

LAW COUNCIL OF AUSTRALIA

Submission to Intellectual Property & Competition Review Committee on Interim Report

The Intellectual Property and Trade Practices committees of the Business Law Section of the Law Council of Australia have considered your Committee's Interim Report and comment on some aspects of the section 51(3) chapter of the report below.

Section 51(3)

- 1 The Committee states its view that intellectual property rights should grant and protect effective statutory rights but should not allow any market power generated by those rights to be extended beyond the scope of the right originally accorded. The Committee recommends a repeal of section 51(3) and amendments to each of the relevant IP statutes to exclude the operation of Part IV of the Trade Practices Act or of section 4D of that Act, in circumstances where any provision of a contract, arrangement or understanding that relates to the subject matter of that intellectual property statute does not result, or is not likely to result, in a substantial lessening of competition.
- 2 The Committee's suggestion will have the result of requiring intellectual property owners to analyse the impact of each transaction involving intellectual property to determine whether or not any provisions of the contract, arrangement or understanding giving effect to the transaction will have the effect or are likely to have the effect, of substantially lessening competition.
- 3 The protection provided for intellectual property in Australia is of significance to the Australian economy. The absence of appropriate protection for intellectual property can result in organisations choosing not to invest in research and development work in Australia or not to introduce or market their products in Australia. This could result in a limitation in the availability of products to the detriment of consumers and a decrease in investment to the detriment of the Australian economy.
- 4 It has been recognised that the protection of intellectual property and the licensing of intellectual property rights is, in general, pro-competitive. In the case of patents for example, the grant to the patentee of rights of exploitation over an invention is given in exchange for the disclosure to society of knowledge about the invention which in turn encourages further innovation. The Committee appears to accept this, and the Law Council supports the Committee's view that intellectual property has important features that differentiate it from other property or assets.
- 5 The Committee rightly notes that this means that owners of intellectual property rights should not be prevented from doing through contracts with others what, had they been larger or more extensively integrated, they could have done for themselves. The Committee also notes that it does not believe that intellectual property rights should be used as a means of securing market power that goes beyond that granted by the intellectual property right itself. However, the Committee goes on to recommend that the exemption for intellectual property rights be limited by the application of a substantial lessening of

competition test. This does not appear to allow an intellectual property owner to licence others to do what it could otherwise have done itself. Once one accepts that a patent, for instance, confers the legal right to exclude others from making or selling a product, a licence agreement that permits the selling of the product on competition-restrictive terms is in fact comparatively pro-competitive.

- 6 The imposition of a substantial lessening of competition test will impose an additional level of complexity into intellectual property licensing which does not currently exist. Regardless of how many transactions would in fact be caught by the proposed arrangements, it will mean that intellectual property licences will need to be reviewed and trade practices advice sought. Many intellectual property licences are entered into at the early stages of research and development in an endeavour to obtain sufficient funding to continue with research and development or to test for commercialisation of a product. Since trade practices is a specialised area it is likely that owners of intellectual property will need to seek specialist legal advice in relation to their licensing arrangements which will add additional costs. This will be yet another burden on intellectual property rights owners which may occur at times when, prior to commercialisation, they do not have significant funds. The result may well be that owners of intellectual property rights will reduce licensing activities thus depriving industry of access to new products and processes.
- 7 As it is presently drafted, section 51(3) appears to have achieved its purpose without any obvious hardships or undesirable economic effects. For these reasons, the Law Council is in favour of leaving the exemption for intellectual property rights as it is in section 51(3) with some minor amendments to make it applicable to all of the current intellectual property statutes and clarify any discrepancies such as the application of the *Trade Marks Act 1995*.
- 8 The NCC's review of section 51(3) resulted in a recommendation that the exemption in section 51(3) be retained but amended to remove protection for price and quantity restrictions and horizontal agreements. The Law Council does not see why price and quantity restrictions should be treated any differently to other restrictions that may be contained in intellectual property agreements. If this suggestion was adopted it would also result in additional complexity and cost to intellectual property rights owners.
- 9 The establishment of an expeditious form of clearance would assist with the costs of authorisation or notification but will not assist in limiting the additional costs created as a result of the need to review all arrangements to determine whether or not any conditions in the arrangements will have the effect of substantially lessening competition.

Access rights

- 10 The Committee also indicated that it considers there is merit in having provisions that can provide for third party access to IP rights along the lines provided in respect of other services by Part IIIA and Part XIC. The Committee suggests that it may seek to amend the compulsory licensing provisions of IP legislation with a view to ensuring that these provisions can be triggered by a well structured and articulated competitive effects test.
- 11 The Law Council is of the view that intellectual property rights in general should not be the subject of third party access regimes such as those provided for services by Part IIIA and XIC. The access regimes in the Trade Practices Act are designed to apply to "essential

facilities” which exhibit natural monopoly characteristics, and hence cannot be duplicated economically, such as telephone exchange systems and railway networks.

- 12 The establishment of third party rights of access to intellectual property rights would cut across the very nature of intellectual property rights themselves. Intellectual property rights are exclusive by their nature and include the legal right to prevent others from exploiting the intellectual property. This should not be considered to be anti-competitive.
- 13 Support for this view can be found in the 1997 Canadian case *Director of Investigation and Research –v- Warner Music Canada Ltd et al* (78 C.P.R 3d 321:1997). In that case, the Competition Tribunal refused to grant compulsory licences of copyright material used to reproduce musical works on the basis that the legal right to exclude others is fundamental to intellectual property rights and can not be considered to be anti-competitive. The Tribunal approved a previous statement to the following effect:

“...the respondents’ refusal to licence their trade marks falls squarely within their prerogative. Inherent in the very nature of the right to licence a trade mark is the right for the owner of the trade mark to determine whether or not and to whom to grant a licence; selectivity in licensing is fundamental to the rationale behind protecting trade marks. The respondents’ trade marks are valuable assets and represent considerable goodwill in the marketplace. The decision to licence the trade mark.—to share the goodwill vesting in the asset – is a right which rests entirely with the owner of the mark. The refusal to licence a trade mark is distinguishable from a situation where anti-competitive provisions are attached to a trade mark licence.

The Copyright Act is similar to the Trade Marks Act ... in that it allows the trade mark owner to refuse to licence and it places no limit on the sole and exclusive right to licence.”

Summary

- 14 In summary therefore, the Law Council is of the view that:
- (a) the exemption for intellectual property rights should be left as it is in section 51(3) with some minor amendments to make it applicable to all of the current intellectual property statutes and clarify any discrepancies such as the application of the *Trade Marks Act 1995*;
 - (b) the compulsory licensing provisions of IP legislation should not be amended so as to be triggered by a competitive effects test; and
 - (c) the third party access regimes along the lines of those provided in Part IIIA and Part XIC should not be extended to intellectual property rights

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