex post*”, and “facilitate price competition in markets where competitive discounting would otherwise be limited”.⁶⁶ The Committee considered that there was “no continuing policy justification” for limiting tie-ins in the *Patents Act* and recommended that they be repealed “as these provisions are not soundly based on efficiency considerations, and as the conduct they address is better dealt with through provisions of s 51(3) of the [*Competition and Consumer Act*], amended in line with the Committee’s recommendations”.⁶⁷ In dealing with s 51(3), the Committee noted that the *Competition and Consumer Act* reflected its original and arguably dated prescriptions⁶⁸ and that intellectual property “has important features that differentiate it, to a greater or lesser extent, from other property or assets”.⁶⁹ As a consequence efficient contracting was required to reduce transaction costs limited only by regulatory prescriptions when intellectual property is “being used to go beyond the market power those rights directly confer” – “the right holder should not be allowed to extend the statutory right into a wider right of exclusion with the effect of substantially lessening competition”.⁷⁰ The recommendation was to repeal s 51(3) and amend the *Competition and Consumer Act* so that:

[A] contravention of Part IV of the [*Competition and Consumer Act*], or of section 4D of that Act, shall not be taken to have been committed by reason of the imposing of conditions in a licence, or the inclusion of conditions in a contract, arrangement or understanding, that relate to the subject matter of that intellectual property statute, so long as those conditions do not result, or are not likely to result in a substantial lessening of competition. The term “substantial lessening of competition” is to be interpreted in a manner consistent with the case law under the [*Competition and Consumer Act*] more generally.⁷¹

⁶⁴ Ergas Committee, n 5, p 20.

⁶⁵ Ergas Committee, n 5, p 27.

⁶⁶ Ergas Committee, n 5, pp 161-162.

⁶⁷ Ergas Committee, n 5, p 162.

⁶⁸ See Ergas Committee, n 5, pp 209-210.

⁶⁹ Ergas Committee, n 5, p 210.

⁷⁰ Ergas Committee, n 5, p 211.

⁷¹ Ergas Committee, n 5, pp 213 and 215. The Committee also recommended that the Australian Competition and Consumer Commission “be required by the legislation to issue guidelines as to the manner in which it will implement any enforcement activities related to these provisions” (at 215).

In short, the Committee recommended imposing a "substantial lessening of competition" threshold on conditions in contracts, arrangements and understandings, so that the *Competition and Consumer Act* only applied once that threshold was reached. The Australian Government response was that intellectual property should "continue to be accorded distinctive treatment under the *Trade Practices Act 1974* [(Cth)]".⁷² And that:

[Intellectual property] licensing would be subject to the provisions of Part IV [of the *Competition and Consumer Act*], but a contravention of the *per se* prohibitions of sections 45, 45A and 47, or of s 4D, would instead be subject to a substantial lessening of competition test.⁷³

Amendment of the *Patents Act* by the *Patents Amendment Act 2001* (Cth) that implemented the Australian Government response to the Committee did not include these measures.

DISCUSSION

For licensing involving exclusion and exclusivity the competition concerns can arise in two circumstances: (1) exclusive licensing; and (2) exclusive dealing.⁷⁴ The *Competition and Consumer Act* addresses these concerns with a general scheme directed to limiting anticompetitive conduct: exclusionary provisions;⁷⁵ collusive conduct;⁷⁶ price limitations;⁷⁷ misuse of market power;⁷⁸ exclusive dealings;⁷⁹ resale price maintenance;⁸⁰ and anti-competitive acquisitions.⁸¹ This broad approach contrasts with the very limited scope of the *Patents Act* to dealing with only tie-ins with the patent protected product or process. The concern addressed by this article is whether there is a need to maintain the provisions in the *Patents Act* when a more comprehensive treatment is made in the *Competition and Consumer Act*.

The licensing of intellectual property has generally been a complicated and vexed issue with the Australian Government reluctant to make any changes. Thus, the recommendations of the Industrial Property Advisory Committee to repeal s 112 of the *Patents Act 1952* (Cth)⁸² were not adopted in replacing s 112 of the *Patents Act 1952* (Cth) with s 144 of the *Patents Act* and the Intellectual Property and Competition Review Committee recommendations to repeal s 144 of the *Patents Act* and amend the *Competition and Consumer Act* to impose a "substantial lessening of competition" threshold have not been adopted,⁸³ despite the Australian Government's response at the time

⁷² IP Australia, *Government Response to Intellectual Property and Competition Review Recommendations*, Information Package (IP Australia, 2001) p 11. See also Ergas Committee, n 5, p 215. This is in notable contrast to the United States: "The Agencies apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property. That is not to say that intellectual property is in all respects the same as any other form of property. Intellectual property has important characteristics, such as ease of misappropriation, that distinguish it from many other forms of property. These characteristics can be taken into account by standard antitrust analysis, however, and do not require the application of fundamentally different principles": US Department of Justice and the Federal Trade Commission, n 6, s 2.1. Note also Ergas Committee, n 5, pp 26 and 204; Samuel Committee, n 59, p 160.

⁷³ IP Australia, n 72, p 12.

⁷⁴ See US Department of Justice and the Federal Trade Commission, n 6, s 4.1.2.

⁷⁵ *Competition and Consumer Act 2010* (Cth), s 4D.

⁷⁶ *Competition and Consumer Act 2010* (Cth), s 45.

⁷⁷ *Competition and Consumer Act 2010* (Cth), s 45A.

⁷⁸ *Competition and Consumer Act 2010* (Cth), ss 46 and 46A.

⁷⁹ *Competition and Consumer Act 2010* (Cth), s 47.

⁸⁰ *Competition and Consumer Act 2010* (Cth), s 48.

⁸¹ *Competition and Consumer Act 2010* (Cth), ss 50 and 50A.

⁸² Stonier Committee, n 52, p 27.

⁸³ Ergas Committee, n 5, pp 213 and 215.

essentially accepting the recommendations.⁸⁴ Some reform is now necessary for the compelling reason that prohibiting tie-ins, even if the *Patents Act* prohibition is narrowly applied, has consequences for efficiency.⁸⁵ So, for example, supplying goods on condition that the purchaser buys goods from another third party (or third-line forcing) "may be beneficial and pro-competitive where efficiencies in production make it cheaper to produce and sell two or more products in combination".⁸⁶ The challenge to adopt better quality and performing regulation continues to be important, and particularly important in technological innovation.⁸⁷ Expressly limiting a potentially pro-competitive activity with patent protected products and processes deserves attention.

Perhaps an even more compelling reason to repeal s 144 of the *Patents Act* is that the provision provides an inappropriate defence. The circumstances in both *Transfield Pty Ltd v Arlo International Ltd* and *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* demonstrate the concern. In *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* the offending compensation clauses were in a licence that was entered into between the patent owner and TECO following TECO acknowledging it was infringing the patents and the patent owner waiving all claims against TECO and its customers (at 227). Various defaults and disagreements about the amounts of compensation payable lead to TECO bringing an action claiming damages, and in response, the patent owner sought to enforce the licence despite waiving substantial parts of their claims (at 228-229). As a part of TECO's defence to the patent owner seeking to enforce the licence was the proposition that the compensation clause was invalid (at 231). Put another way, TECO was infringing the patent, entered into a licence to avoid infringement (including the patent owner waiving any claims against TECO), and then sought to rely on the defence in the *Patents and Designs Act 1907* (IMP) to avoid both payments and infringement. The majority rejected TECO's arguments reading down a wide operation for the statutory defence (at 221, 226 and 234).

Similarly, in *Transfield Pty Ltd v Arlo International Ltd* Transfield had an agreement with Arlo about Arlo's poles (at 86), and then used information it obtained from Arlo to make its own competing pole (at 88) and acted with a lack of good faith in the tendering process (at 89) effectively destroying the market for Arlo's pole (at 89-90). The trial judge had noted that "[Transfield's] best endeavours ... were directed not to selling the Arlo pole but to advancing a design of its own as a result to sell the Transfield pole" (at 90). On appeal to the Court of Appeal (at 90):

In our opinion there is no warrant for the introduction of words of the kind contended for by the appellant to the plain unambiguous words of cl 7. It would be destructive of the whole purpose of the licensing agreement if the licensee were at liberty to promote some other pole, if it or somebody else formed the opinion that the other pole was more suitable for a projected use.

The Court of Appeal found against Transfield and awarded Arlo damages (at 90). It was against this award of damages that Transfield appealed to the High Court arguing the "best endeavours" clause was void so as to allow them to escape the damages award (at 90). The High Court majority dismissed Transfield's arguments (at 92, 97, 103 and 109). An alternative decision finding that the conditions were void would have been a defence and an escape for Transfield from liability. In short, the two significant decisions about the tie-ins provision in the *Patents Act* both involve blatant infringers seeking to avoid their liability by relying on smart legal arguments.

⁸⁴ IP Australia, n 72, p 12. Similarly, recommendations by other committees have been made but not adopted: see, for examples, Australian Law Reform Commission, *Genes and Ingenuity: Gene Patenting and Human Health*, Report No 99 (SOS Printing Group, 2004) (Weisbrot Committee) p 576; Trade Practices Act Review Committee, *Trade Practices Act Review* (CanPrint Communications, 2003) (Dawson Committee) p 86; Samuel Committee, n 59, pp 152-153 and 243-245.

⁸⁵ See Ergas Committee, n 5, p 161.

⁸⁶ Dawson Committee, n 84, p 128. Although the *Trade Practices Legislation Amendment Bill (No 1) 2005* (Cth), Sch 7 (cl 3) introduced a substantial lessening of competition test for third line forcing that was previously a *per se* prohibition (ss 47(6) and (7)), this part of the Bill was not passed, and third line forcing remains a *per se* prohibition (s 47(1)) unless a notification is in force (s 47(10A)).

⁸⁷ See Productivity Commission, *Review of National Competition Policy Reforms*, Inquiry Report 33 (Canberra, 2005) pp 368-369.

The final decisions in both *Transfield Pty Ltd v Arlo International Ltd* and *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* appear to be a fair (or just) result in the circumstances. This is reason enough to review whether the *Patents Act* provisions are suitable and whether the *Competition and Consumer Act* might be a better scheme. This is particularly likely as another benefit of the *Competition and Consumer Act* scheme is that the remedies available are more flexible, essentially allowing a court to make orders that suits the particular circumstances.⁸⁸ In contrast, the *Patents Act* is a complete defence irrespective of the particular circumstances.⁸⁹ Importantly, however, the *Patents Act* appears on this analysis to be an unreasonable defence and this accounts for the courts reading down its likely operation.

If s 144 of the *Patents Act* is repealed, then the focus for tie-ins moves entirely to the general scheme set out in the *Competition and Consumer Act*. Various inquires have considered the operation of the *Competition and Consumer Act* scheme.⁹⁰ Essentially these inquires have recommended that exclusionary provisions,⁹¹ collusive conduct,⁹² price limitations⁹³ and exclusive dealings⁹⁴ apply to intellectual property subject to a "substantially lessening competition test" with guidelines provided by the Australian Competition and Consumer Commission (ACCC).⁹⁵ The ACCC's guidelines would set out the approach of the ACCC to enforcement and the types of conduct likely to result in satisfying the anticompetitive threshold of the "substantially lessening competition test".⁹⁶ The existing guidelines issued in 1991 demonstrate that a robust scheme with a clear delineation of rights and responsibilities is possible and a useful approach.⁹⁷ These reforms are perhaps more pressing now that:

- 10 years have passed without legislative action since the Australian Government accepted recommendations to repeal s 144 of the *Patents Act* and amend s 51(3) of the *Competition and Consumer Act*.
- A similar provision to s 144 of the *Patents Act* with the same origin in the *Patents and Designs Act 1907* (IMP) in England has been repealed⁹⁸ because the *Technology Transfer Block Exemption Regulation 240/96* (that has subsequently been replaced by the *Technology Transfer Block Exemption Regulation 772/2004*) now allows such conduct.⁹⁹

⁸⁸ See *Competition and Consumer Act 2010* (Cth), s 80(1) providing: "where ... the Court is satisfied that a person has engaged, or is proposing to engage, in conduct that constitutes or would constitute ... (a) a contravention of a provision of: (i) ... Pt IV ... the Court may grant an injunction in such terms as the Court determines to be appropriate".

⁸⁹ See *Patents Act 1990* (Cth), ss 144(4) and (5).

⁹⁰ See Weisbrot Committee, n 84; Dawson Committee, n 84; Ergas Committee, n 5; Samuel Committee, n 59; Hilmer Committee, n 1; Swanson Committee, n 46; and so on.

⁹¹ *Competition and Consumer Act 2010* (Cth), s 4D.

⁹² *Competition and Consumer Act 2010* (Cth), s 45.

⁹³ *Competition and Consumer Act 2010* (Cth), s 45A.

⁹⁴ *Competition and Consumer Act 2010* (Cth), s 47.

⁹⁵ See Weisbrot Committee, n 84, p 576; Ergas Committee, n 5, p 215. See also Treasurer, *Commonwealth Government Response to the Review of the Competition Provisions of the Trade Practices Act 1974* (2003) p 5; IP Australia, n 72, p 12.

⁹⁶ See Weisbrot Committee, n 84, p 576; Ergas Committee, n 5, p 215.

⁹⁷ See Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property*, Background Paper (AGPS, 1991).

⁹⁸ See *Competition Act 1998* (UK), s 70.

⁹⁹ See Commission of the European Communities, "Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements" (2004) *OJ L* 123/11, Recital 4: "It is appropriate to move away from the approach of listing exempted clauses and to place greater emphasis on defining the categories of agreements which are exempted up to a certain level of market power and on specifying the restrictions or clauses which are not to be contained in such agreements. This is consistent with an economics-based approach which assesses the impact of agreements on the relevant market. It is also consistent with such an approach to make a distinction between agreements between competitors and agreements between non-competitors". Perhaps importantly, the motivations for adopting the *Patents and Designs Act 1907* (IMP) may no longer be relevant, and particularly the concerns about non-resident patent owners: "[a]t the present moment many British industries are bound hand and foot by the working of the patent system. Many

- The *per se* prohibition of certain tie-ins remains in both the *Patents Act* and the *Competition and Consumer Act* when some of that prohibited conduct might be pro-competitive (without the added transaction costs of authorisations and notifications).

Further, the Productivity Commission has noted that the proposed changes (repealing s 144 of the *Patents Act* and amending s 51(3) of the *Competition and Consumer Act*) “would provide for greater scrutiny of anti-competitive behaviour associated with intellectual property arrangements”.¹⁰⁰ Perhaps the “systematic review” of the *Patents Act* “at least once every ten years” required by the *Competition Principles Agreement*¹⁰¹ will encourage the Australian Government to address this matter soon, noting that the Intellectual Property and Competition Review Committee (Ergas Committee) completed its review under the auspices of the *Competition Principles Agreement* in 2000.

British industries have been completely wiped out by privileges conceded by British institutions to foreigners. I propose that these bonds shall be cut; and that the British industry shall be made perfectly free to engage on equal terms in the severe struggle with its competitors”: UK, *House of Commons Debates*, n 19.

¹⁰⁰ Productivity Commission, n 87, p 286

¹⁰¹ *Competition Principles Agreement*, cl 5(6).

