

**Licensing Executives
Society of Australia and
New Zealand**

**Submission to the
Intellectual Property and
Competition Review
Committee on the Interim
Report**

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1. Introduction

The Intellectual Property and Competition Review Committee (*the Committee*) released an Interim Report on 6 April 2000 reviewing the effects on competition of intellectual property legislation. The Licensing Executives Society of Australia and New Zealand (*LES*) has reviewed the Interim Report and makes this submission in response.

LES has a membership of nearly 9,000 individual members. It is an international non-profit professional society whose members, as individuals worldwide, are actively involved in professional and business activities concerned with the transfer of technology and intellectual property rights.

LES made two submissions to the National Competition Council (*NCC*) during its review of section 51(3) of the *Trade Practices Act 1974* (Cth) (*TPA*). Any proposed reforms to the exemptions provided by section 51(3) of the TPA (*section 51(3)*) continue to concern LES and its constituency and this submission focuses on the proposed reform of section 51(3).

2. Executive summary

- The provision for intellectual property rights by the legislature reflects the policy of encouraging innovation through the grant of short term anti-competitive legal monopoly rights to holders of intellectual property.
- The objective of intellectual property law is thus anti-competitive.
- LES submits that conditions in licensing and assigning intellectual property rights can be anti-competitive and that such effects are a legitimate result of the legal exclusivity granted to the intellectual property right holder.
- If the holder of an intellectual property right has a legal monopoly over the use of that right, then there is no logical reason why he or she should be restricted in the manner in which he or she licenses that right, as long as the conditions attached to that licence do not extend beyond the terms of the intellectual property right granted.
- LES is concerned that the Committee's aim of protecting intellectual property rights in a manner 'more naturally consistent with the structure and goals of the TPA' does not give sufficient consideration to the lack of harmony between competition law and intellectual property legislation.
- LES submits that the inclusion of a substantial lessening of competition test in the proposed reform of section 51(3) is contrary to the policy of intellectual property law.
- As an alternative to the proposed reform, LES submits that the current section 51(3) should itself be revised so as to rectify the current drafting flaws and uncertainty of interpretation which reduce its effectiveness.

3. Committee recommendations

3.1 Section 51(3)

In relation to the operation of section 51(3), the Committee made the following proposal for reform (*proposed reform*).

That section 51(1)(a)(i) be amended to remove the words ‘not including an Act relating to patents, trade marks, designs or copyrights’.

That section 51(3) and related provisions be repealed.

That each of the relevant intellectual property statutes be amended to ensure that a contravention of Part IV of the TPA, or of section 4D of the TPA, shall not be taken to have been committed by reason of the imposing of conditions in a licence, or the inclusions of conditions in a contract, arrangement or understanding, that relate to the subject matter of that intellectual property statute, so long as those conditions do not result, or are not likely to result, in a substantial lessening of competition.

The Committee noted, in line with the proposed reform, the following matters.

‘Substantially lessening competition’ is to be interpreted consistently with the general case law under the TPA.

The imposing of conditions in a license, 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. However this will not over-ride separate provisions in intellectual property legislation regarding compulsory licensing.

The ACCC should issue guidelines on how it will enforce these provisions.

These recommendations should be seen in the context of the proposed repeal of the parallel importation provisions in the *Copyright Act 1968* (Cth). This reform will open up increased competition for intellectual property rights holders and therefore reduce the risk that intellectual property rights will be used to anti-competitive effect.

3.2 Third party access

The Committee also discussed the intellectual property exemptions provided for in Part IIIA and XIC of the TPA. The Committee believed that this exemption was justified for the following reasons.

The intellectual property statutes provide for third party access (such as the compulsory licensing provisions of the *Patents Act 1990* (***Patents Act***)).

The design of Part IIIA and XIC appears to be ill suited to handle intellectual property rights (as they do not fit easily into the concepts of ‘facility’ and ‘service’ which operate within these sections of the TPA).

However, the Committee considered that the current provisions in the intellectual property statutes for compulsory licensing will be an area which

the Committee will propose reforms to in order to ensure that they ‘can be triggered by a well structured and articulated competitive effects test’.

4. Discussion of Committee recommendations

LES agrees with the submissions received by the Committee that the operation of section 51(3) is very important to the substantial part of the Australian industry which deals in intellectual property. Intellectual property rights such as patents, trade marks and copyrights are key factors in fostering innovation and growth in today’s economy. Such rights provide vital incentive for research and development leading to new products and production processes.

LES notes and concurs with the Committee’s comments that intellectual property rights have important differences to other property and assets. One of the most important differences is that contractual arrangements are likely to be particularly important in the efficient development and exploitation of intellectual property and thus intellectual property systems should provide a clear basis for contracting in intellectual property. In addition, LES agrees with the Committee that owners of intellectual property rights should not be prevented from doing what larger integrated firms could have done for themselves and that intellectual property rights should not be used to gain greater market power than that granted by the intellectual property right itself.

However, the Committee further concluded that there is not an appropriate balance at present between the needs of the intellectual property system and the goals of competition policy. It noted specifically that section 51(3):

- contains drafting flaws;
- has uncertain scope, with the possibility that it may exempt virtually all agreements with intellectual property elements from the operation of the TPA; and
- has no clear policy rationale for the uneven coverage of the section.

The Committee reached the view that intellectual property rights should continue to be protected ‘but in a manner more naturally consistent with the structure and goals of the Trade Practices Act’ (page 34). In line with this view the proposed reform has been put forward for comment.

LES believes that section 51(3) does indeed have flaws, uneven coverage and to some extent an uncertain scope. However the rectification of these matters does not warrant the proposed reform. Amendment of section 51(3) itself could achieve this goal and LES supports such an approach as outlined in section 6 below.

In relation to the final point made by the Committee, LES submits that the protection of intellectual property rights from the operation of Part IV of the TPA should be conducted in a manner appropriate to the policy behind intellectual property law. Intellectual property law and competition law are not in complete harmony and any alteration of the protection afforded

intellectual property rights should be very careful not to undermine the purpose underlying their existence in law. The grant of a legal monopoly in the use of intellectual property to its owner should be exercisable by the owner and any other such person as he or she chooses to licence or assign the right to without inappropriate limitation. The concerns of competition law should only operate in this area to prevent any conditions in licences or assignments obtaining competitive benefits for the licensor or assignor which are collateral to the intellectual property right itself.

4.1 Intellectual property rights and competition law

(a) Intellectual property law is anti-competitive

Competition law is based upon the principle that competition gives rise to public benefits. Intellectual property rights are based upon the principle that limited rights of exclusivity promote innovation and technological progress. It is clear that intellectual property law is inherently anti-competitive.

There are situations where licensing of intellectual property may be 'anti-competitive' when viewed from the short-term perspective of the TPA. The exclusive licensing of a major invention (remembering that in many cases licensor and licensee are potential competitors) will in many cases have the potential to significantly affect competition in a market. It is the ability to exclude others from the use of the patent that is the reward the patentee receives for his or her innovation.

Certain terms and conditions common to intellectual property licences or assignments may affect competition in a market.

- An owner of intellectual property rights may grant to the licensee an exclusive grant over the whole or part of the licence territory. Such a condition may result in a substantial lessening of competition.
- An owner of intellectual property rights may grant a licence which is limited to a specific geographic area. This may have the potential to substantially lessen competition.
- An intellectual property licence may include restrictions on the quantity of articles to be manufactured and sold by the licensee. This condition may result in a substantial lessening of competition.
- The licensor may require the licensee, in effect, to purchase all or certain specified materials, components, or equipment exclusively from the licensor or designated supplier. Such provisions may have the effect of substantially lessening competition.

The restriction by exclusivity may affect competition in the market, however, if the innovator is unable to reap the rewards (including by controlling licensing) of his or her invention, he or she may be less determined to pursue innovations in the future. Inventors are rarely motivated by altruism, in the main, but rather by commercial gain.

Thus, LES submits that any weakening of the exemption to Part IV for conditions in intellectual property licenses and assignments may impact on the level of innovation in Australia, the promotion of which is the basis of the entire intellectual property system.

(b) Licences reflect the rights of the intellectual property owner

LES further notes that intellectual property rights may be exercised by the owner or by a licensee or assignee of that owner. Formally, there is no logical argument why rights granted to the intellectual property right holder should not be able to be licensed or assigned to another party. Further there is no particular benefit to the public in the owner using those rights rather than a licensee of the owner. The conditions, with regard to which the current section 51(3) exempts the operation of sections of the TPA, are afforded an exemption because they do no more than impose obligations upon a licensee of a intellectual property right to act in a manner which was within the rights of the owner him or herself.

(c) Intellectual property rights can be pro-competitive

However, intellectual property rights are similar to competition laws in that, in the long run, intellectual property rights generally strengthen competition in the economy by providing incentives for the development and production of new products. However, the perspective of the TPA in considering short-term anti-competitive effects does not well match the long-term competitive effects which intellectual property rights can provide.

(d) Intellectual property rights only provide legal monopolies

In addition, the legal monopolies conferred on intellectual property right holders (or in relation to copyright holders, the right to prevent copying) are distinct from true market monopolies where a single business is the sole producer of a product for which there are no close substitutes. Intellectual property rights do not fully preclude competition nor do they usually provide a barrier to entry for new businesses.

(e) Intellectual property legislation contains provisions for abuse of rights

At present, intellectual property legislation contains provisions that deal with the abuse of the rights conferred under the relevant legislation. For example, the Patents Act contains provisions for compulsory licensing (section 133) rendering void certain tying arrangements (section 144) and exploitation by the Crown (section 163). Clearly, the legislature has considered that the use of intellectual property rights should be limited to some extent and has drafted appropriate provisions.

These provisions were provided for before the introduction of Part IV of the TPA regulating anti-competitive conduct. Section 51(3) was included to ensure that owners could exercise their intellectual property rights, as envisaged under the relevant intellectual property statute, without uncertainty as to the effect of the TPA on their rights.

(f) Conclusions

LES submits that the inclusion of a substantial lessening of competition test for the exemption of conditions in intellectual property licences and assignments from the operation of the TPA is contrary to the philosophy of the legislative intellectual property systems. For example, the holder of a patent is granted a monopoly on the use of the particular invention for 20 years. The opportunity for the licensing of that patent by the patent holder to be challenged on the grounds that conditions within the licence may result in a substantial lessening of competition clearly undermines the certainty intended to be provided to the patent holder by the registration system.

LES notes the Committee's recommendations that the patent examination system be made more rigorous while increasing the burden on a party seeking to establish the invalidity of a patent once granted. This increased certainty for the holder of a patent is undermined by the proposed reform if that patent holder needs to enter licensing or assignment arrangements in order to exploit it. LES also notes the Committee's comments regarding viewing the proposed reform in the context of its other recommendations regarding parallel importation provisions. LES notes that there will be no alteration to the provisions in the Patent Act and this is one area where patent licence and assignment conditions run the risk of substantially lessening of competition.

LES submits that to impose competition tests on the conditions which can be imposed in intellectual property licences and assignments would significantly reduce the incentive to current and future intellectual property right holders to produce further innovation and products and thus promote competition in Australian markets. Such a reform would conflict strongly with the policy underlying intellectual property law.

4.2 Negative effects of the proposed reform

The Committee stated at page 35 that the proposed reform would exempt relevant conduct from the TPA's *per se* prohibitions. The corollary to this is that the proposed reform will not exempt relevant conduct which risks breaching section 45 (contracts, agreements or understandings which substantially lessen competition) or non-third line forcing provisions of section 47 (exclusive dealing which substantially lessens competition). This is a significant weakening of the current exemption which, while it excludes sections 46 and 48 from its scope, includes both sections 45 and 47.

As already stated, there are situations where conditions in the grant of a patent licence, for example, may lessen competition in a market. But even for the majority of cases where the licensing of intellectual property rights will not have a significant effect on competition, the proposed reform will still have a substantial negative impact. This is because merely the possibility of a condition substantially lessening competition will cause holders of intellectual property rights to incur extra costs in licensing their intellectual

property, reduce their licensing activities, or even decide not to licence their intellectual property at all.

(a) Increased industry costs

¥ The proposed reform would increase costs. The legal and economic inquiries required to be undertaken to determine the difficult issues of market definition and likely competitive effect on that market resulting from a condition in a licence or assignment would be an arduous and expensive one.

¥ By contrast, while there is considerable uncertainty surrounding the interpretation of the current section 51(3), the inquiries currently conducted in practice by intellectual property rights holders are of a factual nature. This is because the analysis required to determine whether conditions in a licence or assignment breach the resale price maintenance or misuse of market power provisions of sections 46, 46A or 48 of the TPA are considerably less involved than the analysis required to determine issues regarding a competition test. The definition of markets is one area in which there would be considerable uncertainty, especially given the tendency for the Australian Competition and Consumer Commission (*ACCC*) to define markets in a narrow fashion.

¥ The difficulty of the inquiry involved would be particularly high in situations involving embryonic technology of uncertain importance. In addition, the prospect of completing the notification or authorisation process (discussed in section 5 below) is an equally stultifying one.

¥ The proposed reform includes the recommendation that the ACCC formulate guidelines on the enforcement of the new provisions. However, these would not necessarily reduce the costs to intellectual property right holders in this area as such guidelines do not bind the ACCC legally and certainly do not bind any persons bringing private actions under the TPA.

(b) Reduction in commercial activity

The proposed reform will reduce commercial activity. For example, owners of intellectual property rights may refuse to invest in Australia if there is a risk that the licensing of their intellectual property rights may be challenged by competition tests or because costs will rise through expensive trade practices analysis.

(c) Greater impact on small business

Small businesses will be particularly affected by the costs of legal inquiry discussed in (a) above and therefore may be reluctant to enter into any agreements which may exploit the results of their innovative effort. Larger corporations can both more readily absorb the costs of legal advice and may be integrated enough to not have to licence or assign their patents outside their corporate structure. The Committee stated at page 34 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. Such an aim is not supported by some likely effects of the proposed reform.

4.3 The United States and European Union systems

(a) The United States

At page 28 of the Interim Report, the Committee discusses the approach to the application of anti-trust principles to the licensing of intellectual property by the US Department of Justice and the Federal Trade Commission (*Agencies*). The Interim Report details the antitrust 'safety zones' where, in general, the Agencies will not challenge a condition in an intellectual property licensing arrangement if:

- the restraint is not facially anti-competitive and the licensor and licensee collectively account for no more than 20% of each relevant market significantly effected by the restraint;
- the restraint is not facially anti-competitive and four or more independently controlled entities in addition to the parties to the licensing arrangement possess assets, characteristics and incentive to engage in research and development that is a close substitute for that in the intellectual property arrangement.

Licensing agreements falling outside this safety zone will be judged under a two fold standard.

- First, the US courts have found that certain activities have such a harmful impact on competition that they are unreasonable 'per se' and hence, unlawful even if they do not substantially effect competition. An example of such a per se offence is horizontal price fixing between competitors.
- Secondly, other types of agreements between competitors are not per se unlawful but in some cases may still attract antitrust scrutiny. When challenged, these practices are judged under the 'rule of reason' test. This involves an inquiry as to 'whether the restraint is likely to have anti-competitive effects and, if so, whether the restraint is reasonably necessary to achieve pro-competitive benefits that outweigh these anti-competitive effects'.¹

The Agencies emphasise that licensing arrangements are not anti-competitive merely because they do not fall within the scope of the safety zone but are still likely to be lawful and pro-competitive and they do not intend to discourage parties with larger market shares from adopting reasonably necessary restrictions to achieve efficiency. The Agencies may decide not to engage in a 'comprehensive enquiry

¹ U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, page 13.

into market conditions' which the rule of reason normally requires if it considers that a restraint is unlikely to have an anti-competitive effect and they will use a 'truncated rule of reason enquiry'.

It is important to note that the rule of reason approach permits consideration of many factors that bear upon whether a particular practice is 'unreasonably restrictive of competitive conditions'.² In making this determination, the courts have emphasised various key factors. Two factors given particular emphasis are the 'nature' of the challenged restraint and its apparent competitive 'effects'. In addition to focusing upon the competitive effects, the courts have also considered the apparent purpose of a restraint as an indicator of its reasonableness or unreasonableness. For example, was the restraint meant to carry out some legitimate business objective?

The US approach, while different from the current position in Australia, recognises that licensing, assigning or otherwise transferring intellectual property offers pro-competitive benefits including long term benefits and antitrust enforcement should not unnecessarily interfere. If the proposed reform was implemented, the Australian regime would become significantly different from that in the US and significantly less sympathetic to innovators.

(b) The European Union

The Committee also discussed the system of group exemptions which can exempt conduct or arrangements which may breach Article 81 of the Treaty of Rome. Such exemptions cannot exempt conduct or arrangements which may breach Article 82 of the Treaty of Rome which is concerned with the business conduct of firms which hold a dominant position in the market. Arrangements that meet all the conditions for application under the regulations are automatically exempted from the prohibitions on anti-competitive practices in Article 81.

The Committee discussed the regulation on technology transfer agreements which grants an exemption to patent and know-how licence agreements that confer a certain measure of exclusivity on the licensee. The exemption makes permissible clauses in agreements that impose any of the following obligations.

- An obligation on the licensor not to grant other licences in the licensed territory or to export the invention itself in the licensed territory so long as at least one of the licensed patents remains in force (exclusive licensing agreements).
- An obligation on the licensee not to exploit the licence technology nor to manufacture or use the license product or process in other countries within the European Union (**EU**)

² *National Society of Professional Engineers v United States* (1978) 435 US 679; *National Collegiate Athletic Association v Board of Regents of University of Oklahoma* (1984) 468 US 85.

where exploitation in such other countries is reserved to the licensor or other licensees.

- An obligation on the licensee to use the licensor's trade mark.
- An obligation on the licensee not to sell at all in any EU territory licensed to another licensee for a period of five years from the date of first sale of the product within the EU.
- An obligation on the licensee that it shall limit production of the licensed product to what it requires for its own use only and to sell the licensed product only as an integral part of some other product or as a replacement part for that other product.

The obligations listed above generally contribute to improving the production of goods and to promoting technical progress. They make the holders of patents or know-how more willing to grant licences and licensees more inclined to undertake the investment required to manufacture, use and put on the market a new product or to use a new process.

Another group exemption granted by the European Commission allows the licensor to impose an obligation on the licensee to observe minimum quality specifications, including technical specifications, for the licensed product or to procure goods or services from the licensor.

Where conduct or arrangements are not exempted under the group exemptions, there may still be exempt under article 81(3). Article 81(3) lists four conditions which must all be fulfilled before an exemption may be granted.

- It promotes the production or distribution of goods for technical or economic progress.
- It allows consumers a fair share of the resulting benefits (consumers are not necessarily the public which ultimately uses the end product).
- The restrictions are indispensable to obtain these objectives.
- The agreement does not afford the parties 'the possibility of eliminating competition in respect of a substantial part of the products in question'.

The application of the Article 81(3) exemption thus includes consideration of the necessity of the restriction in question to obtain business objectives such as the production or distribution of goods or economic progress. If the proposed reform was promulgated, the conditions listed within the group exemptions discussed above could be likely to come under scrutiny as substantially lessening competition. A territorial restriction for instance would run the risk of substantially lessening competition and therefore contravening section 45 of the TPA. The existence of the group exemptions provides considerably more certainty to intellectual property right

holders seeking to licence the use of their intellectual property to others than the proposed reform.

(c) Conclusion

In comparing the proposed reform with the arrangements in the United States and EU for competition analysis of conditions in licences and assignments of intellectual property, LES submits that the vital point is that in those countries which presently require detailed trade practices or antitrust review of licences, the review can substantially increase the costs associated with establishing a licence or assignment.

5. Authorisation and notification procedures

The Committee indicated that it was considering whether it would be desirable to 'provide by statute for an expeditious form of clearance' (page 35) so that administrative procedures such as authorisation and notification under sections 88 and 95 of the TPA would not be required as often. LES is strongly of the view that authorisation and notification procedures under the TPA are not a practical alternative to an exemption set out in a revised section 51(3). This is for the following reasons.

- The time involved in obtaining authorisation or notification may be a deterrent to licensors and licensees, and as a result, opportunities may be lost.
- The costs involved in obtaining an authorisation or notification can be substantial.
- The potential threat to any authorisation under section 101 (review of authorisation determination) of the TPA may impose unnecessary uncertainty.
- The ACCC, in determining whether or not to grant an authorisation or allow notification, only takes into account whether the agreement has resulted or is likely to result in a benefit to the public. On a short term analysis, the benefit of a restriction in a licensing agreement will be for private benefits. These benefits will therefore not be taken into account in the authorisation and notification procedures. LES considers that if these are not taken into account, the licensor will be less inclined in the future to engage in innovation. So ultimately, the restriction on licensors controlling their innovations and other results of intellectual property will impact adversely on the public. It is doubtful, however, that the authorisation procedure will accommodate such a long term analysis. If it did, it would require every intellectual property owner seeking authorisation to engage in a detailed economic analysis of the whole principles underlying innovation. This would be a very expensive exercise.

LES submits that the TPA should recognise and support the philosophy underpinning intellectual property legislation that there are benefits for the

community in encouraging innovation in the economy despite inherent anti-competitive effects. These benefits should be supported by a revised section 51(3), not open to questions of lessening of competition which individual intellectual property right holders will have to address through the expensive and time-consuming authorisation process.

LES notes the Committee's proposal that another expedited process of clearance be set in place. It is submitted that an expedited clearance process would never be an adequate substitute for intellectual property holders to a clear exemption provision in the TPA.

6. LES submissions

The Committee have stated that they are open to further options being put to the proposed model. As discussed above, LES has significant concerns regarding the operation of the proposed reform. LES submits that the drawbacks of the current operation of section 51(3) should be addressed through maintaining and clarifying the current provision. Such a revision, in LES's view, should ensure that the section provides a general exemption to anti-competitive conduct for statutory and non-statutory intellectual property rights.

The Courts have not yet considered section 51(3) in detail and it is not appropriate to wait for such an examination to occur. Whilst the policy behind the section 51(3) exemption is to be commended, it is submitted that the section is no longer acceptable in its present form. In stating this, LES notes that the Committee is in agreement with it regarding the fact that the section contains drafting flaws.

The following issues should be addressed in revising section 51(3). Not all of these issues have been directly addressed by the Committee.

6.1 Legal actions

Section 51(3) does not exempt legal actions instituted to enforce intellectual property rights. For example, infringement proceedings (as opposed to enforcing rights by contract) may contravene the TPA, in particular section 46.

6.2 Actual licence or assignment

Section 51(3) only applies to a condition in a licence or assignment. It does not extend to the actual licence or assignment and, as such, these may contravene particular sections under Part IV of the TPA.

6.3 Sections 46, 46A and 48

While intellectual property rights such as patents may prevent competitors from entering a field of commerce for a particular period or controlling price resale levels, this is the price which society, through its legislators, has agreed to pay to secure the increased investment in research and development which it is hoped intellectual property rights will encourage. There is no logical reason for omitting these sections from the section 51(3) exemption. In

submitting this, LES notes that the Committee's proposed reform also included sections 46, 46A and 48 within the ambit of its proposed intellectual property exemptions.

6.4 Non-statutory intellectual property

Section 51(3) only applies to particular statutory intellectual property. It does not apply to non-statutory intellectual property such as unregistered trade marks and confidential information. While LES is aware that the review of non-statutory intellectual property is outside the Terms of Reference of the Committee's review, it considers it important to raise these issues to describe as fully as possible its views on the appropriate aspects of section 51(3) which require revision.

(a) Confidential information

Where information is of a confidential nature and is disclosed in circumstances which import an obligation of confidence, the owner of the information may be protected by contract or by the equitable action known as 'breach of confidence'. The information protected by the action include expertise or know-how as well as personal and governmental secrets. The protection afforded by the action is generally more limited than under the statutory intellectual property regimes for patents, copyright, designs and trade marks. It is dependent on the existence of an obligation of confidence. Thus, if a person discovers a secret independently from this obligation of confidence, he or she is free to use that secret.

The section 51(3) exemption does not extend currently to confidential information. It may be that confidential information is treated differently because of its very confidential nature. However, circumstances have now tended to make confidential information a much more commercially viable and significant commodity. Thus allowing the section 51(3) exception to apply to confidential information will stimulate incentives for transfer of technology by licensors.

It is also important to note that confidential information or 'know-how' may be patentable or unpatentable. Much of it is without novelty or does not involve an inventive step sufficient for it to qualify for a patent. Its disclosure is often essential to enable a licensee to exploit a patent.³ Thus, licensing of indispensable confidential information or know-how is often included within a patent licence. LES considers that it is in the public interest to utilise this information or know-how. Often it is the result of costly research and time. Excluding it from the section 51(3) exemption therefore results in economic inefficiency.

(b) Unregistered trade marks

³ Corones, S.G., *Restricted Trade Practices Law*, (1994), The Law Book Company, 387.

Unregistered trade marks, whilst not protected under the *Trade Marks Act 1995* (Cth), are still protected by the common law action of passing off and by section 52 of the TPA. However, section 51(3) of the TPA does not apply to unregistered trade marks. It is unclear why this is so.

One reason could be to encourage people to register their trade marks to seek the limited exemptions provided for in section 51(3) of the TPA. It is evident that registration creates property which is more certain than property the existence of which depends upon proof of reputation (relevant to unregistered trade marks). Proof of reputation can often be awkward and expensive and may be difficult to establish in some localised markets, whereas trade mark protection is usually Australia wide.

Regardless of the possible reasons relied on for the exclusion of non statutory intellectual property rights under section 51(3), it is time to extend the section to include such rights. The licensing of all intellectual property rights, both statutory and non statutory, is likely to lead to an expansion of output and increased competition. Licences of unregistered trade marks and confidential information should not be treated any less favourably than other intellectual property rights.

6.5 Statutory intellectual property

The current exemption does not apply to new varieties of plants and fungi protected under the *Plant Breeder's Rights Act 1994* (Cth) (***Plant Breeders Act***) or other specific intellectual property legislation such as the *Olympic Insignia Protection Act 1987* (Cth) (***Olympic Insignia Act***). LES again notes that this legislation is not within the Terms of Reference of the Committee but includes this discussion for completeness.

(a) *Plant Breeders Act*

The exemption in section 51(3) does not apply to intellectual property rights granted under the Plant Breeders Act. This Act grants proprietor rights to breeders of certain new varieties of plants and fungi. The Act protects a new plant variety (apart from trees and vines) for a period of 20 years and in the case of trees and vines, for 25 years. Under the Act, the owner is given exclusive rights to produce and sell the plant, and reproduce material of the plant, of the variety which is registered.

It is surprising that the section 51(3) exemption does not apply to plant varieties under the Plant Breeders Act. The policy behind the grant of these limited rights is similar to that underlying the Patents Act. They are granted primarily to reward the labour and skill that a breeder has contributed to society by virtue of the new variety and to provide an incentive to persons engaged in breeding activities from which society may benefit. It is submitted that the exemption in section 51(3) should apply to licences and assignments of intellectual property created under the Plant Breeders Act.

(b) Other specific intellectual property legislation

The exemption in section 51(3) does not cover rights under specific intellectual property legislation such as the Olympic Insignia Act. It is submitted that the licensing of all intellectual property rights should be treated in the same manner and section 51(3) should be amended to reflect this.

6.6 Future licences and assignments

Section 51(3) does not extend to licences or assignments of future intellectual property, although it does extend to patent and design applications. LES submits that future licences and assignments should be included within the ambit of section 51(3).

6.7 Scope of phrase 'to the extent that the condition relates to'

The Committee noted (page 31) the ambiguity surrounding the scope of the exemption provided by the current section 51(3). However its proposed reform does not discuss how the term 'relates to' would be interpreted in each of the intellectual property statutes. The term should be clarified through legislative definition.

LES submits that the difficulties of interpretation and application should be resolved through a new construction which clearly indicates that licences of intellectual property rights are only subject to Part IV of the TPA where the licensor acts in a manner which is outside the scope of the initial intellectual property right grant. This would address the concern of the Committee, which LES agrees with, that the licensing or assignment of intellectual property rights should not be used to gain greater market power than that granted by the intellectual property right itself.

7. Third party access rights to intellectual property

LES is not in favour of the establishment of third party access rights in the intellectual property statutes providing for access in a similar fashion to that in Parts IIIA and XIC of the TPA. The Committee has indicated that it will propose reforms to the compulsory licensing provisions of the Patents Act and other intellectual property legislation in order to ensure that they 'can be triggered by a well structured and articulated competitive effects test' (page 36). LES will outline the reasons for its concerns by reference to the compulsory licensing provisions of the Patents Act.

A person may apply to a court under section 133 of the Patents Act for an order requiring a patentee to grant to the applicant a licence to work the patented invention. The court may order the grant of a licence if it is satisfied that:

- the reasonable requirements of the public with respect to the patented invention have not been satisfied;
- that the patentee has given no satisfactory reason for failing to exploit the patent; and

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- the applicant has tried for a reasonable period but without success, to obtain a licence on reasonable terms and conditions.

LES is unclear what manner of amendment to section 133 the Committee is considering recommending. However it is concerned that the introduction of a competitive effects test into section 133 will undermine the aims of the intellectual property registration system.

The current compulsory licensing provisions cover situations where a registered patent is not being adequately exploited by the patent holder. However, if a patent holder is adequately exploiting a patent, then it would be contrary to the nature of the exclusivity rights granted to the patent holder to allow third parties to obtain a licence for that patent contrary to the intentions of the patent holder. If the innovator is unable to gain the returns on his or her invention through controlling licensing, he or she may be less determined to pursue innovations in the future. LES has discussed above the nature of the exclusivity rights granted to intellectual property right holders. There will be circumstances where the licensing of that right will substantially lessening competition in a market, but anti-competitive effects are a fundamental part of the objective of intellectual property laws.

8. Conclusion

It is submitted that the current section 51(3) should be maintained and clarified to overcome a number of deficiencies of which the most pressing are the absence of a legislative definition of the term 'to the extent that the condition relates to' and the extension of the exemption to not only cover all of Part IV but to also extend its reach to all intellectual property rights, both statutory and non-statutory.

Intellectual property rights are inherently anti-competitive and have been granted on the principle that they promote innovation and technical progress. The rights conferred include legal monopolies over the use of inventions, original works, designs or trade marks, including the right to license those monopoly rights. The policy lying behind the existence of monopoly rights and the licensing of these rights is contrary to the general policy of the TPA and LES submits that it is a mistake to temper the application of the policy underlying the licensing of intellectual property rights with competitive effect considerations.

12 May 2000