

Review Public Support for Science and Innovation  
Productivity Commission  
PO Box 80  
Belconnen ACT 2616

Dear Commissioners,

***Re Economic, Social and Environmental Returns on Public Support for Science and Innovation in Australia***

Your Terms of Reference set out that you are to ‘[i]dentify impediments to the effective functioning of Australia’s innovation system including knowledge transfer, technology acquisition and transfer, skills development, commercialisation, collaboration between research organisations and industry, and the creation and use of intellectual property, and identify any scope for improvements’. In assessing ‘the creation and use of intellectual property’ it is essential that the market failure for invention and creation through the existing intellectual property schemes (such as the *Patents Act 1990* (Cth), *Copyright Act 1968* (Cth), and so on) be balanced against the likely anti-competitive effects of exempting intellectual property holders from some competition. This is vital as these statutory privileges can be an impediment to knowledge transfer, technology acquisition and transfer, skills development, commercialisation, collaboration between research organisations and industry, and so on.

It is my submission (comprising this letter and the attachment) that the place of intellectual property in Australia’s existing competition framework fails to acknowledge that the existing intellectual property schemes, except perhaps the parallel import restrictions under the *Copyright Act 1968* (Cth), have not been subjected to a rigorous assessment according to the requirements of the *Competition Principles Agreement*. Intellectual property is just another regulatory measure to promote economic development. As such, the regulation of intellectual property should be subjected to the same standards as other legislation with potential anti-competitive effects. This requires those seeking to justify the restriction remain in place or be imposed *demonstrate* that the benefits of restricting competition to the community as a whole outweigh the costs, and that the objectives of the statutory intellectual property privileges can only be achieved by restricting competition. Those advocating intellectual property have *not* been required, except for parallel import restrictions under the *Copyright Act 1968* (Cth), to demonstrate the assumed and asserted benefits from restricting competition in favour of intellectual property holders. Further, the threshold standards have not been assessed to determine the appropriate balance that delivers the most efficient and effective regulatory scheme.

Unfortunately, intellectual property is by its very nature complex and often depends on the arcane details of the evolved statutory schemes. Further, intellectual property is almost always part of a broader consideration and not an issue that can be addressed in isolation. These considerations should not, however, limit the rigorous assessment of intellectual property according to the *Competition Principles Agreement*.

My concerns are predominantly about patent privileges under the *Patents Act 1990* (Cth) and the role of patent privileges as a non-tariff barrier to trade, and a potentially excessive exemption from workable and effective competition to the detriment of consumers’ interests. With respect, the National Competition Council’s *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974* and the Intellectual Property and Competition Review Committee’s *Review of Intellectual Property Legislation under the Competition Principles Agreement* failed to subject the *Patents Act 1990* (Cth) and the relevant parts of the *Trade Practices Act 1974* (Cth) to a rigorous assessment according to the requirements of the *Competition Principles Agreement*. The consequence has been that key controversies about patent scope and allocation were not addressed. Further, the existing threshold standards have not been

assessed to determine whether they are suitable and appropriate in implementing the intended policy objectives of patents, or ensuring that the existing scheme is efficient and effective. For example, the Intellectual Property and Competition Review Committee made *no* assessment of the non-obviousness requirement despite this being a key concern in the different theories about the most appropriate threshold for patent privileges. With respect, their assessment of the prior art was welcome but failed to deal with the apparently very low threshold standard of non-obviousness.

These matters are particularly concerning as Australia has adopted significantly higher standards (more beneficial to patent holders) for patent privileges under the *Patents Act 1990* (Cth) than required by Australia's commitments to international agreements, such as the World Trade Organisation *Agreement on Trade Related Aspects of Intellectual Property Rights* (TRIPs). These 'TRIPs-plus' standards appear to be being entrenched through the recent *Australia-United States Free Trade Agreement*. The justification for this policy position has never been articulated or demonstrated, other than in vague terms of 'business certainty' and 'promoting a more favourable investment climate'. Significantly, these are arguments that are often rejected in other forums seeking a restriction on competition (for example, parallel import restrictions under the *Copyright Act 1968* (Cth)). Further, most investors (including governments) would undoubtedly prefer a safe harbour from competition to protect their investment, but this is the anti-thesis of competition and the objective of competition in promoting benefits for consumers. There is no doubt that the best balance between intellectual property privileges and competition is difficult to determine, but this is not a reason or justification for avoiding the analysis. As the Industry Commission once put it, it is undertaking the process of analysis proposed by the *Competition Principles Agreement* that delivers better regulation by 'questioning, understanding real world impacts, [and] exploring assumptions'.

In an attempt to assist your further consideration of these matters, I have attached a manuscript addressing Australia's current preference for a *Trade Practices Act 1974* (Cth) scheme that, in my view, fails to answer vital issues about the role of competition law in exploiting *Patents Act 1990* (Cth) patents, and illustrates the failure to apply the procedural obligations set out in the *Competition Principles Agreement*.

Yours sincerely,

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June 2006

## RETHINKING THE EXEMPTION OF SOME PATENT LICENSE AND ASSIGNMENT CONDITIONS FROM THE TRADE PRACTICES ACT 1974 (Cth) COMPETITION LAWS

*This article examines the evolution and application of the existing competition laws in the Trade Practices Act 1974 (Cth) in dealing with licensing and assigning Patents Act 1990 (Cth) patents. After considering the interpretation and various reviews of the Trade Practices Act 1974 (Cth) provisions, the article concludes that the reviews and the Australian Government's responses have left unanswered vital issues about the role of competition law in exploiting patents. Further, the important justification for why patents require special treatment in applying the Trade Practices Act 1974 (Cth) competition laws still remains unclear.*

### I INTRODUCTION

Modern statutory competition laws such as the *Trade Practices Act 1974* (Cth)<sup>1</sup> evolved out of the common law,<sup>2</sup> probably because of a failure of the private right of action to sustain the broader public interests in vibrant competition and free trade.<sup>3</sup> Together with this evolution has been the development of the idea that markets, and the competitive forces operating independently in those markets, are best placed to make decisions about how societies scarce resources might best be allocated for the benefit and desires of the majority of consumers.<sup>4</sup> As a cornerstone of modern market economies, competition laws are now considered necessary to drive innovation delivering better quality products and services to consumers at lower

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<sup>1</sup> Noting that the *Trade Practices Act 1974* (Cth) pt XIA facilitates the application of the *Competition Code* by participating States and Territories essentially applying the *Trade Practices Act 1974* (Cth) competition laws to 'corporations' and 'persons' in all Australian States and Territories, including the Crown in right of the Commonwealth, the States and Territories in so far as they carry on a business: see generally *Competition Policy Reform Act 1995* (Cth); *Competition Policy Reform (Victoria) Act 1995* (Cth); *Competition Policy Reform (Western Australia) Act 1996* (WA); *Competition Policy Reform Act 1995* (ACT); *Competition Policy Reform (New South Wales) Act 1995* (NSW); *Competition Policy Reform (Northern Territory) Act 1995* (NT); *Competition Policy Reform (Queensland) Act 1996* (Qld); *Competition Policy Reform (South Australia) Act 1996* (SA); *Competition Policy Reform (Tasmania) Act 1996* (Tas).

<sup>2</sup> See *Trade Practices Act 1974* (Cth) ss 4M and 51(2) (noting that s 48 applies); the common law doctrine of 'restraint of trade' makes illegal some agreements and some provisions in agreement that impose a restriction on a person's freedom to trade or engage in employment unless the agreement or provision is 'reasonable': see generally John Haydon, *The Restraint of Trade Doctrine* (2<sup>nd</sup> ed, 1999) 1-26.

<sup>3</sup> See Bruce Donald and John Haydon, *Trade Practices Law* (1978) vol 1, 2-4; see also William Letwin, 'The English Common Law Concerning Monopolies' (1954) 21 *University of Chicago Law Review* 355 (addressing the ebbs and flows of restrictions against 'monopoly' in the common law).

<sup>4</sup> For a recent articulation of this idea in the context of competition laws see Keith Hylton, *Antitrust Law: Economic Theory and Common Law Evolution* (2003) 42; for the place of the idea in Australia's economic development see for example Independent Committee of Inquiry into Competition Policy in Australia, *National Competition Policy* (1993) (Hilmer Committee) 1-6 providing, in part, '[c]ompetition offers the promise of lower prices and improved choice for consumers and greater efficiency, higher economic growth and increased employment opportunities for the economy as a whole' (1); there are, however, nuances to this policy, for example the Australian Competition and Consumer Commission, *Guide to Authorisations and Notifications* (1995) 1 provides, '[o]ne of the objectives of the [*Trade Practices Act 1974* (Cth)] is to prevent anti-competitive conduct, thereby encouraging competition and efficiency in business, resulting in a greater choice for consumers in price, quality and service'.

prices by improving productivity and economic efficiency.<sup>5</sup> The rationale of government regulation in implementing (and enforcing) competition laws is to keep the economy open for competition by limiting conduct that is detrimental to competition.<sup>6</sup> Importantly though, these regulations should be directed to protecting the competitive process rather than favouring particular sectors of the economy.<sup>7</sup>

However, a tension remains<sup>8</sup> in some dealings with patents under the *Patents Act 1990* (Cth) where the statutory patent privilege results in monopoly pricing or restricts access to the patent protected product or process<sup>9</sup> more than the social advantage secured by the property right.<sup>10</sup> Significantly, the privileges granted by patents under the *Patents Act 1990* (Cth) are of a different character to other forms of property,<sup>11</sup> essentially being a right to the sale of the

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<sup>5</sup> Being technical or productive efficiency, allocative efficiency and dynamic efficiency; see for example Hilmer Committee, *ibid* 3-5.

<sup>6</sup> See for example Peter Costello, '25 Years of Competition Law – A Political Perspective' in Ray Steinwell (ed), *25 Years of Australian Competition Law* (2000) 1; Hilmer Committee, above n 4, 1-16; see generally, David Imber, 'A Treasury Perspective on Competition Policy' in Economic Planning Advisory Council, *Competition and Economic Efficiency*, Background Paper No 19 (1992) 105-114; Treasury, *Competition Policy*, Treasury Economic Paper No 15 (1991).

<sup>7</sup> For example, Hilmer Committee, above n 4, 26, stated, '[t]he Committee unhesitatingly embraces the objective of protecting the competitive process as that most appropriate for the competition conduct rules of a national competition policy. The rules themselves should not be aimed at favoring particular sectors of society'.

<sup>8</sup> And there is perhaps little dispute that there remains a tension and that it is unresolved: see for a recent overview Daniel Gifford, 'Antitrusts' Troubled Relations with Intellectual Property' (2003) 87 *Minnesota Law Review* 1695, 1695-1718; see generally Michael Carrier, 'Unraveling the Patent-Antitrust Paradox' (2002) 150 *University of Pennsylvania Law Review* 761.

<sup>9</sup> The term 'patent protected product or process' is used to capture the breadth of the statutory patent privileges extending to a patented product, a patented process and the product of a patented process: see *Patents Act 1990* (Cth) s 13 and sch; it is unlikely that the existence of the patent privilege itself will affect competition, rather it is conditions on the use (or failure to use) of the patented product, a patented process and the product of a patented process itself: see for example United States Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995) 4.

<sup>10</sup> See generally William Landes and Richard Posner, *The Economic Structure of Intellectual Property Law* (2003) 372-385; Suzanne Scotchmer, 'Standing on the Shoulders of Giants: Cumulative Research and the Patent Law' (1991) 5 *Journal of Economic Perspectives* 29, 30-32; noting also the preference for the view by regulators that intellectual property does not automatically or necessarily confer market power, see United States Department of Justice and the Federal Trade Commission, *ibid* 4; see Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000) (Ergas Committee) 25; the Australian Competition and Consumer Commission also appears to share this view, see Organisation for Economic Co-operation and Development, *Competition Policy and Intellectual Property Rights* (1998) DAFFE/CLP(98)18, 74.

<sup>11</sup> A distinction even acknowledged in Australia: see Ergas Committee, *ibid* 11 stating, '[t]he Committee maintains the view that intellectual property rights are sufficiently different from other property rights and assets to warrant special exemption from the general provisions of the Trade Practices Act'; although see also United States Department of Justice and the Federal Trade Commission, above n 9, 3 stating that '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'; see also Mark Lemley, 'Property, Intellectual Property, and Free Riding' (2005) 83 *Texas Law*

idea in the patent protected product or process, *together with* a statutory privilege to control how the patent protected product or process is used.<sup>12</sup> 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 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’<sup>13</sup> that competition laws become relevant.<sup>14</sup>

The current Australian consensus appears to be that the purposes of patents and competition laws are ‘largely complementary’ with patents promoting innovation,<sup>15</sup> and competition laws ‘keeping markets open and effective’ in order to ‘preserves the primary source of the pressure to innovate and to diffuse innovations’.<sup>16</sup> However, the actual boundaries between patents and competition law are a lot more problematic reflecting the different ways they seek to achieve their purposes – there are ‘serious problems of assessing effects, but not conflicting

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<sup>12</sup> *Review 1031, 1031-1032*; James Langenfeld, ‘Intellectual Property and Antitrust: Steps Toward Striking a Balance’ (2001) 52 *Case Western Reserve Law Review* 91, 92-99.  
See for example Michele Boldrin and David Levine, ‘The Case Against Intellectual Monopoly’ (2004) 45 *International Economic Review* 327, 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 United States Department of Justice and the Federal Trade Commission, above n 9, 3; although contrast this with the Ergas Committee ‘assumption’ that ‘... intellectual property is comparable to other forms of property, so that ownership provides the same rights and responsibilities’: Ergas Committee, above n 10, 26.

<sup>13</sup> Noting that the *Trade Practices Act 1974* (Cth) s 4E provides, ‘[f]or the purposes of this Act, unless the 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 and other goods or services that are substitutable for, or otherwise competitive with, the first-mentioned goods or services’; see also *Re Queensland Co-Op Milling Association Ltd and Defiance Holdings Ltd* (1976) ATPR ¶40-012, 17,247 (Woodward J, J Shipton and M Brunt).

<sup>14</sup> Noting that ‘while some intellectual property rights may in fact give their owner power in an economically relevant product market, most do not; they merely prevent others from competing to sell copies of a particular product, not from selling different products that compete with the original’: Mark Lemley, ‘The Economics of Improvement in Intellectual Property Law’ (1997) 75 *Texas Law Review* 989, 996; see also United States Department of Justice and the Federal Trade Commission, above n 9, 7; Geoff Adams and Dan McLennan, ‘Intellectual Property Licensing and Part IV of the Trade Practices Act: Are the TPA’s pro-competitive provisions anti-IP commercialization?’ (2002) 51 *Intellectual Property Forum* 10, 11-12 list 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; see also Philip Tucker, ‘Refusal to License Intellectual Property Rights and Misuse of Market Power: Where is the Line in the Sand?’ (1999) 10 *Australian Intellectual Property Journal* 78, 79-80; Justin Fung, ‘The Case of an Awkward Interface: Patents v Competition’ (1998) 21 *University of New South Wales Law Journal* 757, 777-780.

<sup>15</sup> Essentially, *Patents Act 1990* (Cth) patent privileges are a utilitarian approach with the prospect of patent privileges being an inducement to further innovation and creativity balanced against the restrictions on competition through high prices resulting in inefficiency low uses, inefficiently strong incentives to avoid inventing around the prior art, inefficiently low incentives to improve on or invent around the prior art, and use of resources that might otherwise be used for efficient purposes to enforce the patent privileges: see Linda Cohen and Roger Noll, ‘Intellectual Property, Anti-trust and the New Economy’ (2001) 62 *University of Pittsburgh Law Review* 453, 459.

<sup>16</sup> Ergas Committee, above n 10, 6; and this is the approach favoured by the Australian Government: see Peter Costello, ‘25 Years of Competition Law – A Political Perspective’ in Steinwell, above n 6, 1; a consistent view is expressed in the United States: United States Department of Justice and the Federal Trade Commission, above n 9, 7.

purposes'.<sup>17</sup> The *Trade Practices Act 1974* (Cth) seeks to promote competition as 'a process rather than a situation'<sup>18</sup> through 'deliberate and ruthless'<sup>19</sup> rivalry between competitors for the custom of consumers,<sup>20</sup> theoretically increasing consumer access to goods and services and reducing prices.<sup>21</sup> In contrast, patents under the *Patents Act 1990* (Cth) limit this competitive process by granting exclusivity<sup>22</sup> to *only* some innovative ideas that satisfy the minimum

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<sup>17</sup> W Bowman, *Patent and Antitrust Law: A Legal and Economic Appraisal* (1973) ix; see also Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (1984) (Stonier Committee) 22-25; noting that the economics of intellectual property is also highly contested; compare for example, Edmund Kitch, 'Elementary and Persistent Errors in the Economic Analysis of Intellectual Property' (2000) 53 *Vanderbilt Law Review* 1727, 1734-1735; Landes and Posner, above n 10, 375-377; see generally Carrier, above n 8, 766-800.

<sup>18</sup> *Re Queensland Co-Op Milling Association Ltd and Defiance Holdings Ltd* (1976) ATPR ¶40-012, 17,246 (Woodward J, J Shipton and M Brunt).

<sup>19</sup> *Queensland Wire Industries Pty Ltd v Broken Hill Pty Ltd* (1989) 167 CLR 177, 191 (Mason CJ and Wilson J).

<sup>20</sup> Noting that the competitive conduct rules in the *Trade Practices Act 1974* (Cth) pt IV are directed to the voluntary conduct of market participants, their being a separate arrangements for other non-voluntary conduct of market participants, such as statutory licensing schemes, statutory vested ownership, and so on, see also s 51(1).

<sup>21</sup> Thus, 'competition tends to increase allocative efficiency because firms that can use resources more productively can afford to bid those resources away from firms that cannot achieve the same level of returns' and the increased allocative efficiency 'increases the productive base of the economy, providing higher returns to producers and aggregate higher wages': Hilmer Committee, above n 4, 4.

<sup>22</sup> The *Patents Act 1990* (Cth) provides, 'exclusive rights' means 'during the term of the patent [up to 20-25 years from the application lodgement date], to exploit the invention and to authorise another person to exploit the invention' (s 13(1)) which is 'personal property ... capable of assignment and devolution by law' (s 13(2)); the term 'exploit', for a product invention, includes 'make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of these things' (sch 1); for a process invention, 'exploit' includes 'use the method or process or do any act mentioned [for the product invention] in respect of a product resulting from such use' (sch 1); there are some exceptions to these 'exclusive rights' including '[h]uman beings, and the biological processes for their generation, are not patentable inventions' (s 18(2)), an invention that is 'contrary to law' (s 50(1)(a)), an invention that is 'a substance [or a process producing such a substance by mere admixture] that is capable of being used as food or medicine (whether for human beings or animals and whether for internal or external use) and is a mere mixture of known ingredients' (s 50(1)(b)), and an invention 'containing a claim that includes the name of a person as the name, or part of the name, of the invention so far as claimed in that claim' (s 50(2)).

legislated requirements for patentability.<sup>23</sup> While the optimal scope and duration of statutory patent privileges is unknown (and unknowable),<sup>24</sup> the current *Patents Act 1990* (Cth) reflects:

- (a) Australia's commitments to international minimum patent standards as part of the World Trade Organisation's *Agreement on Trade Related Aspects of Intellectual Property Rights*;<sup>25</sup>
- (b) The Australian Government's standards set out in the *Patents Act 1990* (Cth) and *Trade Practices Act 1974* (Cth), the way the standards are applied by IP Australia and the courts, and a general policy imperative for productivity and economic growth;<sup>26</sup> and
- (c) The application and exercise of patent privileges within the boundaries of other statutory regulation schemes, such as the requirement for 'the quality, safety, efficacy and timely availability of therapeutic goods' under the *Therapeutic Goods Act 1989* (Cth) before a patent protected therapeutic agent may be marketed.<sup>27</sup>

However, there remains ongoing debate in Australia about the most appropriate form of competition regulation that balances the objectives of competition law against the necessary incentive for innovation addressed by the patent.<sup>28</sup> A central question in this debate is the nature and scope of exemption<sup>29</sup> that s 51(3) of the *Trade Practices Act 1974* (Cth) should

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<sup>23</sup> The *Patents Act 1990* (Cth) s 18(1) provides for a 'standard patent' (s 61 and sch) that 'an invention is a patentable invention ... if the invention, so far as claimed in any claim: (a) is a manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*; and (b) when compared with the prior art base as it existed before the priority date of that claim: (i) is novel; and (ii) involves an inventive step; and (c) is useful; and (d) was not secretly used in the patent area before the priority date of that claim by, or on behalf of, or with the authority of, the patentee or nominated person or the patentee's or nominated person's predecessor in title to the invention'; further threshold requirements are that the invention is adequately defined and described in the 'complete specification' and fairly based (ss 40(2) and (3)); these minimum requirements seek to restrict the potential detrimental anti-competitive effects of patents by allowing only innovations that are likely to be of overall benefit to the economy, so justifying the limited protection from competition, although applying different standards in different industries: see Dan Burk and Mark Lemley, 'Policy Levers in Patent Law' (2003) 89 *Virginia Law Review* 1575, 1589-1595.

<sup>24</sup> For example, while theoretical economic analysis posits a finite socially optimal patent life that depends on the private cost-benefit ratios of the particular invention, this cannot be determined in practice and as a consequence the duration of statutory privilege has arbitrarily been chosen at 20 years; for a popular theoretical analysis see F Scherer, "'Nordhaus" Theory of Optimal Patent Life: A Geometric Reinterpretation' (1972) 62 *American Economic Review* 422; but note that the hypothesis that patent protection results in higher levels of economic development and greater expenditure on research and development may also be questionable: see Juan Ginarte and Walter Park, 'Determinants of Patent Rights: A Cross-National Study' (1997) 26 *Research Policy* 283.

<sup>25</sup> *Marrakech Agreement Establishing the World Trade Organisation* [1995] ATS 8, ann 1C.

<sup>26</sup> For a recent overview of the Australian Government's patent policy see Charles Lawson and Catherine Pickering, "'TRIPs-Plus" Patent Privileges – An Intellectual Property "Cargo Cult" in Australia' (2004) 22 *Prometheus* 355, 363-366.

<sup>27</sup> See *Therapeutic Goods Act 1989* (Cth) s 4(1).

<sup>28</sup> Recent inquires examining the interface between patent privileges and competition law include Australian Law Reform Commission, *Genes and Ingenuity: Gene Patenting and Human Health*, Report No 99 (2004) (Weisbrot Committee); Trade Practices Act Review Committee, *Trade Practices Act Review* (2003) (Dawson Committee); Ergas Committee, above n 10; National Competition Council, *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974*, Final Report (1999) (Samuel Committee).

<sup>29</sup> In this article the terms 'exempt', 'exempted', 'exemption' and so on are used as synonymous with the terms 'except', 'excepted', 'exception' and so on, noting however that the term 'exceptions' is used in the heading to the *Trade Practices Act 1990* (Cth) s 51.

allow for license and assignment dealings with patent protected products and processes. In other words, how should patent license and assignment conditions be exempt from the Part IV of the *Trade Practices Act 1974* (Cth) that is generally concerned to restrict contractual practices that involve fixing or controlling prices, exclusionary provisions, exclusive dealings and mergers and acquisitions that might restrict competition. As a generalisation these restrictions are against contractual practices that adversely affect prices, quantities, and qualities of presently or potentially available varieties of goods and services.<sup>30</sup>

This article examines the evolution and application of the existing pro-competition measures in s 51(3) of the *Trade Practices Act 1990* (Cth):<sup>31</sup>

- Part 2 provides an overview of the current s 51(3) of the *Trade Practices Act 1990* (Cth) measures including their early development, their place in the current Part IV of the *Trade Practices Act 1990* (Cth)'s pro-competition scheme, and how they might be interpreted. This analysis then provides a context for the following analysis;
- Part 3 provides an overview of the various reviews of s 51(3) of the *Trade Practices Act 1990* (Cth) including the reviews by the Independent Committee of Inquiry into Competition Policy (Hilmer Committee), the National Competition Council (Samuel Committee), the Intellectual Property and Competition Review Committee (Ergas Committee), the Trade Practices Act Review Committee (Dawson Committee), the Australian Law Reform Commission (Weisbrot Committee), and the Productivity Commission. The remaining analysis sets out a summary of the Australian Government's responses to these reviews as they relate to s 51(3) of the *Trade Practices Act 1974* (Cth); and
- Part 4 then sets out a discussion, examining the actual effects of the various review recommendations and the Australian Government's responses. The article concludes that the recent flurry of reviews and the Australian Government responses have left vital questions unanswered and achieved very little in clarifying the interface between patents and competition laws.

## II OVERVIEW OF CURRENT TPA PRO-COMPETITION MEASURES

Early enthusiasm in Australia for the United States' approach to regulating monopolies and other business practices that were detrimental to competition resulted in the *Australian Industry Preservation Act 1906* (Cth). Unfortunately the Australian High Court emasculated this early legislative intervention through limiting the Federal Parliament's constitutional authority<sup>32</sup> leaving little enthusiasm for regulating restrictive trade practices in Australia for

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<sup>30</sup> Explanatory Memorandum, Trade Practices Bill 1974 (Cth) 4-8.

<sup>31</sup> The article does not address the limits placed on the application and extension of a patent privilege in other statutory schemes; note that the *Patents Act 1990* (Cth) itself provides for pro-competition measures in limiting patents that might 'mischievous to the state by raising prices of commodities at home, or hurt trade, or generally inconvenient' (s 18(1)), limiting some conditions in contracts 'relating to the sale or lease of, or a license to exploit, a patented invention' which prohibits or restricts the buyer, lessee or licensee using or acquiring a product or process (whether patented or not; ss 144-146), and providing for compulsory licensing and forfeiture where 'the reasonable requirements of the public with respect to the patented invention have not been satisfied' and 'the patentee has given no satisfactory reason for failing to exploit the patent' (ss 133-135).

<sup>32</sup> 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 (Viscount Haldane, Lord Shaw, Lord Moulton and Lord Parker of Waddington.); notably Justice Isaacs at trial had held that on the evidence there was an intention to monopolize, 'to efface competition in every form': *R v Associated Northern Collieries* (1911) 14 CLR 387, 654-656 (Isaacs J); the reserve powers doctrine was unanimously rejected by the High Court in *Adelaide Steamship Co v Amalgamated Society of Engineers* (1920) 28 CLR 129 (Knox CJ, Higgins, Gavan Duffy, Rich and Starke JJ) and in



almost 50 years.<sup>33</sup> This, however, 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.<sup>34</sup> The *Trade Practices Act 1965* (Cth) was a fresh attempt to regulate competition:

In Australia there has been a tendency for some years for business to be conducted on a non-competitive basis in a number of important respects. This non-competitive form of trading is commonly referred to as 'orderly marketing', under which the terms and conditions on which business is conducted in an industry are determined by anti-competitive arrangements or practices, designed to serve the interests of members of the industry itself, or some of its members, without necessarily having regard to what is, or what is not, desirable in the interests of the community as a whole.<sup>35</sup>

The *Trade Practices Act 1965* (Cth) suffered a similar constitutional fate to earlier attempts to regulate restrictive trade practices.<sup>36</sup> The *Restrictive Trade Practices Act 1971* (Cth) substantially re-enact the *Trade Practices Act 1965* (Cth) relying on a different constitutional power.<sup>37</sup> These schemes were modelled on the United Kingdom *Restrictive Trade Practices Act 1956* (UK), articulating a 'prescriptive formula' approach requiring lengthy inquiries into the likely competition effects and followed by *ad hoc* restraining orders made by the Trade Practices Tribunal.<sup>38</sup>

The replacement *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.<sup>39</sup> 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),<sup>40</sup> and the highly prescriptive formula

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*Strickland v Rocla Concrete Pipes Ltd* (1971) 124 CLR 468 (Barwick CJ, McTiernan, Menzies, Windeyer, Owens, Walsh and Gibbs JJ) the High Court articulated a more expansive interpretation of the *Australian Constitution* s 51(xx) (corporations power) opening the way for a more comprehensive competition law.

<sup>33</sup> See generally Ray Steinwell, 'Tensions in the Development of Australian Competition Law' in Steinwell, above n 6, 9-12.

<sup>34</sup> See for examples Commonwealth Attorney-General, *Australian Proposal for Legislation for the Control of Restrictive Practices and Monopolies* (1963); see also J Richardson, 'The Law Relating to the Australian Trade Practices Plan' (1963) 37 *Australian Law Journal* 203; George Masterman and Ezekiel Solomon, *Australian Trade Practices Law* (1967) 33.

<sup>35</sup> Commonwealth, *Senate Hansard*, 19 May 1965, 80 (Attorney-General, Bill Snedden).

<sup>36</sup> 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).

<sup>37</sup> See Explanatory Memorandum, above n 30, 3; the *Australian Constitution* s 51(xx) (corporations power).

<sup>38</sup> For an overview of the scheme see Trade Practices Act Review Committee, *Report to the Minister for Business and Consumer Affairs* (1976) (Swanson Committee) 7-9; see also Explanatory Memorandum, *ibid* 2.

<sup>39</sup> For an overview of developments see Commonwealth, *House of Representatives Hansard*, 16 July 1974, 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 (anti-trust) 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 William Kovacic and Carl Shapiro, 'Antitrust Policy: A Century of Economic and Legal Thinking' (2000) 14 *Journal of Economic Perspectives* 43.

<sup>40</sup> For example, the *Australian Industry Preservation Act 1906* (Cth) s 4 provides, '(1) [a]ny person who, either as principal or as agent, makes or enters into any contract, or is or

approach in the *Restrictive Trade Practices Act 1971* (Cth).<sup>41</sup> The *Trade Practices Act 1974* (Cth) was thus a ‘generally prescriptive approach’,<sup>42</sup> 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 anti-competitive.<sup>43</sup> The most significant detriment for codification through a generally prescriptive approach has been the possible constraints on the *Trade Practices Act 1974* (Cth) evolving to meet new industry developments (particularly the ‘new economy’ industries)<sup>44</sup> and the developing conceptions of what is, and is not, anti-competitive without ongoing amendment.<sup>45</sup>

### **A The Current Trade Practices Act 1974 (Cth)**

The objective of the current *Trade Practices Act 1974* (Cth) is to ‘enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection’.<sup>46</sup> This is achieved by restricting some forms of market conduct and market structures considered to be anti-competitive,<sup>47</sup> while allowing that prohibited conduct and structure if it can be justified to be in the ‘public interest’.<sup>48</sup> This balances competition as an important means to achieving economic efficiency, rather than competition as an end in itself,<sup>49</sup> and targets particular horizontal, vertical and economic monopolisation practices that

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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 the 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]’.

<sup>41</sup> See Commonwealth, above n 39, 228.

<sup>42</sup> See Swanson Committee, above n 38; note also Commonwealth, *ibid*, ‘... 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’.

<sup>43</sup> Although, the United States Supreme Court in *California Dental Association v Federal Trade Commission* 526 US 756 (1999) (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]’ (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.

<sup>44</sup> This has been particularly significant in the United States with the advent of the ‘Chicago School’ and ‘post-Chicago Schools’ of economic thinking and its influence on regulators and judicial decision making in the intellectual property arena: see for an overview Landes and Posner, above n 10, 403-419; Kovacic and Shapiro, above n 39; see also F Scherer, ‘Some Principles for Post-Chicago Antitrust Analysis’ (2001) 52 *Case Western Reserve Law Review* 5.

<sup>45</sup> See for example the reservations expressed by the Ergas Committee, above n 10, 209 saying, ‘... the content of the pt IV prohibitions is to some degree shaped by the period in which it was enacted’; see also Ian Eagles and Louise Longdin, ‘Competition in Information and Computer Technology Markets: Intellectual Property Licensing and Section 51(3) of the Trade Practices Act 1974’ (2003) 3 *Queensland University of Technology Law and Justice Journal* 28, 34-35.

<sup>46</sup> *Trade Practices Act 1974* (Cth) s 2.

<sup>47</sup> *Trade Practices Act 1974* (Cth) pts IIIA, IV and XIB.

<sup>48</sup> *Trade Practices Act 1974* (Cth) pt VII; for example, the ‘public interest’ is generally determined for authorizations after assessing the allocation, production and dynamic efficiencies, all with a social perspective and a substantiated public benefit: Australian Competition and Consumer Commission, above n 4, 19-22.

<sup>49</sup> Dawson Committee, above n 28, 32; see also Stephen Skehill, ‘Competition Policy’ in Economic Planning Advisory Council, *Competition and Economic Efficiency*, Background Paper No 19 (1992) 94-96.

are likely to undermine that efficiency.<sup>50</sup> Thus, the *Trade Practices Act 1974* (Cth) ‘is conducive to greater economic efficiency by the prohibition of anti-competitive conduct, but it is not creative of it’.<sup>51</sup>

The *Trade Practices Act 1974* (Cth), however, does not generally define ‘competition’.<sup>52</sup> Instead relying either on prohibiting some conduct considered to be anti-competitive (*per se* prohibitions),<sup>53</sup> or prohibiting some other conduct and some market structures only when it has passed a threshold of ‘substantially lessening competition’<sup>54</sup> or a ‘substantial degree of power in a market’.<sup>55</sup> Put another way, the *Trade Practices Act 1974* (Cth) only prohibits some conduct involving some contracts, arrangements and understandings restricting dealings or affecting competition,<sup>56</sup> some forms of monopolisation,<sup>57</sup> exclusive dealings,<sup>58</sup> and resale

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<sup>50</sup> While the original *Trade Practices Act 1974* (Cth) and accompanying extrinsic materials provided no coherent policy objective, the *Competition Policy Reform Act 1995* (Cth) s 3 that amended the *Trade Practices Act 1974* (Cth) articulating the objective to promote competition (and consumer protection) to ‘enhance the welfare of Australians’ (*Trade Practices Act 1974* (Cth) s 2), and this presumably reflected the Hilmer Committee’s understanding of ‘competition policy’ as ‘not about the pursuit of competition for its own sake. Rather, it seeks to facilitate effective competition in the interests of economic efficiency while accommodating situations where competition does not achieve economic efficiency or conflicts with other social objectives’: Hilmer Committee, above n 4, 6; although there are other views, see for example Robert Pitofsky, ‘The Political Content of Antitrust’ (1979) 127 *University of Pennsylvania Law Review* 1051.

<sup>51</sup> Skehill, above n 49, 95.

<sup>52</sup> Notably, the term ‘competition’ is defined in some circumstances; for example, in relation to contracts, arrangements and understanding that have the purpose, effect or likely effect of substantially lessening competition, the term means ‘competition in any market in which a corporation that is a party to the contract, arrangement or understanding or would be a party to the proposed contract, arrangement or understanding, or any body corporate related to such a corporation, supplies or acquires, or is likely to supply or acquire, goods or services or would, but for the provision, supply or acquire, or be likely to supply or acquire, goods or services’: *Trade Practices Act 1974* (Cth) s 45(3); there are however, other references to what may fill out the concept of ‘competition’: see for examples ss 4 (‘competition’), 4D(2), 4G, 47(13), 50(3), 151Ab and 151AJ (‘anti-competitive’), and so on.

<sup>53</sup> *Trade Practices Act 1974* (Cth) ss 45(2)(a)(i), 45(2)(b)(i) and 4D (make or give effect to an exclusionary provision), ss 45(2)(a)(ii), 45(2)(b)(ii) and s 45A(1) (make or give effect to a provision in a contract, arrangement or understanding that horizontally price fixes), and ss 45C(1) and 45B(1) (covenants that price fix), and s 48 (resale price maintenance); notably 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 (ss 47(6) and (7)) that had previously been prohibited *per se*.

<sup>54</sup> Being *Trade Practices Act 1974* (Cth) ss 45(2)(a)(ii) and 45(2)(b)(ii) (make or give effect to a provision in a contract, arrangement or understanding that has the purpose, effect or likely effect of substantially lessening competition, except horizontal price fixing (s 45A(1))), s 45B (covenants that have the purpose, effect or likely effect of substantially lessening competition), s 47 (exclusive dealings that have the purpose, effect or likely effect of substantially lessening competition), and ss 50 and 50A (mergers and acquisitions that have the purpose, effect or likely effect of substantially lessening competition); noting that the standard of ‘substantially lessening competition’ applies differently in different provisions (compare ss 47(10) and 50(6) and the different ‘market’ to which the standard applies).

<sup>55</sup> Being *Trade Practices Act 1974* (Cth) ss 46(1) and 46A(1) (misuse of market power).

<sup>56</sup> *Trade Practices Act 1974* (Cth) s 45 (and s 4D); in relation to price (s 45A), covenants (ss 45B and 45C), secondary boycotts (s 45D) and arrangements inhibiting supply or acquisition (s 45E).

<sup>57</sup> *Trade Practices Act 1974* (Cth) s 46.

<sup>58</sup> *Trade Practices Act 1974* (Cth) s 47; principally agreements and potential agreements for the supply of goods or services that involve vertical restraints, product forcing and territorial or customer restrictions.

price maintenance,<sup>59</sup> and some market structure consolidations in some mergers and acquisitions.<sup>60</sup> These prohibitions are then relaxed for some dealings with patent protected products and processes,<sup>61</sup> or the prohibitions are avoided by seeking an authorisation<sup>62</sup> or notification.<sup>63</sup> The *Trade Practices Act 1974* (Cth) also deals with some conduct and market structures, including patent related products and processes that are an integral but subsidiary service or facility in access to essential facilities<sup>64</sup> and the telecommunications market,<sup>65</sup> but these are not addressed in this article.<sup>66</sup>

The *Trade Practices Act 1974* (Cth) has been subjected to considerable amendment.<sup>67</sup> The measures specifically addressing intellectual property have only been subjected to limited very change (see Table 1).<sup>68</sup> The effect of the current s 51 of the *Trade Practices Act 1974* (Cth) provision is to provide an exemption from Part IV of the *Trade Practices Act 1974* (Cth) for certain conditions in a license or assignment contract that ‘relates to’ the patent protected product or process, except misuse of market power<sup>69</sup> and resale price maintenance.<sup>70</sup> Thus, the current s 51 of the *Trade Practices Act 1974* (Cth) provides, in part:

- (1) In deciding whether a person has contravened this Part [IV], the following must be disregarded:
  - (a) anything specified in, and specifically authorised by:
    - (i) an Act (not including an Act relating to patents, ...); or
    - (ii) regulations made under such an Act.<sup>71</sup>
  - ...
- (3) A contravention of a provision of this Part [IV] 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, ... or by a person who has applied for a patent ...; or
    - (ii) an assignment of a patent, ... or of the right to apply for a patent ...; to the extent that the condition relates to:

<sup>59</sup> *Trade Practices Act 1974* (Cth) s 48.

<sup>60</sup> *Trade Practices Act 1974* (Cth) ss 50 and 50A.

<sup>61</sup> *Trade Practices Act 1974* (Cth) s 51(3).

<sup>62</sup> *Trade Practices Act 1974* (Cth) s 88(1); for a contract, arrangement or understanding which has a substantially anti-competitive effect (s 88(1)), exclusionary provisions (s 88(1)), price fixing (s 88(1)), covenants which have a substantially anti-competitive effect (s 88(5)), secondary boycotts and arrangements inhibiting supply or acquisition (s 88(7A)), exclusive dealing (s 88(8)), resale price maintenance (s 88(8A)) and mergers and acquisitions (s 88(9)); see also pt IX (review of determinations by the Australian Competition Tribunal).

<sup>63</sup> *Trade Practices Act 1974* (Cth) s 93(1) (dealing only with exclusive dealings in ss 47(2), (3), (4), (5), (6), (7), (8) or (9)); note, however, that this is subject to some limits where there has been an earlier authorization application (s 93(2)); see also pt IX (review of determinations by the Australian Competition Tribunal).

<sup>64</sup> *Trade Practices Act 1974* (Cth) pt IIIA.

<sup>65</sup> *Trade Practices Act 1974* (Cth) pt XIB.

<sup>66</sup> See for a further articulation, Ergas Committee, above n 10, 214-215.

<sup>67</sup> See *Trade Practices Act 1974* (Cth) Notes.

<sup>68</sup> *Trade Practices Act 1974* (Cth) s 51(3) was substituted by *Trade Practices Amendment Act 1977* (Cth) s 28(d) and was then amended by *Circuit Layouts Act 1989* (Cth) s 49 and sch, and the *Trade Practices (Misuse of Trans-Tasman Market Power) Act 1990* (Cth) s 9.

<sup>69</sup> See *Trade Practices Act 1974* (Cth) ss 46 and 46A.

<sup>70</sup> See *Trade Practices Act 1974* (Cth) s 48.

<sup>71</sup> Noting that *Trade Practices Act 1974* (Cth) s 51(1C) provides that ‘[t]he operation of subsection (1) is subject to the following limitations: (a) in order for something to be regarded as specifically authorised for the purposes of subsection (1) the authorising provision must expressly refer to this Act’; this provision was introduced by the *Competition Policy Reform Act 1995* (Cth) s 15.

- (iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention.

The exemption of some patent license and assignment contract conditions was reflected in earlier incarnations in the *Trade Practices Act 1965* (Cth)<sup>72</sup> and *Restrictive Trade Practices Act 1971* (Cth),<sup>73</sup> that in turn trace their origins to the *Restrictive Trade Practices Act 1956* (UK).<sup>74</sup> The purpose of retaining a specific exemptions for some patent license and assignment conditions in the *Trade Practices Act 1974* (Cth) is uncertain, other than it ‘removes doubts that the exemptions provided in relation to patents and other forms of industrial property are those provided in clause 51(3) and are not to be found under clause 51(1)(a)’.<sup>75</sup> Perhaps the provision was ‘to prevent a perceived clash between the interests of intellectual property owners and competition law’ because at the time of the *Trade Practices Act 1974* (Cth) enactment ‘intellectual property laws were widely believed to confer on the owners of intellectual property a limited economic monopoly’.<sup>76</sup> It’s present purpose, however, appears to be:<sup>77</sup>

... providing businesses with greater certainty when engaging in licensing and assignment activity. This greater certainty can help reduce the costs associated with compliance with trade practices law and encourage more licensing [and assignment]<sup>78</sup> activity.<sup>79</sup>

<sup>72</sup> *Trade Practices Act 1965* (Cth) s 38 provided, in respect of ‘examinable agreements’: ‘[i]n determining whether an agreement is an examinable agreement, regard shall not be had – ... in the case of an agreement for or in respect of – (i) a license granted or to be granted by the proprietor, licensee or owner of a patent ... or by a person who has applied for a patent ...; or (ii) an assignment of a patent ... or the right to apply for a patent ...; to any condition of the license or assignment relating exclusively to – (iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention ...; s 39 provided, in respect of ‘examinable practices’: ‘(1) In determining whether a person or combination has engaged, is engaging or proposes to engage in an examinable practice, regard shall not be had to any act or thing that is, or is of a kind, specifically authorised or approved by, or by regulations, under an Act ... (6) In relation to monopolization, the reference in sub-section (1) of this section to an Act does not include a reference to an Act relating to patents ...’.

<sup>73</sup> *Restrictive Trade Practices Act 1971* (Cth) s 35(5) was equivalent to the *Trade Practices Act 1965* (Cth) s 38; ss 38(1) and (5) were equivalent to the *Trade Practices Act 1965* (Cth) ss 39(1) and (5).

<sup>74</sup> *Restrictive Trade Practices Act 1956* (UK) s 8(4) provided, ‘[t]his Part of this Act does not apply to any license granted by the proprietor or any license of a patent ... or by a person who has applied for a patent ... to any assignment of a patent ... or of the right to apply for a patent ... or to any agreement for such a license or assignment being a license, assignment or agreement [between two or more persons dealing with prices, supply, quantities, qualities, and so on (see s 6(1))] except in respect of – (a) the invention to which the patent or application for a patent relates, or articles made by use of that invention’; noting other provisions related to some registered designs (s 8(4)), know-how (s 8(5)), certification marks (s 8(6)) and trade marks (s 8(7)).

<sup>75</sup> Explanatory Memorandum, above n 30, 13.

<sup>76</sup> Ergas Committee, above n 10, 206; see also Samuel Committee, above n 28, 149.

<sup>77</sup> Other possible ‘overlapping’ objectives have been identified as ‘to avoid a general conflict between intellectual property law and competition law’, ‘to avoid a practical conflict between the exercise of intellectual property rights and competition law’, ‘to encourage greater licensing and assignment of intellectual property’ and ‘to provide greater certainty for licensing and assignment of intellectual property, and reduce the TPA compliance costs associated with this activity’: Samuel Committee, above n 28, 156-157; see also Peter Goldsworthy, ‘The Application of the Trade Practices Act, 1974 (as Amended) to Restrictions in Patent, Know-How and Trade Mark Licensing Arrangements’ (1977) 3 *Monash University Law Review* 289, 299-303 (arguing that s 51(3) of the *Trade Practices Act 1974* (Cth) is based on ‘orthodox’ arguments in support of the patent system).

<sup>78</sup> For the purposes of that report the term ‘license’ and its derivatives ‘should be taken to include references to assignments and its derivative terms, except as otherwise indicated by the context’: Samuel Committee, above n 28, 149.

The *Trade Practices Act 1974* (Cth) also makes express provision for ‘joint ventures’,<sup>80</sup> exempting *only* some conduct<sup>81</sup> so long as it does not have the purpose, effect or likely effect of substantially lessening competition.<sup>82</sup> Joint ventures that pass this threshold are also open to authorisation if they can be justified in the public interest.<sup>83</sup>

### **B Interpreting s 51(3) of the Trade Practices Act 1974 (Cth)**

Unfortunately, the application ss 51(1) and (3) of the *Trade Practices Act 1974* (Cth) remains uncertain.<sup>84</sup> This in part reflects its complex construction and the paucity of extrinsic materials and court decisions examining its possible meanings. Perhaps significantly, a literal construction means that:

- (a) The parenthesis in s 51(1)(a) clarifies that ‘there is no general exemption to the operation of pt IV for things specified in, and authorised by, Commonwealth laws relating to patents’,<sup>85</sup>
- (b) Section 51(3) does not apply to conduct that is a misuse of market power (ss 46 and 46A) and resale price maintenance (s 48);<sup>86</sup>
- (c) Section 51(3) does not include the license or assignment of future rights;<sup>87</sup>
- (d) Section 51(3) does not deal with know how and confidential information relating to patent protected products and processes;<sup>88</sup>
- (e) It is not clear whether s 51(3) applies to an entire assignment or a part only of the assignment;<sup>89</sup> and
- (f) The s 51(3) exemption ‘probably does not apply in respect of the intellectual property rights but it applies to the subject of the rights’ so that it is the patent protected product or process that is being exempted by the provision.<sup>90</sup>

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<sup>79</sup> Samuel Committee, above n 28, 150; see also Ergas Committee, above n 10, 211.

<sup>80</sup> *Trade Practices Act 1974* (Cth) s 4J defines a ‘joint venture’ as, ‘...an activity in trade or commerce: ... (i) carried on jointly by two or more persons, whether or not in partnership; or (ii) carried on by a body corporate formed by two or more persons for the purpose of enabling those persons to carry on that activity jointly by means of their joint control, or by means of their ownership of shares in the capital, of that body corporate ...’.

<sup>81</sup> See *Trade Practices Act 1974* (Cth) s 45A(2).

<sup>82</sup> See *Trade Practices Act 1974* (Cth) ss 45A(1), 45(2)(a)(ii) and 45(2)(b)(ii).

<sup>83</sup> See *Trade Practices Act 1974* (Cth) s 88(1); noting that joint ventures also raise issue for mergers and acquisition (ss 50 and 50A) that may also be authorized (s 88(9)).

<sup>84</sup> The structure, interpretation and application of the exemption have been widely considered, see for recent examples Jane Nielsen, ‘Reach-Through Rights in Biomedical Patent Licensing : A Comparative Analysis of Their Anti-Competitive Reach’ (2004) 32 *Federal Law Review* 169, 188-189; Carolyn Oddie and Patrick Eyers, ‘Erosion of Rights – or Redressing the Balance: Competition Challenges to Intellectual Property Rights’ (2004) 12(1) *Trade Practices Law Journal* 6, 12-13; Weisbrot Committee, above n 28, 567-569; Eagles and Longdin, above n 45, 29-32; see also Kevin Lindgren, ‘The Interface Between Intellectual Property and Antitrust: Some Current Issues in Australia’ (2005) 16 *Australian Intellectual Property Journal* 76.

<sup>85</sup> Intellectual Property and Competition Review Committee, *Interim Report* (2000) att 1 (Australian Government Solicitor’s s 51(3) advice) [8].

<sup>86</sup> See *ibid* [11].

<sup>87</sup> *Ibid* [17].

<sup>88</sup> *Ibid* [18].

<sup>89</sup> *Ibid* [22].

<sup>90</sup> *Ibid* [24].

The High Court's interpretation of this provision clarifies that some license and assignment activity is exempted from Part IV of the *Trade Practices Act 1974* (Cth), although the scope of the exemption remains uncertain.<sup>91</sup> In *Transfield Pty Ltd v Arlo International Ltd*<sup>92</sup> the High Court considered a 'best endeavours' clause that provided:

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.<sup>93</sup>

The license agreement concerned the use of a patent protected process for the manufacture and erection of steel poles. 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.<sup>94</sup> 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.<sup>95</sup> 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.<sup>96</sup> The tender was finally awarded to Transfield on the basis of using Transfield's pole.<sup>97</sup>

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.<sup>98</sup> 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'.<sup>99</sup> The issue before the High Court was whether the 'best endeavours' clause confined Transfield to using *only* Arlo's pole, and in its defence Transfield argued the clause was either unlawful because s 45(1) of the *Trade Practices Act 1974* (Cth) prohibited a clause with the purpose, effect or likely effect of substantially lessening competition,<sup>100</sup> or a prohibited term under s 112 of the *Patents Act 1952* (Cth).<sup>101</sup> 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,<sup>102</sup> and that Arlo had lost a

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<sup>91</sup> This point has been made in a number of articles, see for recent examples Adams and McLennan, above n 14, 12; Nielsen, above n 84, 191; Eagles and Longdin, above n 45, 29; notably a number of cases considering *Trade Practices Act 1974* (Cth) pt IV arguments about intellectual property have not relied on s 51(3) to reach their decision, see for example *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd* (1991) 22 IPR 215 (Beaumont J); *Universal Music Australia Pty Ltd v Australian Competition and Consumer Commission* (2003) 57 IPR 353 (Wilcox, French and Gyles JJ).

<sup>92</sup> (1980) 144 CLR 83, 99 (Mason J).

<sup>93</sup> (1980) 144 CLR 83, 87 (Barwick CJ).

<sup>94</sup> (1980) 144 CLR 83, 88 (Barwick CJ).

<sup>95</sup> (1980) 144 CLR 83, 88 (Barwick CJ).

<sup>96</sup> (1980) 144 CLR 83, 88 (Barwick CJ).

<sup>97</sup> (1980) 144 CLR 83, 88 (Barwick CJ).

<sup>98</sup> (1980) 144 CLR 83, 89 (Barwick CJ).

<sup>99</sup> (1980) 144 CLR 83, 89 (Barwick CJ).

<sup>100</sup> *Trade Practices Act 1974* (Cth) s 45(1) provides, in part, '[i]f a provision of a contract made before the commencement of the *Trade Practices Amendment Act 1977* [(Cth) on 1 July 1977]: ... (b) has the purpose, or has or is likely to have the effect, of substantially lessening competition; that provision is unenforceable in so far as it confers rights or benefits or imposes duties or obligations on a corporation'.

<sup>101</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 91 (Barwick CJ); noting that the contractual arrangement between Transfield and Arlo was 27th June 1973, therefore requiring reliance on the relevant transition provisions (91).

<sup>102</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 90.

substantial share of market as a result of its pole not being used as it had intended by its contract.<sup>103</sup>

In essence, the decision probably reflects difficult facts and circumstances, and the judges' preference that Transfield should not escape its contractual obligations with significant consequences for Arlo by taking advantage of a defence based on the legalistic construction and application of a statute. Put another way, Transfield argued that the 'best endeavours' clause was unenforceable because it was outside the patent exemption in the *Trade Practices Act 1974* (Cth) with the effect that the exemption would allowed Transfield to escape its earlier contractual obligations:

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.<sup>104</sup>

In the High Court's decision, Justice Mason supported a wide construction of the term 'relates to' in s 51(3) of the *Trade Practices Act 1974* (Cth) recognising the provision allowed a patentee to impose conditions on the license or assignment of the patent 'to protect the patentee's legal monopoly',<sup>105</sup> but then said, 'conditions which seek to gain advantages collateral to the patent are not covered by s 51(3)' of the *Trade Practices Act 1974* (Cth).<sup>106</sup> Chief Justice Barwick considered the condition in question was entirely within s 51(1) of the *Trade Practices Act 1974* (Cth) and attracted the exemption but did not give detailed reasons for this conclusion.<sup>107</sup> Justice Wilson considered the clause fell 'squarely within' s 51(3) of the *Trade Practices Act 1974* (Cth) exemption but did not give detailed reasons for this conclusion.<sup>108</sup> Justice Stephen considered there was no evidence the condition, read either alone or in combination with other provisions of the license, had either the purpose or effect of substantially lessening competition,<sup>109</sup> and Justice Murphy decided the matter on the basis of the *Patents Act 1952* (Cth).<sup>110</sup>

The key question in considering s 51(3) of the *Trade Practices Act 1974* (Cth) is if the limited patent exemption was repealed, what conduct would be subject to Part IV of the *Trade Practices Act 1974* (Cth) that was previously exempted? This in part will depend on the interpretation given to the term 'relates to' as it appears in the *Trade Practices Act 1974* (Cth):

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<sup>103</sup> According to the trial judge this was a 20 per cent chance of capturing the Australian market and according to the Court of Appeal this was 50 per cent: see *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 90 and 91.

<sup>104</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 90 citing the Court of Appeal Division of the Supreme Court of New South Wales's unanimous judgment.

<sup>105</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 103 (Mason J).

<sup>106</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 103 (Mason J).

<sup>107</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 92 (Barwick CJ); thus Chief Justice Barwick said, '[s]o far as the submission based on the *Trade Practices Act* is concerned, it is enough to say that s 51(1)(a) of that Act, by exempting things authorized by the *Patents Act*, provides an answer' (92).

<sup>108</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 108 (Wilson J); noting that Justice Wilson also considered that the clause did not have and was not likely to have the effect of substantially lessening competition (108).

<sup>109</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 97 (Stephen J); Justice Stephen also said the deeming provisions of *Trade Practices Act 1974* (Cth) s 45A did not affect his conclusions.

<sup>110</sup> *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83, 105 (Murphy J).



- (a) Narrow view – a license or assignment condition relates to the patent protected product if it relates directly to the goods produced;<sup>111</sup>
- (b) Intermediate view – a license or assignment condition relates to the patent protected product if it seeks to protect the patentee’s exclusive rights or secure an advantage that is not collateral to the patentee’s exclusive rights;<sup>112</sup> or
- (c) Broad view – a license or assignment condition relates to the patent protected product unless it seeks to apply to an almost entirely unrelated transaction or arrangement.<sup>113</sup>

The remaining parts of this article examine the contention that the various reviews of the patent related provisions of the *Trade Practices Act 1974* (Cth) and Australian Government’s responses have essentially failed to clearly justify and articulate a purpose for exempting some conditions in patent licenses and assignments from the general contract, arrangement and understanding prohibitions set out in Part IV of the *Trade Practices Act 1974* (Cth).

### III REVIEWS OF THE TPA PRO-COMPETITION PROVISIONS

Despite the broad ranging reviews of the *Trade Practices Act 1974* (Cth),<sup>114</sup> only very few reviews have examined the operation of s 51(3) of the *Trade Practices Act 1974* (Cth).<sup>115</sup> A number of recent reviews dealing with intellectual property and competition and the Australian Government’s responses are considered.

<sup>111</sup> Samuel Committee, above n 28, 184; Ergas Committee, above n 10, 207.

<sup>112</sup> Ibid; this was also the view that was adopted by the Trade Practices Commission, such that, ‘if there is any doubt whether a condition relates to the subject matter of a license, the purpose and scope of the exclusive rights granted by the ... [patent] ... will be considered to determine whether a collateral advantage has been achieved by the condition’: Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property*, Background Paper (1991) 13.

<sup>113</sup> Samuel Committee, above n 28, 184; Ergas Committee, above n 10, 207.

<sup>114</sup> Including Weisbrot Committee, above n 28; Dawson Committee, above n 28; Trade Practices Act Review Committee, *The Review of the Impact of Part IV of the Trade Practices Act 1974 on the Recruitment and Retention of Medical Practitioners in Rural and Regional Australia* (2002) (Wilkinson Review); House of Representatives Standing Committee on Financial Institutions and Public Administration, *Inquiry into Aspects of the National Competition Policy Reform Package* (2002); Ergas Committee, above n 10; Senate Select Committee on Socio-economic Consequences of the National Competition Policy, *Riding the Waves of Change* (2000); Samuel Committee, above n 28; Senate Select Committee on Socio-economic Consequences of the National Competition Policy, *Competition Policy: Friend or Foe?* (1999); House of Representatives Standing Committee on Industry, Science and Technology, *Finding a Balance: Towards Fair Trading in Australia* (1997); House of Representatives Standing Committee on Financial Institutions and Public Administration, *Cultivating Competition: Inquiry into Aspects of the National Competition Policy Reform Package* (1997); House of Representatives Standing Committee on Financial Institutions and Public Administration, *Cultivating Competition: Inquiry into aspects of the National Competition Policy Reform Package* (1997); National Competition Council, *Considering the Public Interest under the National Competition Policy* (1996); Australian Law Reform Commission, *Compliance with the Trade Practices Act 1974*, Report No 68 (1994); Hilmer Committee, above n 4; Part X Review Panel, *Linear Shipping Cargoes and Conferences* (1993) (Brazil Report); Senate Standing Committee on Legal and Constitutional Affairs, *Mergers, Monopolies and Acquisitions: Adequacy of Existing Legislated Controls* (1991) (Cooney Committee); House of Representatives Standing Committee on Legal and Constitutional Affairs, *Mergers, Takeovers and Monopolies: Profiting from Competition?* (1989) (Blunt Committee); Stonier Committee, above n 17; Trade Practices Consultative Committee, *Small Business and the Trade Practices Act* (1979) (Griffith Committee); Swanson Committee, above n 38; and so on.

<sup>115</sup> See Weisbrot Committee, above n 28, 555-580; Dawson Committee, above n 28, 86; Ergas Committee, above n 10, 202-215; Samuel Committee, above n 28, 149-246; Hilmer Committee, above n 4, 149-151; Stonier Committee, above n 17, 22-26; Swanson Committee, above n 38.

## A *The Hilmer Committee*

The Hilmer Committee<sup>116</sup> undertook a broad ranging policy review of the restrictions on competition in Australia and identified the exemption in s 51(3) of the *Trade Practices Act 1974* (Cth) as requiring further review:

The Committee was not presented with any persuasive arguments as to why intellectual property rights should receive protection beyond that available under the authorization process [in the *Trade Practices Act 1974* (Cth)].<sup>117</sup>

The Hilmer Committee ‘saw force’ in arguments suggesting the exemptions be reformed but concluded it was not placed to make ‘expert recommendations’ and suggested that the matter should be examined further to ‘assess whether the policy reflected by the exemption is appropriate’.<sup>118</sup>

The Hilmer Committee had also identified the ‘temporary monopolies’ given to protect intellectual property as a regulatory barrier to market entry,<sup>119</sup> and recommended, as part of its broader concerns about legislation that restricted competition, that ‘[a] mechanism to promote reform of regulation that unjustifiably restricts competition form a central plank of a national competition policy’.<sup>120</sup> This was reduced by the Hilmer Committee to a series of principles<sup>121</sup> that were later implemented as the inter-governmental *Competition Principles Agreement*.<sup>122</sup> A significant part of the *Competition Principles Agreement* was that governments around Australia review the anti-competitive effects of their existing legislation<sup>123</sup> and ensure those proposals for new legislation that restricts competition be consistent with the ‘guiding principle’:<sup>124</sup>

... that legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated<sup>125</sup> that:

- (a) the benefits of the restriction to the community as a whole outweigh the costs; and
- (b) the objectives of the legislation can only be achieved by restricting competition.<sup>126</sup>

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<sup>116</sup> Hilmer Committee, above n 4.

<sup>117</sup> Ibid 150.

<sup>118</sup> Ibid 151.

<sup>119</sup> Ibid 195.

<sup>120</sup> Ibid 211.

<sup>121</sup> Ibid 212.

<sup>122</sup> The Council of Australian Government adopted the *Competition Principles Agreement* on 11 April 1995; the other implementation issues included amendments to the *Trade Practices Act 1974* (Cth) and *Prices Surveillance Act 1983* (Cth) (see *Competition Policy Reform Act 1995* (Cth)), three inter-governmental agreements (including the *Competition Principles Agreement*), and related reforms to the electricity, gas, water and road transport industries: see National Competition Council, *Compendium of National Competition Policy Agreements* (1997); see also Commonwealth, *House of Representatives Hansard*, 30 June 1995, 2793-2801 (Assistant Treasurer).

<sup>123</sup> *Competition Principles Agreement* cl 5(3).

<sup>124</sup> Ibid cl 5(5).

<sup>125</sup> The construction of the *ibid* cl 5(1) relies on the term ‘demonstrated’ in setting out the standard to be achieved in applying the ‘guiding principle’ and cl 5(5) expressly requires ‘evidence’ that proposed legislation restricting competition is consistent with the ‘guiding principle’. While the standard remains uncertain, the standard applied in reviewing legislation appears to have been that ‘legislation that restricts competition must be accompanied by evidence that the benefits of the restriction to the community as a whole outweigh the costs, and that the objectives can only be achieved by restricting competition’: Productivity Commission, *Regulation and Its Review 2002-03*, Annual Report Series (2003) 7; see also National Competition Council, *National Competition Council Legislation Review Compendium* (2002) 1.

The outcomes of the Hilmer Committee re-invigorated the assessment of the s 51(3) of the *Trade Practices Act 1974* (Cth) exemption undertaken in most of the subsequent reviews.

### **B The Samuel Committee**

The Samuel Committee undertook the review of the s 51(3) of the *Trade Practices Act 1974* (Cth) exemption under the *Competition Principles Agreement* review program.<sup>127</sup> According to its Terms of Reference the Samuel Committee was required to consider ‘the objectives of ... s 51(3)’, ‘any restrictions on competition contained in ... s 51(3)’, ‘the likely effect of these restrictions on competition and on the Australian economy generally’, ‘the costs and benefits of the restrictions’ and ‘whether there are alternative ways of achieving the objectives of ... s 51(3)’.<sup>128</sup> In approaching the Terms of Reference the Samuel Committee confined the scope of its review to be ‘whether, and if so, how [the imposed pro-competition regulation] of the *Trade Practices Act* [1974 (Cth)] should regulate licensing and assignment of intellectual property rights’.<sup>129</sup> In pursuing this approach the Samuel Committee interpreted its Terms of Reference to take account of existing intellectual property laws so as to ‘assume that the [existing intellectual property laws] will continue to exist and provide a strong indication of the [Australian] Government’s preferred policy approach for the regulation of these areas’.<sup>130</sup>

The Samuel Committee accepted that general property and intellectual property privileges share similar attributes,<sup>131</sup> so that intellectual property privileges were ‘neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them’.<sup>132</sup> Similarly, the Samuel Committee considered the exercise of intellectual property privileges did not inherently conflict with pro-competition laws necessarily requiring an exemption from competition law.<sup>133</sup> However, the Samuel Committee did identify that the existing s 51(3) of the *Trade Practices Act 1974* (Cth) did ‘exempt’ some anti-competitive practices:

Section 51(3) is likely to exempt horizontal licensing agreements (that is, arrangements between competitors), and price and quantity restrictions, which have significant potential to substantially lessen competition in the market. Other licensing conditions have some, but less, potential to substantially lessen competition.<sup>134</sup>

Referring to an earlier work of the Trade Practices Commission, the Samuel Committee considered there were five types of restrictive conditions that were exempted by s 51(3) of the *Trade Practices Act 1974* (Cth).<sup>135</sup> Other restrictive conditions, such as provisions specifying minimum standards and exclusive grant backs of any improvements, were considered unlikely to either breach Part IV of the *Trade Practices Act 1974* (Cth) or ‘relate to’ the patent

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<sup>126</sup> *Competition Principles Agreement* cl 5(1).

<sup>127</sup> See Samuel Committee, above n 28, 16-18.

<sup>128</sup> Ibid 17; notably, the Samuel Committee’s review of the patent related provisions of the *Trade Practices Act 1974* (Cth) considered that the *Trade Practices Act 1974* (Cth) imposes pro-competition regulation onto the conduct of firms that was then relaxed by specific exemptions so that the exemptions from the *Trade Practices Act 1974* (Cth) were considered to be a restriction on competition because they restricted the operation of the imposed pro-competition regulation (3).

<sup>129</sup> Samuel Committee, above n 28, 3.

<sup>130</sup> Ibid 17.

<sup>131</sup> Ibid 149.

<sup>132</sup> Ibid 160; citing the United States Department of Justice and Federal Trade Commission, *Anti-trusts Guidelines for the Licensing of Intellectual Property* (1995) s 2.1.

<sup>133</sup> Samuel Committee, above n 28, 163.

<sup>134</sup> Ibid 151.

<sup>135</sup> Ibid 209-210.

protected product or process.<sup>136</sup> The five exempted restrictive conditions likely to affect competition were:

- exclusive licence grants (where the licensor agrees to grant a sole licence to the licensee over the whole of the intellectual property or within a particular territory, to the exclusion of any other licensee or the licensor);
- territorial restrictions (where the licensor restricts the licensee to selling goods produced under licence within a particular territory);
- best endeavours clauses (where the licensor requires the licensee to use its best endeavours to promote the licensed product, sometimes to the exclusion of competing products); and
- price restrictions (where the licensee is required to charge a particular price for the goods produced under licence); and
- quantity restrictions (where the licensor restricts the number of goods that the licensee may produce under licence).<sup>137</sup>

The Samuel Committee acknowledged that other jurisdictions did not provide any form of exemptions for restrictive conditions in licenses and assignments.<sup>138</sup> However, the Samuel Committee ‘accepted’<sup>139</sup> that the existing exemption ‘has some continuing relevance in terms of providing businesses with greater certainty when engaging in licensing and assignment activity’<sup>140</sup> 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’.<sup>141</sup> This ‘acceptance’ then carried through to the analyses of the benefits<sup>142</sup> and costs<sup>143</sup> of the exemption, and then to its conclusion.<sup>144</sup>

The Samuel Committee concluded, against the criteria of reducing the potential for anti-competitive conduct, minimising uncertainty, minimising costs and practical implementation,<sup>145</sup> that ‘the best option is to amend [the exemption] to remove price restrictions, quantity restrictions, and horizontal arrangements from the scope of the exemption’.<sup>146</sup> In making this assessment the Samuel Committee considered the consequences of repealing the exemption, and accepted that there was no international treaty obligation constraining how competition law might be applied to intellectual property:<sup>147</sup>

Repealing [the exemption] would remove the potential that anti-competitive conduct could be exempted from the operation of the *Trade Practices Act*. However, the [Samuel Committee] accepts that repeal would impose some uncertainty and costs on parties in checking that their agreements do not breach [the pro-competition regulations in the *Trade Practices Act*], particularly in cases where it is difficult to assess the market potential of intellectual property rights or the boundaries of the markets in which the intellectual property rights might be commercialised at some future date. Guidelines may not be sufficient to fully alleviate this uncertainty, particularly in circumstances where investors need absolute certainty about the

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<sup>136</sup> Ibid 210.

<sup>137</sup> Ibid 209-210; see also Trade Practices Commission, above n 112, 21-30.

<sup>138</sup> Most notably the United States where ‘price and quantity restrictions are banned outright’: Samuel Committee, above n 28, 150 and 186-192.

<sup>139</sup> Ibid 150.

<sup>140</sup> Ibid 150 and 167; presumably this was confined to ‘clarifying whether licensing conditions which have the effect of subdividing intellectual property rights may be anti-competitive’ (167).

<sup>141</sup> Ibid 150 and 167.

<sup>142</sup> Ibid 193-200.

<sup>143</sup> Ibid 201-213.

<sup>144</sup> Ibid 213.

<sup>145</sup> Ibid 241.

<sup>146</sup> Ibid 152 and 243.

<sup>147</sup> Ibid 227-230.

validity of licensing conditions before they may proceed to invest in research and development.<sup>148</sup>

The Samuel Committee recommended that the existing *Trade Practices Act 1974* (Cth) exemption be retained, ‘but amended to remove protection from price and quantity restrictions and horizontal agreements’.<sup>149</sup> The Samuel Committee also recommended that guidelines be formulated to assist in determining when intellectual property licenses and assignments might be exempt from the *Trade Practices Act 1974* (Cth), and what breaching conduct might be authorised under the *Trade Practices Act 1974* (Cth).<sup>150</sup>

Perhaps the most surprising aspect of the Samuel Committee’s report was that in its draft report it had recommended that s 51(3) of the *Trade Practices Act 1974* (Cth) be repealed.<sup>151</sup> Presumably, the submissions received in response to the Draft Report were sufficient to support the Final Draft’s conclusions based on the ‘acceptance’<sup>152</sup> and ‘consideration’<sup>153</sup> that, subject to price and quantity restrictions and horizontal agreements, restricting competition by patent privileges was desirable. At best the benefits were merely ‘greater business certainty’,<sup>154</sup> while the costs in terms of anti-competitive conduct ranged across all conduct, but with most being confined to horizontal arrangements and vertical arrangements that facilitate horizontal agreements.<sup>155</sup> Surprisingly, the Samuel Committee did undertake a process of identifying some of the benefits and costs of the exemption from competition,<sup>156</sup> with the Final Report glossing over the key justifications for rejecting the need for exemption set out in the Draft Report.<sup>157</sup>

Interestingly, the Samuel Committee posed significant counter arguments to those put to it that were not then addressed in the Final Report. This included the residual uncertainty about the operation of the existing exemption,<sup>158</sup> the absence of a similar exemption in other jurisdictions that does not appear to have harmed investment in research,<sup>159</sup> the minor factor favourable competition law treatment would be in any decisions about investing in innovation,<sup>160</sup> and the global nature of licensing intellectual property meaning that favourable treatment in one jurisdiction may not apply in another jurisdiction thus questioning the need for favourable treatment.<sup>161</sup>

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<sup>148</sup> Ibid 242.

<sup>149</sup> Ibid 243.

<sup>150</sup> Ibid 245.

<sup>151</sup> National Competition Council, *Review of s51(2) and 51(3) of the Trade Practices Act 1974*, Draft Report (1998) v-vii; National Competition Council, *Review of s51(2) and 51(3) of the Trade Practices Act 1974*, Issues Paper (1998) 22-30.

<sup>152</sup> See for example Samuel Committee, above n 28, 242.

<sup>153</sup> Ibid 200 and 213.

<sup>154</sup> Ibid 200.

<sup>155</sup> Ibid 213.

<sup>156</sup> Ibid 193-213.

<sup>157</sup> See generally National Competition Council Draft Report, above n 151.

<sup>158</sup> Samuel Committee, above n 28, 196.

<sup>159</sup> Ibid 196 and 200; although it was noted that in these circumstances the courts may take into account the ‘special features’ of intellectual property when assessing whether particular conduct is anti-competitive (186-187); for an analysis of the difference between the intended policy and its application by the courts in the United States, and likely application in Australia, see Charles Lawson, ‘Patenting Genes and Gene Sequences and Competition: Patenting the Expense of Competition’ (2002) 30 *Federal Law Review* 97, 117-128.

<sup>160</sup> Samuel Committee, above n 28, 200.

<sup>161</sup> Ibid.

The Australian Government is still considering its response to the Samuel Committee's report,<sup>162</sup> although this has been overtaken by the Ergas Committee's review of the Samuel Committee's conclusions and recommendations.<sup>163</sup>

### **C The Ergas Committee**

The Ergas Committee, as part of its broader assessment of the *Patents Act 1990* (Cth) under the *Competition Principles Agreement*, examined the Samuel Committee report.<sup>164</sup> The Terms of Reference *only* required the Ergas Committee to 'have regard to ... the conclusions and recommendations' of the Samuel Committee's report.<sup>165</sup> In addressing the Terms of Reference the Ergas Committee carefully confined its comments to the existing legislative scheme 'considering the effects that (given the [*Trade Practices Act 1974* (Cth)] as it stands) would flow from different approaches to the coverage by the Act of conduct relating to the exercise of [intellectual property] rights'.<sup>166</sup> Further, the Ergas Committee carefully noted that the *Trade Practices Act 1974* (Cth) was fashioned in a different economic era and probably should be subjected to its own independent review, whereupon the place of patent privileges might be more certainly addressed.<sup>167</sup> With these riders in place the Ergas Committee recommended that the *Trade Practices Act 1974* (Cth) should be amended further narrowing the existing exemption by applying a test of whether the relevant conditions in licenses and assignments substantially lessened competition as it is applied in other parts of that *Trade Practices Act 1974* (Cth).<sup>168</sup>

The Ergas Committee's view appears to have been that the *Trade Practices Act 1974* (Cth) 'should come into play when intellectual property rights are used in ways that go beyond the scope of the right being granted'<sup>169</sup> – the so-called 'scope of grant' doctrine derived from the 'inherency' doctrine in the United States.<sup>170</sup> The consequence of this view appears to have been that the exercise and transfer of patent privileges was therefore an acceptable restriction on competition so long as exercising the patent privileges was not 'going beyond market power':<sup>171</sup>

The Committee recognises that the IP legislation confers upon the intellectual property right holder a series of exclusive privileges designed to promote innovation. Given that these rights are conferred by legislation, they should be able to be effectively exercised even when this involves (as it generally must) the exclusion of others. However, these rights should not be capable of being used to *go beyond* the market power those rights directly confer. That is, 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.<sup>172</sup> (emphasis in original)

The Ergas Committee received a number of submissions advocating that the existing *Trade Practices Act 1974* (Cth) provision should be retained because of 'the importance which Australian industry and research institutes attach to the operation of s 51(3)' of the *Trade*

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<sup>162</sup> See National Competition Council, above 125, 31.

<sup>163</sup> Ergas Committee, above n 10, 202-215.

<sup>164</sup> Ibid.

<sup>165</sup> Ibid 217.

<sup>166</sup> Ibid 210.

<sup>167</sup> See *ibid* 209-210.

<sup>168</sup> Ibid 11 and 215 (including a refusal to deal, 213).

<sup>169</sup> Ibid 24; thus reflecting its perspective that the '... tension between the objectives and instruments of the two systems [intellectual property and competition law] occurs when the correction of one market failure creates another' (25).

<sup>170</sup> See generally Carrier, above n 8, 788-791; John Stedman, 'Patents and Antitrust: The Impact of Varying Legal Doctrines' (1973) *Utah Law Review* 588, 595; Richard Buxbaum, 'Restrictions Inherent in the Patent Monopoly: A Comparative Critique' (1965) 113 *University of Pennsylvania Law Review* 633, 641-645.

<sup>171</sup> Ergas Committee, above n 10, 211.

<sup>172</sup> Ibid.

*Practices Act 1974* (Cth), ‘the need to protect exclusive licensing arrangements, such as those underpinning the operation of CRCs’ and ‘the need for certainty in intellectual property licensing’.<sup>173</sup> Perhaps surprisingly, the Ergas Committee noted that ‘[s]omewhat paradoxically, submitters typically admitted that the precise meaning of s 51(3) [of the *Trade Practices Act 1974* (Cth)] was highly uncertain, and yet they asserted that it had provided a firm basis for major investment decisions’.<sup>174</sup> Despite this ‘paradox’, and the carefully riders about the *Trade Practices Act 1974* (Cth) being a competition law reflecting the times of its origins,<sup>175</sup> the Ergas Committee appeared to consider that transaction costs pose a special barrier to the ‘efficient use of intellectual property’ compared to ‘other property or assets’,<sup>176</sup> and as a consequence:

... this means that it is essential that firms have the scope to enter into efficient contracts that involve intellectual property rights, free of onerous and ultimately counter-productive regulatory burdens. Great caution is therefore needed in imposing on transactions in IP rights constraints that may be less costly when applied in other areas of property.<sup>177</sup>

Despite its reservations about the drafting of s 51(3) of the *Trade Practices Act 1974* (Cth), the Ergas Committee rejected simply repealing the provision because of theoretical efficiency gains from some of the conduct prohibited by Part IV of the *Trade Practices Act 1974* (Cth) and the uncertainty about the effects of a repeal on licensing and assignment decisions.<sup>178</sup> The ‘central question’ for the Ergas Committee was ‘whether the current s 51(3) [of the *Trade Practices Act 1974* (Cth)] strikes an appropriate balance in allowing the exercise of the rights but not their use in ways that go beyond the purposes underlying the rights?’.<sup>179</sup>

While the Ergas Committee was uncertain about ‘what content would be left in [s 51(3) of the *Trade Practices Act 1974* (Cth)] if (in line with the [Samuel Committee’s] recommendations) all horizontal arrangements and all price and quantity restrictions were removed from its scope’,<sup>180</sup> they ‘believ[ed] that adoption of the [Samuel Committee’s] proposal would amount to a repeal of the section’.<sup>181</sup> The consequence was to ‘impose unnecessary costs on the innovation process’.<sup>182</sup> The solution that balanced the needs of the intellectual property system and the wider goals of competition policy, in the Ergas Committee’s ‘view’, ‘requires a careful re-framing of the section’.<sup>183</sup>

... we believe this balance can best be addressed through the following changes:

- repealing s 51(3) and related provisions from the [*Trade Practices Act 1974* (Cth)];
- ...; and
- including amendments in the [*Trade Practices Act 1974* (Cth)] to ensure that a contravention of Part IV of the [*Trade Practices Act 1974* (Cth)], or of s 4D of that Act, shall not be taken to have been committed by reason of the imposing of conditions in a

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<sup>173</sup> Ibid 207-208.

<sup>174</sup> Ibid 208.

<sup>175</sup> Ibid 210 stating, ‘[i]t is not the Committee’s remit to comment on, or seek amendment to, the overall provisions of the Act. We do not claim to be in a position to do so, since the matters at issue are complex and deserve close and detailed examination. However, we do note that our views have been reached on the basis of analysing the Act as it stands, and of considering the effects that (given the Act as it stands) would flow from different approaches to the coverage by the Act of conduct relating to the exercise of IP rights’.

<sup>176</sup> Ibid.

<sup>177</sup> Ibid 211.

<sup>178</sup> Ibid 212.

<sup>179</sup> Ibid.

<sup>180</sup> Ibid 213.

<sup>181</sup> Ibid.

<sup>182</sup> Ibid.

<sup>183</sup> Ibid.

licence, or the inclusion of conditions in a contract, arrangement or understanding, that relate to the subject matter of that intellectual property statute,<sup>184</sup> so long as those conditions do not result, or are not likely to result, in a substantial lessening of competition.<sup>185</sup>

The Ergas Committee also considered that:

The Committee also notes that the imposing of conditions in a licence, or the inclusion of conditions in a contract, arrangement or understanding, should also clearly mean the refusal by the owner of an [intellectual property] right to enter into a licence, contract, arrangement or understanding. This means that the intellectual property owner still has the benefit of the relevant provisions even in the absence of a contract. However, this will not over-ride separate provisions made in the IP legislation that bear on compulsory licensing.<sup>186</sup>

To assist ‘the users of the [intellectual property] system to better understand the proposed changes’ the Ergas Committee considered the Australian Competition and Consumer Commission (ACCC) should issue guidelines ‘on how it will implement enforcement activities related to the provision’.<sup>187</sup> The purpose of these guidelines would be to ‘provide sufficient guidance to owners of intellectual property rights as to the types of behaviour likely to result in a substantial lessening of competition’ and ‘make provisions for potential contractors to seek written clearance from the ACCC on whether the proposed behaviour is likely to result in a substantial lessening of competition’.<sup>188</sup> The results of these changes would:

... ensure that conduct relating to the subject matter of IP rights, which does not result in a substantial lessening of competition, would be exempt from the relevant provisions of the [Trade Practices Act 1974 (Cth)]. It would accept that conduct from the Act’s *per se* prohibitions, thus minimising the range of instances in which administrative procedures such as authorisation or notification were required.<sup>189</sup>

The Ergas Committee apparent consideration that the *Trade Practices Act 1974 (Cth)* ‘should come into play when [patents] are used in ways that go beyond the scope of the right being granted’<sup>190</sup> failed to assess whether a patent privilege is an acceptable restriction on competition even though there has been no substantial lessening of competition (such as the *per se* prohibitions that do not have the purpose, effect or likely effect of substantially lessening competition). Their justification for this conclusion appears to be:

... it seems reasonable to suppose that the *per se* prohibitions embodies in the [Trade Practices Act 1974 (Cth)], and the potentially burdensome requirements for administrative review, would catch many license conditions that are usually socially beneficial – for example, tying and exclusive dealing arrangements in patent licenses. Over the longer term, this could both reduce innovation and distort competition between those (typically smaller and more specialised) firms that depended on licenses and assignments and those that did not.<sup>191</sup>

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<sup>184</sup> Noting that this was also to include ‘the refusal by the owner of an IP right to enter into a license, contract, arrangement or understanding’, but ‘not over-ride separate provisions made in the IP legislation that bear on compulsory licensing’: Ergas Committee, above n 10, 213.

<sup>185</sup> Ergas Committee, above n 10, 213 and 215; noting that the term ‘substantial lessening of competition’ was ‘to be interpreted in a manner consistent with the case law under the TPA more generally’ (213).

<sup>186</sup> Ergas Committee, above n 10, 213.

<sup>187</sup> Ibid and 215.

<sup>188</sup> Ibid.

<sup>189</sup> Ibid 214.

<sup>190</sup> Ibid 24.

<sup>191</sup> Ibid 212.



The major criticism of this ‘scope of grant’ approach is that it resolves the interface between patents and competition law by favouring patents, with an inherent assumption that the welfare increases from patents will always outperform the welfare increases from enhanced competition.<sup>192</sup> Unfortunately, the Ergas Committee provided no further analysis of what exempted *per se* prohibited conduct was socially detrimental (or its consequences), while assuming that any detrimental conduct would be outweighed by beneficial conduct because of the vulnerability of licensing practices to uncertainty and transaction costs.<sup>193</sup> If, however, the Ergas Committee was really only concerned about certainty and transaction costs, then there are arguably better ways of addressing this than an exemption from competition laws,<sup>194</sup> but these were not addressed.

#### **D The Dawson Committee**

The Terms of Reference of the Dawson Committee were ‘to review the operation of the competition and authorisation provisions of the [*Trade Practices Act 1974* (Cth)], specifically Parts IV (and associated penalty provisions) and VII, to determine whether they ... promote competitive trading which benefits consumers in terms of services and price’.<sup>195</sup> The Terms of Reference also expressly provided that the Dawson Committee ‘is not to include in this review a direct consideration of ... ss 51(2) and (3) of Part IV’ of the *Trade Practices Act 1974* (Cth).<sup>196</sup> The final report of the Dawson Committee made no specific assessment of the place and role of intellectual property in Part IV of the *Trade Practices Act 1974* (Cth) matters except s 46,<sup>197</sup> saying in part:

The extent to which intellectual property confers market power on the owners for the purposes of s 46 of the Act is a question currently before the courts on appeal from the decision in *Universal Music*<sup>198</sup> ... Even if it were inclined to do so and it was within its terms of reference, the Committee considers that it would be premature to consider this matter before a final decision in *Universal Music*.<sup>199</sup>

The Dawson Committee considered that the ACCC should issue guidelines about the application of pt IV of the *Trade Practices Act 1974* (Cth) to intellectual property believing that ‘it would be desirable for these guidelines to be issued as soon as possible, but appreciates that the ACCC may be awaiting the final decision in *Universal Music*’.<sup>200</sup>

In addressing the *Trade Practices Act 1974* (Cth) *per se* prohibitions, the Dawson Committee considered that a *per se* prohibition of price fixing was ‘justified because of its anti-competitive nature’,<sup>201</sup> while exclusionary provisions were ‘generally anti-competitive because they involve the deliberate exclusion of a competitor from a market’,<sup>202</sup> and that third-line forcing ‘may be beneficial and pro-competitive where efficiencies in production make it

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<sup>192</sup> See for example Carrier, above n 8, 764; Carrier also points out that this favors the patent approach to promoting innovation and fails to consider there are more ways to promote innovation (764 and 789-790).

<sup>193</sup> See Ergas Committee, above n 10, 210-211; see also Eagles and Longdin, above n 45, 35.

<sup>194</sup> See for example, Hilmer Committee, above n 4, 88-89 (suggesting direct subsidies, tax breaks, and so on).

<sup>195</sup> Dawson Committee, above n 28, 201.

<sup>196</sup> Ibid 202.

<sup>197</sup> Ibid 86.

<sup>198</sup> Being *ACCC v Universal Music Australia Pty Ltd* (2001) 201 ALR 502 (Hill J); this matter was subsequently decided on appeal in *Universal Music Australia Pty Ltd v Australian Competition And Consumer Commission* (2003) 57 IPR 353 (Wilcox, French and Gyles JJ).

<sup>199</sup> Dawson Committee, above n 28, 86.

<sup>200</sup> Ibid.

<sup>201</sup> Ibid 125.

<sup>202</sup> Ibid 127.

cheaper to produce and sell two or more products in combination’.<sup>203</sup> In dealing with these issues the Dawson Committee considered that:

- (a) Price fixing should remain a *per se* prohibition, subject to limited exemption for joint ventures,<sup>204</sup>
- (b) Exclusionary provisions should remain as a *per se* prohibition subject to a defence that ‘the conduct in question did not have the purpose, effect or likely effect of substantially lessening competition’,<sup>205</sup> and that the reach of the provision should be reduced to ‘a competitor or competitors, whether potential or actual, of one or more of the parties to the collective boycott’;<sup>206</sup> and
- (c) Third-line forcing should not be prohibited *per se*, but rather treated in the same way as other forms of exclusive dealing and prohibited only when it has the purpose, effect or likely effect of substantially lessening competition.<sup>207</sup>

The Dawson Committee also dealt with joint ventures. The concern was that the existing arrangements were suited to some mining and manufacturing joint ventures, but not to others (in particular a ‘joint marketing of output produced by a separately constituted mineral exploration, development and production joint venture’) and the “‘looser” collaborative arrangements’ important in innovative enterprises and in particular the “‘network joint ventures” in the areas of both financial services and communications’.<sup>208</sup> The Dawson Committee considered that joint ventures may be pro-competitive ‘when they are employed as a means of developing new products or services or producing existing products or services more efficiently’, but also anti-competitive when it is ‘designed as a cover for anti-competitive arrangements’.<sup>209</sup> In providing a solution the Dawson Committee recommended that:

- (a) The *per se* prohibition against price fixing should be limited in the case of joint venture arrangements by establishing a defence that the price fixing, or proposed price fixing, does not have the purpose, effect or likely effect of substantially lessening competition;<sup>210</sup>
- (b) The ACCC should develop and issue guidelines outlining its approach to joint ventures<sup>211</sup> and
- (c) The *per se* prohibition against exclusionary provisions should be limited in the case of joint venture arrangements by establishing a defence that the *per se* prohibited exclusionary provision, or proposed exclusionary provision, does not have the purpose, effect or likely effect of substantially lessening competition.<sup>212</sup>

In addressing a balance between certainty with clear rules prohibiting certain conduct and a flexible response recognising that some apparently prohibited conduct may be pro-competitive, the Dawson Committee considered the non-merger authorisation provisions of

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<sup>203</sup> Ibid 128.

<sup>204</sup> Ibid 124 and 140-142.

<sup>205</sup> Ibid 128.

<sup>206</sup> Ibid.

<sup>207</sup> Ibid 131.

<sup>208</sup> Ibid 136.

<sup>209</sup> Ibid 140.

<sup>210</sup> Ibid 141 and 143.

<sup>211</sup> Ibid 142 and 143.

<sup>212</sup> Ibid 125 and 142.

the *Trade Practices Act 1974* (Cth).<sup>213</sup> The concern was that the ACCC's process took too long, was too expensive and did not provide sufficient certainty as the authorisation was only granted for a limited period and was subject to appeal by third parties.<sup>214</sup> In addressing these concerns, the Dawson Committee recommended that the *Trade Practices Act 1974* (Cth) be amended to include a time limit of six months for the consideration of non-merger applications for authorisation by the ACCC,<sup>215</sup> a discretion for the ACCC 'to waive, in whole or in part, the fee for filing a non-merger application for authorisation where it would impose an unduly onerous burden on an applicant', and the development of 'an informal system of consultation with non-merger applicants for authorisation' to provide guidance about the authorisation process and its requirements.<sup>216</sup>

### **E The Weisbrot Committee**

The Weisbrot Committee's Terms of Reference required an 'inquiry and report' on 'the impact of current patenting laws and practices – including licensing – related to genes and genetic and related technologies' in the context of 'the conduct of research and its subsequent application and commercialisation', 'the Australian biotechnology sector' and 'the cost-effective provision of healthcare in Australia'.<sup>217</sup> Further, this inquiry was to address the identified problems 'with the aim of encouraging the creation and use of intellectual property to further the health and economic benefits of genetic research and genetic and related technologies'.<sup>218</sup> A range of other considerations were also to be addressed, including the role of intellectual property in promoting technological innovation.<sup>219</sup>

The Weisbrot Committee reported that it had 'not heard evidence that the exploitation of intellectual property rights in genetic materials and technologies has raised significant competition problems to date', although accepted that there was the 'potential' for such problems.<sup>220</sup> However, the Weisbrot Committee made no proposals to reform s 51(3) of the *Trade Practices Act 1974* (Cth) 'as the Australian Government had indicated that it would amend the provision',<sup>221</sup> but it did express the view that 'the scope of exploitation of intellectual property rights should be more clearly defined'.<sup>222</sup> This resulted in the recommendation that s 51(3) of the *Trade Practices Act 1974* (Cth) should be amended and that the ACCC should develop guidelines 'to clarify the relationship' between pt IV of the *Trade Practices Act 1974* (Cth) and the exercise of intellectual property privileges.<sup>223</sup> Most significantly, these guidelines were to deal with specific issues involving the exploitation of intellectual property in genetic materials and technologies and, in particular, patent pools and cross-licensing.<sup>224</sup>

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<sup>213</sup> Ibid 109-114.

<sup>214</sup> Ibid 112.

<sup>215</sup> This also included that 'consideration should be given to imposing a time limit on any review by the [Trade Practices] Tribunal' *ibid* 114.

<sup>216</sup> *Ibid*.

<sup>217</sup> Weisbrot Committee, above n 28, 7-8 and 46.

<sup>218</sup> *Ibid* 8 and 46.

<sup>219</sup> *Ibid* 7 and 46-47.

<sup>220</sup> *Ibid* 570; this view was adopted after consideration of the extensive empirical evidence of patent licensing and other issues facing the Australian biotechnology industry: see generally Dianne Nicol and Jane Nielsen, *Patents and Medical Biotechnology: An Empirical Analysis of Issues Facing the Australian Industry*, Centre for Law and Genetics Occasional Paper No 6 (2003).

<sup>221</sup> Weisbrot Committee, above n 28.

<sup>222</sup> *Ibid* 575.

<sup>223</sup> *Ibid* 575 and 576.

<sup>224</sup> *Ibid*.

The chief criticism of the Weisbrot Committee's inquiry was that it was asked to assess a particular area of patent law and practice in isolation from the broader debates,<sup>225</sup> and provide recommendations to be applied in a non-discriminatory way with consequences for all patent law and practice.<sup>226</sup> Further, the Weisbrot Committee took no account of the requirements of the *Competition Principles Agreement*, and in particular, the 'guiding principle' that legislated restrictions on competition should only be allowed if they have been demonstrated to be in the public interest.<sup>227</sup> Without dealing with these matters, the persuasiveness of any recommendations of the Weisbrot Committee were always likely to be of limited value.

#### **F The Productivity Commission**

The Productivity Commission recently undertook a broad ranging review of the *National Competition Policy* and its implementation:

... to consider the extent of the benefits the reform program has delivered to date and to inform an assessment of the most worthwhile competition related reforms that could be achieved in the future, including competition related reforms which could apply beyond current [*National Competition Policy*] arrangements.<sup>228</sup>

Included in its Terms of Reference was the requirement to report on:

... areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition, including through a possible further legislation review and reform programme, together with the scope and expected impact of these competition related reforms.<sup>229</sup>

In addressing intellectual property specifically, the Productivity Commission considered that 'innovativeness will be a key requirement in sustaining and enhancing Australian living standards'.<sup>230</sup> However, in setting the appropriate standards the Productivity Commission considered that intellectual property laws 'continue to be scrutinised to ensure that they are not unduly restrictive' through a legislation review (and re-review) program,<sup>231</sup> and that adopting more than the internationally obligated minimum standards 'may well be warranted' to achieve beneficial trade and investment facilitation and the reduction of other trade barriers.<sup>232</sup> However, the Productivity Commission cautioned:

... as a net importer of intellectual property, there would clearly be downsides for Australia in being too compliant in this regard. It is therefore important that decisions regarding the scope and length of intellectual property protection in Australia are predicated on what is in the best interests of the community as a whole, rather than solely on what is required to secure a trade agreement. There may also be opportunities to minimise the risk of adverse outcomes associated with trade policy driven increases in the stringency of Australia's intellectual property regime. For example, as noted above, the agreed but yet to be implemented changes to s 51(3) of the

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<sup>225</sup> See *ibid* 47.

<sup>226</sup> See *ibid*; notably the Weisbrot Committee had earlier asserted that, '[i]n developing its proposals, the ALRC has been mindful of the need for reforms that make the existing system work better, rather than conceiving an entirely new system: Australian Law Reform Commission, *Gene Patenting and Human Health*, Discussion Paper 68 (2004) 50-51; note also Australian Law Reform Commission, *Gene Patenting and Human Health*, Issues Paper 27 (2003) 21-22.

<sup>227</sup> See *Competition Principles Agreement* cl 5(1).

<sup>228</sup> Productivity Commission, *Review of National Competition Policy Reforms*, Inquiry Report 33 (2005) iv.

<sup>229</sup> Productivity Commission, above n 228, iv-v.

<sup>230</sup> *Ibid* 284.

<sup>231</sup> *Ibid* 285.

<sup>232</sup> *Ibid*.

[*Trade Practices Act 1974* (Cth)] would potentially provide for greater scrutiny of anti-competitive behaviour associated with intellectual property arrangements.<sup>233</sup>

The Productivity Commission's general view about the *National Competition Policy* appears to have been that 'while much has been achieved, the need to continue to pursue reform opportunities across the economy has not diminished'.<sup>234</sup> In proposing a reform agenda (a microeconomic reform program)<sup>235</sup> the place of 'support for technological innovation' was identified as an 'important reform' but was not otherwise addressed.<sup>236</sup> However, a range of '[o]ther important areas for policy attention' were identified, including 'ensuring that there are cost-effective mechanisms in place to address market failures in technological innovation, including appropriate intellectual property protection'.<sup>237</sup> The Productivity Commission asserted that 'policy initiatives in these areas offer the prospect of significant gains for the community',<sup>238</sup> although exactly how this might require or be achieved with more 'appropriate intellectual property protection' was not addressed.

### **G The Australian Government's responses**

Following these various reviews the Australian Government has responded.<sup>239</sup> The responses, in dealing with the *Trade Practices Act 1974* (Cth) exemptions for patents, are to:<sup>240</sup>

- (a) Continue to accorded distinctive treatment to patents (and some other forms of intellectual property) under the *Trade Practices Act 1974* (Cth),<sup>241</sup> but not know how, confidential information or data protection;
- (b) Include transitional arrangements to preserve the effect of the existing licences and assignments entered into before the proposed amendments;<sup>242</sup>
- (c) Maintain the separate treatment of ss 46, 46A or 48 of the *Trade Practices Act 1974* (Cth) in dealing with any exemptions to the *Trade Practices Act 1974* (Cth);<sup>243</sup>
- (d) Limit patent license (and presumably assignment) so that 'IP licensing would be subject to the provisions of Part IV [of the *Trade Practices Act 1974* (Cth)], but a

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<sup>233</sup> Ibid 285-286.

<sup>234</sup> Ibid 360.

<sup>235</sup> See *ibid* 363-365.

<sup>236</sup> Ibid 368.

<sup>237</sup> Ibid 369.

<sup>238</sup> Ibid.

<sup>239</sup> See IP Australia, *Government Response to Intellectual Property and Competition Review Recommendations* (2001); Treasury, *Commonwealth Government Response to the Review of the Competition Provisions of the Trade Practices Act 1974* (2003); although notably, the Government will not respond directly to the Productivity Commission, saying '[a]s the Productivity Commission's review was intended to inform the Council of Australian Governments (COAG) review of [*National Competition Policy*] arrangements to occur later this year, there will be no formal Government response to this report. The Government's response will instead be the outcome of the COAG review': Treasurer, *Release of the Productivity Commission Report into National Competition Policy*, Press Release No 032, 14 April 2005.

<sup>240</sup> Noting that any proposed amendments will require consultation and agreement of the States and Territories according to the terms of the *Intergovernmental Conduct Code Agreement* forming part of the *National Competition Policy*: see National Competition Council, above 122.

<sup>241</sup> IP Australia, above n 239, 11.

<sup>242</sup> Ibid 12.

<sup>243</sup> Ibid.

contravention of the *per se* prohibitions of ss 45, 45A and 47, or of s 4D, would instead be subject to a substantial lessening of competition test’;<sup>244</sup> and

- (e) Require the ACCC to issue guidelines ‘outlining its enforcement approach to these provisions’ so that the guidelines ‘outline when IP licensing and assignment conditions might be exempted under s 51(3) [of the *Trade Practices Act 1974* (Cth)], when IP licences and assignments might breach Part IV ..., and when conduct that is likely to breach Part IV ... might be authorised’.<sup>245</sup>

In dealing with the *Trade Practices Act 1974* (Cth) generally, the Australian Government proposes to:

- (a) Support the development of guidelines by the ACCC about the application of Part IV of the *Trade Practices Act 1974* (Cth) to intellectual property<sup>246</sup> and joint ventures (often involving intellectual property),<sup>247</sup>
- (b) Restrict the *per se* prohibition against exclusionary provisions by establishing a competition defence that the provision does not have the purpose, effect or likely effect of substantially lessening competition, and confine the reach of the prohibition ‘to those agreements that target competitors, actual or potential, of the parties to the agreement’;<sup>248</sup>
- (c) Remove the prohibition *per se* against third-line forcing, and instead prohibit third-line forcing only if it has the purpose, effect or likely effect of substantially lessening competition;<sup>249</sup>
- (d) Modify by amendment the limits on exemptions for joint ventures from the *per se* prohibition against exclusionary provisions and price fixing;<sup>250</sup> and
- (e) Introduce by amendment a time limit of six months for the consideration of non-merger applications for authorisation by the ACCC, and include discretion to waive, in whole or in part, the fee for filing a non-merger application for authorisation.<sup>251</sup>

#### IV DISCUSSION

Generally patent licensing and assignment arrangements might be expected to be pro-competitive through exploiting the patent protected product or process and incorporating more economically efficient manufacturing and distribution facilities, workforces, other intellectual property, other transaction costs, other complementary factors of production, and so on, that might not be available to the patent privilege holder alone, or otherwise require

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<sup>244</sup> Ibid.

<sup>245</sup> Ibid; see also Treasury, above n 239, 5.

<sup>246</sup> Treasury, *ibid*.

<sup>247</sup> Ibid 9.

<sup>248</sup> Ibid 7-8.

<sup>249</sup> Ibid 8; related to this was to treat related firms as single entities for the purposes of exclusive dealings that substantially lessen competition (*Trade Practices Act 1974* (Cth) s 47), and remove the restriction on notification where an earlier authorisation application in respect of the conduct has been granted or dismissed (s 93(2)).

<sup>250</sup> Treasury, *ibid*; while the provision dealing with exclusionary provisions in joint venture contracts, arrangements and understandings was not addressed in the Government response, it has been addressed in amending legislation, see *Trade Practices Legislation Amendment Bill (No 1) 2005* (Cth) sch 4.

<sup>251</sup> Treasury, *ibid* 6.

expensive (and inefficient) duplication.<sup>252</sup> However, not all licenses and assignments will achieve these desirable efficiency outcomes. The challenge for Part IV the *Trade Practices Act 1974* (Cth) is to make these distinctions and provide ‘a set of rules intended to ensure the competitive process is not undermined by the anti-competitive behaviour of firms’.<sup>253</sup> However, as the analysis in this article shows, there has been a failure to address in any detail the interface between patents and competition law, and whether license and assignment dealings with patent protected products and processes should be treated any differently to other contracts, arrangements or understandings under Part IV of the *Trade Practices Act 1974* (Cth). This is important as the Hilmer Committee stated:

There are compelling efficiency and equity arguments for ensuring that competitive conduct rules ... are applied uniformly and universally throughout the economy, with exemptions or special treatment accorded only on demonstrated public interest grounds.<sup>254</sup>

Both the Samuel Committee and Ergas Committee were intended to examine the ‘public interest grounds’, and both accepted the need for the *Trade Practices Act 1974* (Cth) to provide some exemptions for intellectual property.<sup>255</sup> Unfortunately, neither in the end clearly articulated the ‘public interest’ justifying the recommended limited exemption for intellectual property.<sup>256</sup> While the Samuel Committee raised a range of counter arguments to challenge the exemptions from the *Trade Practices Act 1974* (Cth),<sup>257</sup> the effect of the Samuel Committee’s recommendations were passed over by the Ergas Committee and its assessment that expressly rejected the earlier recommendations.<sup>258</sup>

The Ergas Committee did recommend a theoretically substantial reduction in the scope of the current exemption for some conditions in licenses and assignments from Part IV of the *Trade Practices Act 1974* (Cth). However, the practical effect is uncertain as the ‘market’ definition required by the substantially lessens competition test is unlikely to ever capture many license and assignment conditions.<sup>259</sup> The Ergas Committee did not, however, provide a detailed competition analysis or assessment of why exemption from the *per se* prohibitions in the *Trade Practices Act 1974* (Cth) that did not have the purpose, effect or likely effect of substantially lessening competition were justified.<sup>260</sup> This was a surprising result as their express task according to their Terms of Reference was to subject the existing statutory

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<sup>252</sup> See for example United States Department of Justice and Federal Trade Commission, above 132, 5 and 16; see also Federal Trade Commission, *Anticipating the 21st Century: Competition Policy in the New High-Tech, Global Marketplace*, Staff Report (1996) 213-215.

<sup>253</sup> Hilmer Committee, above n 4, 25.

<sup>254</sup> Ibid 85; similar sentiments have been expressed in other reviews, see for examples, Swanson Committee, above n 38, 84; and this is also now reflected in the *Competition Principles Agreement* cl 5(1).

<sup>255</sup> Samuel Committee, above n 28, 213; Ergas Committee, above n 10, 11 and 215 (including a refusal to deal, 213).

<sup>256</sup> See also Charles Lawson, ‘Patent Privileges and the National Competition Policy – Patent Scope and Allocation?’ (2005) 33 *Australian Business Law Review* 7, 12-21; noting the analysis there that the Ergas Committee dealt very differently with parallel import restrictions under the *Copyright Act 1968* (Cth).

<sup>257</sup> See Samuel Committee, above n 28, 196-200.

<sup>258</sup> See Ergas Committee, above n 10, 213.

<sup>259</sup> Either because the intellectual property privilege is unlikely to define a market alone, the market being much broader so that exercising a privilege in that broader market is unlikely to ‘substantially lessen competition’ (see for example Adams and McLennan, above n 14, 13), or the exercise of the privilege will not be characterised in a way that is an exercise of market power (see for example Lawson, above n 159, 117-120).

<sup>260</sup> Ibid 213-214; noting that the Ergas Committee said, ‘[i]t would accept that conduct from the [*Trade Practices Act 1974* (Cth)]’s *per se* prohibitions, thus minimizing the range of instances in which administrative procedures such as authorization or notification are required’ (214).

arrangements to the competition standard set out in the *Competition Principles Agreement*.<sup>261</sup> In the present context, this is a requirement to demonstrate that the benefits of the legislated restriction on competition (the exemption from Part IV of the *Trade Practices Act 1974* (Cth)) outweigh the costs and that the objectives of patent privileges can only be achieved by restricting competition.<sup>262</sup> While there are practical difficulties in applying the *Competition Principles Agreement* in determining exactly what standard and threshold to apply in assessing costs and benefits, it is undertaking the process of analysis that is likely to deliver better regulation by ‘questioning, understanding real world impacts, [and] exploring assumptions’.<sup>263</sup>

Even if, as the Ergas Committee seems to have believed, transaction costs pose a special barrier to the ‘efficient use of intellectual property’ compared to ‘other property or assets’,<sup>264</sup> there was merely an assertion that contracts involving intellectual property faced ‘counter-productive regulatory burdens’.<sup>265</sup> There was no assessment of the costs and benefits of lowering the transaction costs by accepting likely anti-competitive licensing and assignment practices, or the potential for other arrangements to lower those transaction costs that did not involve restricting competition.<sup>266</sup> Further, the Ergas Committee merely alluded to concerns about the role of Part IV of the *Trade Practices Act 1974* (Cth) and its design in an ‘intellectual climate ... [where] ... most participants in the policy debate would have reasonably assumed that many practices that involved tying, bundling, price discrimination or resale price maintenance’ were anti-competitive without setting out its reasoned justification.<sup>267</sup> This concern might explain the Ergas Committee’s reluctance to recommend amendment to the wider provisions of Part IV of the *Trade Practices Act 1974* (Cth).<sup>268</sup> However, important conclusions about the hotly contested theoretical preferences for balancing intellectual property, and patents in particular, and competition law were left unstated,<sup>269</sup> and then the recommendations retain the uncertain ‘relates to’ threshold<sup>270</sup> perpetuating the potential for inefficiencies from business uncertainty and increased transaction costs in seeking some certainty that the exemption might apply.

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<sup>261</sup> Ibid 216-217; noting that the Terms of Reference required the Ergas Committee to ‘have regard to ... the conclusions and recommendations’ of the Samuel Committee (see also 202).

<sup>262</sup> See *Competition Principles Agreement* cl 5(1); see also Lawson, above n 256, 18-19.

<sup>263</sup> Industry Commission, *Regulation and Its Review 1995-96*, Annual Report Series (1996) 11; see also Lawson, *ibid* 28-29.

<sup>264</sup> Ergas Committee, above n 10, 210.

<sup>265</sup> *Ibid*.

<sup>266</sup> Noting that the Hilmer Committee considered that there were likely to be few instances where other government policy instruments might not be available to pursue a particular economic or social objective, and that anti-competitive conduct was often more inefficient than other options, such as direct and transparent budgetary assistance: Hilmer Committee, above n 4, 88-89.

<sup>267</sup> Ergas Committee, above n 10, 209.

<sup>268</sup> This view is expressed by Eagles and Longdin, above n 45, 34-35.

<sup>269</sup> For example, the ‘grab’ for jurisdiction of antitrust matters through patent disputes by the United States Federal Circuit Court of Appeals and its abandonment of precedent from other jurisdictions (compare for example *In re Independent Services Organizations Antitrust Litigation* 203 F.3d 1322, 1327-1328 (Fed Cir 2000) (Mayer CJ) and *United States v Microsoft* 253 F.3d 34, 63 (DC 2001) (Edwards CJ, Williams, Ginsburg, Sentelle, Randolph, Rogers and Tatel JJ)) perhaps reflecting different ideological perspectives about the prominence of efficiency in a competition analysis: see generally James Gambrell, ‘The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit’ (2000) 9 *Texas Intellectual Property Law Journal* 137; noting the criticism of recent court decision and their possible consequences see Robert Pitofsky, ‘Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property’ (2001) 68 *Antitrust Law Journal* 913; for an example of the contested positions compare Kitch, above n 17, and Landes and Posner, above n 10, 375-377.

<sup>270</sup> See Ergas Committee, above n 10, 215.



To assist in understanding its recommendations, the Ergas Committee assigned the task to the ACCC to issue guidelines about how it might enforce the proposed changes.<sup>271</sup> Unfortunately this will not assist greatly as the proposed guidelines are merely ACCC administrative and enforcement guidelines that do not bind courts, and avoid the possibility of a regime of rules truly ‘nuanced’ to the special needs of intellectual property (if indeed those needs are special) that the Ergas Committee found so problematic with the 1970s era Part IV of the *Trade Practices Act 1974* (Cth) prohibitions.<sup>272</sup> For example, other creative solutions that the Ergas Committee might have considered was a bloc exemption for dealings involving intellectual property under modified authorisation and notification arrangements,<sup>273</sup> or created under a modified s 172 of the *Trade Practices Act 1974* (Cth) regulations power.<sup>274</sup> The content of such a bloc exemption would undoubtedly have proved contentious and necessitated the Ergas Committee to commit to a perspective about the most efficient and effective way to regulate the interface between intellectual property and competition law.<sup>275</sup> While this is no easy task, as the European experience demonstrates,<sup>276</sup> it is a necessary step in a long road to better understanding and capturing the benefits from innovation through balancing the patents and competition law schemes.<sup>277</sup> Further, such an approach might address the different needs of different industries and technologies that rely on patents for different purposes,<sup>278</sup> and where patents and competition laws are likely to significantly affect levels of beneficial innovation particularly when comparing industries with low cost R&D (such as software developments), incremental or cumulative innovations (such as semiconductors) and high duplication costs (such as pharmaceuticals).<sup>279</sup> Another vexed area that probably deserved further attention was the potential for anti-competitive settlements of patent disputes.<sup>280</sup>

Unfortunately the later Dawson Committee did not make any distinction between contracts, arrangements and understandings generally and intellectual property license and assignment in particular, or provide any hints about its views on the exemption of some intellectual

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<sup>271</sup> See *ibid* 213 and 215.

<sup>272</sup> See *ibid* 209-210.

<sup>273</sup> *Trade Practices Act 1974* (Cth) pt VII; although noting that the current provisions require an ‘application by or on behalf of a corporation’ (ss 88(1) and 88(8)) and ‘a corporation ... may give to the Commission notice’ (s 93(1)).

<sup>274</sup> Although noting that the current *Trade Practices Act 1974* (Cth) s 172(2) provides that, ‘[t]he regulations may, either unconditionally or subject to such conditions as are specified in the regulations, exempt from the application of this Act (other than pt IV) or of specified provisions of this Act (other than pt IV) ...’.

<sup>275</sup> For an overview of some of the possible approaches open to the Ergas Committee, see Carrier, above n 8, 766-800.

<sup>276</sup> For an overview of recent developments see John Kallaugh and Andreas Weitbrecht, ‘Developments under Articles 81 and 82 EC: The Year 2004 In Review’ (2005) 26 *European Competition Law Review* 188; Fiona Carlin and Stephanie Pautke, ‘The Last of its Kind: The Review of the Technology Transfer Block Exemption Regulation’ (2004) 24 *Northwestern Journal of International Law and Business* 201.

<sup>277</sup> This view is reflected in the ongoing discussions in the United States about the appropriate balance between patents and competition laws requiring changes to both the patent and competition laws to stimulate innovation for the benefit of consumer welfare: see generally Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) 1-4; a further report from the Federal Trade Commission and Department of Justice addressing competition law and how it might be tailored to further promote innovation is expected soon.

<sup>278</sup> See for example Dan Burk and Mark Lemley, ‘Is Patent Law Technology-Specific?’ (2002) 17 *Berkeley Technology Law Journal* 1155.

<sup>279</sup> See for example Federal Trade Commission, *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy*, Transcript 25 February 2002 (2002) 34-43.

<sup>280</sup> See for example Herbert Hovenkamp, Mark Lemley and Mark Janis, ‘Anti-competitive Settlements of Intellectual Property Disputes’ (2003) 87 *Minnesota Law Review* 1719.

property dealings from Part IV of the *Trade Practices Act 1974* (Cth).<sup>281</sup> Perhaps significantly, the Dawson Committee maintained the rationale for *per se* prohibitions against price fixing subject to limited exemption for joint ventures,<sup>282</sup> and exclusionary provisions subject to a substantially lessening competition defence<sup>283</sup> and a reduced scope of operation to competitors of a party to the transaction.<sup>284</sup> This suggests that the Dawson Committee still considered such conduct was worthy of *per se* prohibition irrespective of its justification and that where it was justified the authorisation and notification process was appropriate. Unfortunately there was no comments made about the inference from the Ergas Committee that perhaps Part IV of the *Trade Practices Act 1974* (Cth) required remodelling to modern times to accommodate *new* economic thinking. Perhaps the Dawson Committee's conclusions are an indication that even in these modern times some forms of conduct are best prohibited *per se* and then authorised or notified if they can be justified in the specific circumstances.

The Dawson Committee did however address the transaction costs of authorisation (and notification)<sup>285</sup> leaving open the possibility that the transaction costs for patent licenses and assignments of concern to the Ergas Committee have now been addressed.<sup>286</sup> Similarly, the Dawson Committee recommended the *per se* prohibition against third line forcing be changed to a substantial lessening of competition threshold, perhaps addressing some of the Ergas Committee's concern about pro-competitive tying and exclusive dealing arrangements in licenses.<sup>287</sup> Unfortunately, the latest review of *National Competition Policy* by the Productivity Commission merely commented that 'the agreed but yet to be implemented changes to s 51(3) of the [*Trade Practices Act 1974* (Cth)] would potentially provide for greater scrutiny of anti-competitive behaviour associated with intellectual property arrangements'.<sup>288</sup> This does not address the role of intellectual property, even though the Productivity Commission considered 'appropriate intellectual property protection' one of the 'important areas for policy attention' in future.<sup>289</sup> Again, there is no challenge that intellectual property has a role, the question is what role should it have so that its potentially anti-competitive effects are minimised. This is now a critical question as Australia commits to further (and stronger) intellectual property privileges in favour of the privilege holders and thereby increasing the potential for anti-competitive licensing (and assignment) activity.<sup>290</sup>

The various Australian Government responses indicate that the uncertain s 51(3) of the *Trade Practices Act 1974* (Cth) exemption will be limited further, although the precise formulation of the exemption remains unclear.<sup>291</sup> It appears that the exempted conduct that the s 51(3) of the *Trade Practices Act 1974* (Cth) will allow will be conditions in licenses and assignments that 'relates to' the patent protected products and processes that would have been characterised as *per se* prohibitions that do not have the purpose, effect or likely effect of substantially lessening competition. These are conditions that do not have the purpose, effect

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<sup>281</sup> See Dawson Committee, above n 28, 75-88, 109-114 and 123-131.

<sup>282</sup> Ibid 124 and 140-142.

<sup>283</sup> Ibid 128.

<sup>284</sup> Ibid.

<sup>285</sup> Ibid 114.

<sup>286</sup> See Ergas Committee, above n 10, 211.

<sup>287</sup> See ibid 212.

<sup>288</sup> Productivity Commission, above n 228, 286.

<sup>289</sup> Ibid 369.

<sup>290</sup> For an example of the likely effects on the patent arrangements following the *Australia-United States Free Trade Agreement* [2005] ATS 1, ch 17, see Lawson and Pickering, above n 26, 357-361.

<sup>291</sup> Some of the ancillary measures are being addressed in the *Trade Practices Legislation Amendment Bill (No 1) 2005* (Cth); for example 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)).

or likely effect of substantially lessening competition dealing with price fixing,<sup>292</sup> exclusionary conduct,<sup>293</sup> and covenants that fix prices.<sup>294</sup> That is:

- (a) Price fixing – s 45A(1) of the *Trade Practices Act 1974* (Cth) deems price fixing (price, discount, allowance, rebate or credit) contracts, arrangements or understandings to have the purpose, effect or likely effect of substantially lessening competition. The consequence is that price fixing is prohibited *per se* under ss 45(2)(a)(ii) and (2)(b)(ii) of the *Trade Practices Act 1974* (Cth) that proscribe the making or giving effect to a provision in a contract, arrangement or understanding that has the purpose, effect or likely effect of substantially lessening competition;
- (b) Exclusionary conduct – ss 45(2)(a)(i) and (2)(b)(i) of the *Trade Practices Act 1974* (Cth) proscribe the making or giving effect to an exclusionary provision in a contract, arrangement or understanding, being defined in s 4D of the *Trade Practices Act 1974* (Cth) as a contract, arrangement or understanding made between competitors which has the purpose of preventing, restricting or limiting the supply or acquisition of goods or services to or from particular persons or classes of persons either altogether or in particular circumstances or on particular conditions; and
- (c) Covenants that fix prices – s 45C(1) of the *Trade Practices Act 1974* (Cth) provides that in applying the restrictions on covenants (as defined in s 4)<sup>295</sup> that fix prices in s 45B(1) of the *Trade Practices Act 1974* (Cth),<sup>296</sup> the substantially lessening competition requirement is ‘omitted’ so that a covenant is unenforceable ‘in so far as it confers rights or benefits or imposes duties or obligations on a corporation or on a person associated with a corporation’.<sup>297</sup>

These *per se* prohibitions will, however, be allowed where there is a joint venture that does not have the purpose, effect or likely effect of substantially lessening competition,<sup>298</sup> or they have been authorised,<sup>299</sup> or notified in the case of some exclusive dealings.<sup>300</sup>

The key question then, is why should *per se* prohibitions that do not have the purpose, effect or likely effect of substantially lessening competition be allowed for some patent licenses and assignments, but not other contracts (and arrangements and understandings)? This is particularly important as the rationale for *per se* prohibitions in the *Trade Practices Act 1974* (Cth) is:

... that the conduct prohibited is so likely to be detrimental to economic welfare, and so unlikely to be beneficial, that it should be proscribed without further inquiry about its impact on competition.<sup>301</sup>

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<sup>292</sup> *Trade Practices Act 1974* (Cth) ss 45(2)(a)(ii), 45(2)(b)(ii) and 45A(1).

<sup>293</sup> *Trade Practices Act 1974* (Cth) ss 45(2)(a)(i), 45(2)(b)(i) and 4D.

<sup>294</sup> *Trade Practices Act 1974* (Cth) s 45C(1).

<sup>295</sup> Where ‘covenant’ means ‘a covenant (including a promise not under seal) annexed to or running with an estate or interest in land (whether at law or in equity and whether or not for the benefit of other land), and *proposed covenant* has a corresponding meaning’: *Trade Practices Act 1974* (Cth) s 4.

<sup>296</sup> The limited class of s 45B(1) covenants covered by s 45C(1) being a covenant ‘that has, or is likely to have, the effect of fixing, controlling or maintaining, or providing for the fixing, controlling or maintaining of, the price for, or a discount, allowance, rebate or credit in relation to, goods or services’: *Trade Practices Act 1974* (Cth) s 45C(1).

<sup>297</sup> *Trade Practices Act 1974* (Cth) s 45B(1).

<sup>298</sup> *Trade Practices Act 1974* (Cth) ss 76C(1) (exclusionary provision) and 76D(1) (price fixing).

<sup>299</sup> *Trade Practices Act 1974* (Cth) s 88(1).

<sup>300</sup> *Trade Practices Act 1974* (Cth) s 93(1).

There is no doubt that some licenses and assignments that include conditions that fall within the bounds of the *Trade Practices Act 1974* (Cth)'s *per se* prohibitions that do not have the purpose, effect or likely effect of substantially lessening competition are pro-competitive.<sup>302</sup> The challenge for the *Trade Practices Act 1974* (Cth) remains to distinguish between pro-competitive and anti-competitive arrangements. Sadly, the recent flurry of reviews and the Australian Government responses have carefully avoided any in-depth analysis of the actual licensing and assigning practices that inhabit the *per se* interface between patents and competition laws and have achieved very little in clarifying this interface. Perhaps most disappointingly, the two key issues that require resolution remain unanswered:

- (a) The so-called 'paradox'; why the current s 51(3) of the *Trade Practices Act 1974* (Cth) exemption remains so apparently important when its exact meaning remains so uncertain?<sup>303</sup> and
- (b) Given the global nature of intellectual property licensing and assignments, and patent licensing and assignments in particular, why is there a need for favourable treatment in Australia when favourable treatment in one jurisdiction may not apply in another jurisdiction?<sup>304</sup>

This is a complex and compelling area of law and policy with potentially significant consequences for what the Productivity Commission asserted as an area of policy attention that 'offer the prospect of significant gains for the community'.<sup>305</sup> While there is unlikely to ever be a complete resolution to the tension between patents and competition law, the failure of recent reviews and proposed legislative activity has been another lost opportunity.<sup>306</sup>

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<sup>301</sup> Dawson Committee, above n 28, 123; notably in other jurisdictions the justification for *per se* rules includes business certainty ('bright line') and litigation efficiency: see Edward Brunet, 'Streamlining Antitrust Litigation by Facial Examination of Restraints: The Burger Court and the Per Se-Rule of Reason Distinction' (1984) 60 *Washington Law Review* 1, 11-13.

<sup>302</sup> For example the Samuel Committee noted that 'territorial restrictions and exclusive licenses often have pro-competitive effects that offset anti-competitive effects': Samuel Committee, above n 28, 211; see also Ergas Committee, above n 10, 209-210.

<sup>303</sup> Ergas Committee, above n 10, 208; noting that a number of submissions to the Samuel Committee also asserted the 'certainty' provided by the provision: see Samuel Committee, above 28, 165-166.

<sup>304</sup> See Samuel Committee, above n 28, 200.

<sup>305</sup> Productivity Commission, above n 228, 369.

<sup>306</sup> For a similar sentiment expressed about an earlier review see Industrial Property Advisory Committee, above n 17, 80.

**Table 1: The original *Trade Practices Act 1974* (Cth) s 51 dealing with patents and subsequent substitution and amendment**

<b><i>Trade Practices Act 1974</i> (Cth) s 51 (original)</b>	<b>After <i>Trade Practices Amendment Act 1977</i> (Cth) s 28(d) that substituted s 51(3)</b>	<b>After <i>Trade Practices (Misuse of Trans-Tasman Market Power) Act 1990</i> (Cth) s 9 and <i>Competition Policy Reform Act 1995</i> (Cth) s 15 that inserted the terms ‘, 46A’ in s 51(3) and substituted s 51(1) respectively</b>
(1) In determining whether a contravention of a provision of this Part [IV] has been committed, regard shall not be had – (a) to any act or thing that is, or is of a kind, specifically authorised or approved by, or by regulation under, an Act other than an Act relating to patents ....	(1) In determining whether a contravention of a provision of this Part [IV] has been committed, regard shall not be had – (a) to any act or thing that is, or is of a kind, specifically authorised or approved by, or by regulation under, an Act other than an Act relating to patents ....	(1) In deciding whether a person has contravened this Part [IV], the following must be disregarded: (a) anything specified in, and specifically authorised by: (i) an Act (not including an Act relating to patents, ...); or (ii) regulations made under such an Act.
(3) In determining whether a contravention of a provision of this Part [IV] other than ss 46 and 48 has been committed, regard shall not be had – (a) in the case of a contract for or in respect of – (i) a licence granted or to be granted by the proprietor, licensee or owner of a patent ... or by a person who has applied for a patent ...; or (ii) an assignment of a patent ... or of the right to apply for a patent ..., to any condition of the license or assignment relating exclusively to – (iii) the invention to which the patent or the application for a patent relates or articles made by the use of that invention.	(3) A contravention of a provision of this Part [IV] other than section 46 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, ... or by a person who has applied for a patent ...; or (ii) an assignment of a patent, ... or of the right to apply for a patent ...; 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.	(3) A contravention of a provision of this Part [IV] 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, ... or by a person who has applied for a patent ...; or (ii) an assignment of a patent, ... or of the right to apply for a patent ...; 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.