Antitrust and Overseas Technology

Antitrust and competition statutes of host country must be considered when overseas technology is involved

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One of the most fundamental considerations in any technology transfer arrangement must be the antitrust and, competition statutes of the host country. Australia's Trade Practices Act was passed in 1974. It was a difficult creature to interpret in its original form. However, in the short space of less than six years, it has been amended no less than six times[1] and had at least three reports tabled on various aspects of its operations.[2] In addition, the Trade Practices Commission itself is currently,[3] at governmental direction, engaged in an evaluation of pricing and marketing policies in the petroleum industry the result of which will, no doubt, be relevant to future legislative amendments. Further, it has been stated in press reports that, in any event, specific proposed legislation in relation to the petroleum industry is to be soon released — in advance of the Trade Practices Commission Report.[3a] With all of this activity, it is not surprising that the Trade Practices Act cannot be monitored by any but specialists. Some of the amendments noted above have been minor. But some have been quite prodigous. The 1977 amendments, for example, exceeded the total length of the original 1974 enactment. In writing this paper, I labor in the fear that what I say in it may not be the law, or may not be the contemplated law, in a month's time when the paper is presented.

In texts on Licensing in Australia, it is not surprising, therefore, that authors have skirted somewhat circumspectly around the Trade Practices Act, notwithstanding its relevance to the topic they discuss. For example, in my view, one of the most practical licensing texts for businessmen is that recently written by Charrett.[4] Charrett, however, merely sets out 30 pages of text from the Trade Practices Act as an appendix to his book. He gives no commentary on what this all means or how it affects technology licensing.[5]

I believe there is presently very little explanation of the Trade Practices Act for businessmen who have competition problems involving technology. It is hoped that this paper will assist to some extent in filling, partially at least, the present vacuum in this regard. I intend to continue in generality. I do this for three reasons. First, generality is more intelligible than the minute parsing and analysis of a statute. Second, the general principle is of more assistance to businessmen than the minute dissection. Finally, general principles are likely to survive statutory amendment and, therefore this paper will hopefully have relevance no matter what tinkering is done in the future with the statutory wording of the Trade Practices Act.

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TECHNOLOGY TRANSFER: WHAT IS THE TRADE PRACTICES ACT RELEVANCE?

I am of the view (based I concede essentially on subjective assessment) that the interest of businessmen concerning Australia's competition law in relation to technology transfer lies in six main areas:

1. How does the Act work? What are the procedural obligations? What is the Trade Practices Commission and what does it do? Can matters be discussed with the commission or not?

2. The Australian Law of Trade Secrets. Does competition law affect common law obligations to protect secrets when information is given in circumstances where it should not be disclosed? Can one restrict one's secrets without infringing competition law?

3. What are the provisions of the act relating to exclusivity? What are the allowable restraints in relation to periods of exclusivity and in connection with territorial restrictions?

4. What is the attitude to various restraints imposed incidentally to a licensing agreement?

5. What is the position with joint ventures?

6. How do monopolization provisions affect arrangements?

I will deal with each of these aspects. Because of the nature of the topic, I will confine myself to situations involving overseas technology transfer arrangements and will not deal with problems of an essentially more local nature.

HOW DOES THE ACT WORK?

The act has provisions preventing:

(a) Agreements substantially lessening competition (section 45). It should be noted that price fixing in respect of goods and services is illegal per se (section 45A).

(b) Monopolization (Section 46).[6]

(c) Exclusive dealing (Section 47). With but one exception, exclusive dealing is illegal only if it involves customer, product or territorial exclusivity *and* anticompetitive result follows.

(d) Resale Price Maintenance (Section 48) — illegal per se.[7]

(e) Price Discrimination (Section 49).[8]

(f) Company Mergers (Section 50).[9]

(g) Consumer Protection provisions, e.g. provisions in relation to misleading advertising (Part V of the Act).

Of the above sections only the provisions relating to anticompetitive agreements (Section 45), monopolization (Section 46), and exclusive dealing (Section 47) have substantial relevance in the present context. I intend to discuss only these sections. But the other sections cannot, of course, be ignored. Clearly, for example, no licensing arrangements should provide for resale price maintenance of goods (per se illegal — Section 48).

Penalties

The penalties for infringement of the act are quite severe. They are (a) damages (single damages only) at the suit of an individual, (b) injunction at the suit of the Minister for Business and Consumer Affairs, the Trade Practices Commission or any individual, and (c) penalty of up to $250,000[10] at the suit of the Minister or the Commission. Proceedings in respect of any of the above remedies are brought in the Federal Court of Australia and the matter is decided by the judiciary. Remedies and/or penalties can be cumulative. It is thus important that the act be borne in mind in drawing up licensing arrangements. At the very least, an arrangement infinging the act will allow an individual to escape his agreement and, of course, the consequences can be much greater than this.

The Trade Practices Commission is the policeman. It institutes proceedings (injunction or pecuniary penalty) for breaches of the act. But the commission also has a role in giving immunity from the act in certain important respects. Where exclusive dealing is concerned, a party can file a notification with the commission and the exclusive dealing covered by that *notification* is legal until such time as the commission lifts the notification. The commission can do this if it is satisfied that the conduct covered by the notification is: Substantially anticompetitive *and* contrary to the public benefit.

The act thus acknowledges that a good deal of exclusive dealing conduct is quite proper and it gives prima facie immunity in respect of such conduct on mere notification to the commission.

No one has to notify the commission of anything. It is a totally voluntary choice. The chief benefit of notification is the security given while the notification is in force. The chief detriments of notification are usually thought to be:

— Publicity. The notification is on a public register subject to confidentiality matters.[11]

— The attention of the Trade Practices Commission may be attracted to the arrangement whereas the commission would not have known about it if the document had not been placed under its nose.

The businessman thus takes his choice as to whether to file a notification or not. The Trade Practices Commission has no power to compel such a filing. However, there should be no mistake about the point. A party in doubt can obtain total protection in respect of exclusive dealing conduct — at least until commission evaluation of it — by merely lodging a notification. If parties choose, for whatever reason, not to utilize the notification procedure, I think it ill behoves them to complain, in the event of court proceedings being taken in respect of their practice, that the law is uncertain and exposes them to unnecessary risk. The minimization of this risk is significantly in the hands of the parties themselves.

Power to Exempt

The Trade Practices Commission also has the power to exempt Section 45 arrangements from the act by way of *authorization* on "public benefit" grounds. The commission has not, however, exempted many presently relevant arrangements on this basis, other than joint-venture arrangements (upon which more is said hereunder). In the case of an application for authorization of an anticompetitive agreement, it should be noted that immunity from the act is not given on *mere application* but only on a *favorable determination being made.* Furthermore, the arrangements for which exemption is sought should not be implemented prior to a commission determination. If this is done, the commission is precluded from giving the authorization sought. Authorization can also be granted, on public benefit grounds, to company mergers (a decision must be made by the commission within four months).[12]

The pros and cons of making application for an authorization are much the same as those involved in lodging a notification except that no protection is obtained in the case of an authorization application by mere lodgement.

The commission has no power to exempt practices or conduct other than anticompetitive agreements, exclusive dealing and company mergers. Of particular relevance in the present context is that it cannot exempt monopolization conduct or resale price maintenance.

As a matter of sensible administration, the commission staff are prepared to discuss matters with businessmen and their lawyers. It must be understood, however, that the commission has no power legally to exempt conduct or arrangements except as stated. The commission's attitude may thus not be the last word, though assuredly it is an important word. Even if the commission is happy on a particular matter, a competitor or consumer may not be and may bring his own court proceedings. It is only in the case of an undisturbed notification or a grant of authorization that the decision of the commission precludes action by a third party.

THE AUSTRALIAN LAW OF SECRETS

The general law of trade secrets in Australia is the same as that applicable in England and, through the heritage of English law, to a number of other countries. The applicable principles are stated in *Halsbury's Laws of England* in the following words:

> A contract not to divulge a trade secret may be reasonable though unlimited as to space or time, and a restraint imposed in order to give effect to such a contract would apparently be treated in the same way, but in no case has an absolutely unlimited restriction been (yet) under consideration (by the courts).[13]

As regards restraints on employees disclosing secrets *Halsbury* states the position to be that:

> An employer may be entitled to insist upon special protection where, from the nature of the business or of the employment, the servant has special opportunities of becoming acquainted with the customers and of acquiring confidential information as to trade methods or secrets.
>
> . . . Apart from the protection of trade secrets or confidential information an employer is not entitled to restrain an employee from making use, after the employment has ceased, of any knowledge or skill gained during the period of employment, but a covenant reasonably necessary to protect an employer against the betrayal of trade secrets or confidential information is not void merely because it unavoidably protects the employer against competition.[14]

No doubt as a result of fears that the U.S. experience in *Kewanee Oil* (at the Court of Appeals level) may be repeated in Australia,[15] the Trade Practices Act provides that the legislation does not affect the general law relating to breaches of confidence.[16]

Given this position, it appears that no objection could be taken in licensing arrangements between an overseas licensor and an Australian licensee which incorporate the following:

1. A requirement not to disclose confidences relating to information or systems where this material is not already in the public domain.

2. A requirement not to utilize the matters referred to in (1) above after expiration of the agreement.[17]

3. A requirement to return all documents, etc., relating to the matters referred to in (1) above after expiration of the agreement.[17]

Nonetheless, there are some trade secret matters which are relevant to Australian competition law notwithstanding the *laissez-faire* approach to the subject in the Trade Practices Act. These are:

(a) It may well be dangerous in competition terms to attempt to prevent a licensee utilizing a licensor's methods or technology when such matters are generally publicly known. I would regard such a restriction as being an attempt to restrict competition rather than as a bona fide restraint designed to protect a trade secret. As such, it is probably not sustainable at general law. An agreement not to utilize patented technology after the expiration of the patent may be similarly regarded. Such technology is on public register and, by virtue of the patent legislation itself, can be utilized by any person on patent expiration. To prevent one particular party from utilizing publicly available material would probably be unenforceable at general law because it is not protecting any trade secret at all. Furthermore, there would appear to be no reason why the U.S. concept of patent abuse (i.e. using the statutory patent monopoly as a method of tying a person for a period in excess of the statutorily permitted period) could not be held applicable in Australia in these circumstances.

(b) From decisions of the Trade Practices Commission,[18] it is clear that the commission considers that the protection of trade secrets does not justify a total exclusion of a licensee from a general line of commerce after expiration of an agreement. So the commission is of the opinion that competition principles may be offended, for example, where a party is restricted for three years after termination of the agreement from offering to sell any goods similar to (i.e. presumably those competitive with) those covered by the agreement. The view taken in this regard is stated in the following words:

> The mere fact that there is such a restraint would impose considerable pressure on the distributors to renew the agreement rather than move to a competitor. If the agreement is not renewed, the distributors cannot engage in the line of trade in which they are, presumably, most skilled and they are precluded from doing so only because this line of trade is competitive with that of the manufacturer . . .[19]

The Australian Trade Practices Act thus probably imports a well known principle of United States antitrust law that restraints to achieve certain justifiable business ends must "constitute the method . . . that imposes the least burden on commerce. If there are less burdensome alternatives (a party) is obligated to employ them." . . .[20]

WHAT ARE THE PROVISIONS OF THE ACT RELATING TO EXCLUSIVITY?

Section 47 of the Trade Practices Act has already been referred to, as has the protection available by way of Notification to the Trade Practices Commission. Section 47 illegalizes product, territorial and customer exclusivity *but only where a substantial anticompetitive result occurs or is likely to occur.*[21]

The essence of any evaluation of Section 47 is thus an analysis of holdings as to what is, and what is not, anticompetitive. One must be conjectural here. Such evaluations are ultimately for courts to make. As yet, however, there are no Australian court decisions on the subject. But this does not mean that there is no knowledge. There are a number of Trade Practices Commission decisions in relation to applications for exemption from the act. There is also the experience of United States courts in particular, which can be drawn upon when this logic appears applicable to the Australian act and in Australian circumstances.

Some of the principles which have come from Trade Practices Commission decisions are:

(a) There is "nothing objectionable in the appointment of a sole Australian distributor for a reasonable period of years."[22]

(b) What is a reasonable period of years cannot be stated with certainty. I know of no jurisdiction with antitrust laws where a set period has been determined as being "reasonable" in all circumstances. A 3-to-5 year period *in the case of a pure distribution agreement* has generally been acceptable in Australia.[23] In cases involving the establishment of plant or involving substantial investment much longer periods of exclusivity have been allowed. In one case, for example, 15 years' exclusivity was granted in respect of joint-venture arrangements to produce certain industrial gases.[24] The basis of that decision was that the agreement secured the entry of a new competitor and "the market is unlikely to be entered at all except by large companies that can obtain a secure supply base".

The general problem is the same in Australia as in all countries with competition statutes relating to exclusivity. On the one hand the arrangement must include a consideration of whether it will, "provide . . . a return over (its) life . . . commensurate with the expenditure and effort involved in reaching and subsequently administering (it)"[25] and balance this against the position, on the other hand, that, "a tied supply contract extending over a long period of time has a greater adverse effect on competition . . . If tie periods are reasonably short, (a supplier) has more frequent opportunity at the end of the contract to improve his selling position and (a product) that has been tied can be competed for by others . . ."[26]

Individual parties may make their own assessments of the above balance in their own circumstances if they wish. If they do not so wish, however, a notification can be given to the Trade Practices Commission. As stated earlier, such a notification protects the exclusive dealing aspects of the arrangements and continues to do so unless the commission decides that these arrangements are both anticompetitive and contrary to the public benefit.[27]

(c) The Trade Practices Commission has recognized a good deal of product exclusivity as not being anticompetitive.[28] The commission has seen product exclusivity as pro-competitive in circumstances where it is a method of encouraging new market entry[29] and this seems a highly relevant recognition where overseas technology may be involved. But, like United States courts,[30] the commission has regarded product exclusivity as anticompetitive where it is utilized from a position of substantial market power of a supplier or manufacturer. So, petrol exclusivity was considered anticompetitive in Australia when utilized by all supplying companies with consequent exclusionary effects on possible new entrants.[31] Similarly, in *Ford Motors*[32] and *John Lysaght*[33] exclusive dealing was considered anticompetitive in light of the market power of the supplier/manufacturer and the ability, through this, to exclude competitors from dealer outlets.

(d) The Australian Trade Practices Commission has never adopted the view that territorial restrictions are anticompetitive per se. It has thus never reached the U.S. *Schwinn*[34] position (since reversed in the *Continental T.V. Case*).[35] Thus, it has not been considered anticompetitive to appoint a sole distributor in Australia.[36] Because an overseas company can establish itself in Australia, the fact that it makes arrangements with another entity to do the same thing is not a matter, generally speaking, which can sound in anticompetitive terms.[37]

Similarly, the Australian Trade Practices Commission has often taken a "softer" line on territorial exclusivity than has the Federal Trade Commission in the United States. Territorial exclusivity in relation to soft drinks has, for example, been allowed in Australia by the commission,[38] whereas the Federal Trade Commission has decided that substantially the same arrangements are anticompetitive in America.[39]

It is difficult to encapsulate in short form what amounts to a great number of decisions by the Trade Practices Commission in relation to product, customer and territorial exclusivity. Only some illustrative cases can be dealt with. It but remains to be said that the Trade Practices Act generally does not compel a person to deal with any other person and neither does it prevent the termination of arrangements for commercial reasons. The United States principles of unilateral decision in this field appear to me to be quite applicable also in Australia.[40] It is of course different if there are joint arrangements between competitors or between suppliers and dealers as group activities of a boycott nature may then be involved. There may also be different consideration applicable if an exclusivity reason is the reason for non supply as this may have anticompetitive consequences.

Those who may be used to working in a U.S. antitrust business environment, or indeed in that of a number of other countries, will find Australian competition laws in relation to exclusivity somewhat akin to their own, and perhaps a little milder in some areas. Probably the position is best summarized by the words of the Trade Practices Commission in its First Annual Report. There the Commission says:

> "Exclusive dealing is not illegal, only exclusive dealing that is substantially anticompetitive. There is a lot of exclusive dealing in Australia like other countries, and Parliament recognized that much of it should be allowed to continue. The act grants a statutory interim clearance for exclusive dealing on mere application. Many applications have therefore been made in respect of conduct that is probably at little risk of illegality. These cases have low priority for review of the statutory interim clearances unless parties need a commission decision in substance, for example where new investment is involved . . .
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> Of course, there are exclusive dealing applications . . . that are of very great importance both in themselves and for their flow through effect . . . The commission is working systematically through them . . ."[41]

WHAT IS THE ATTITUDE TO VARIOUS RESTRAINTS IMPOSED INCIDENTALLY TO A LICENSING AGREEMENT?

There is no Australian court decision at this stage relating to illegal restraints incidental to a licensing agreement. What follows hereunder is an evaluation of the most likely such restraints based upon foreign court holding and Australian Trade Practices Commission decisions. I will not repeat in this section aspects which have been discussed earlier in relation to trade secrets and in relation to exclusivity.

Most licensing involves aspects of either patent licensing[42] or franchise licensing. I will deal with some aspects of each in turn.

(a) *Patent licensing*

It is perhaps simplest merely to list the areas of possible competition concern in patent licensing arrangements.[43] Parties should, of course, consult their own lawyers in negotiations on these issues so that the various aspects can be evaluated in a detailed fact situation. The degree of anticompetitive effect in any specific situation will depend on the type of patent involved (e.g. product or process patent) and the market position of various parties. One cannot generalize for all cases but the main areas in which one should tread with caution in licensing negotiations because of possible anticompetitive consequences are:

(i) Restricting licensees as to prices charged. Unless legal arguments (which I regard as untenable)[44] succeed in having such an arrangement ruled as exempt from the Trade Practices Act, such a restriction is a per se prohibition of the legislation.

(ii) Resale Price Maintenance. This practice is banned per se by Section 48. A patent licensor cannot therefore impose an obligation that a licensee will require purchasers from him to sell at a certain price. Neither can the licensee of his own volition impose resale price maintenance on his purchasers.

(iii) Territorial restrictions. These must always be considered. I believe, however, that such restraints are either specifically exempted from the Trade Practices Act or, if not, will not in a patent license, except in the most unusual case, produce anticompetitive results.

(iv) Quota restrictions. These should be approached with caution as such restrictions may be aimed at rendering price competition futile and thus be anticompetitive.

(v) "Grant-back" licenses for "improvement" patents. I believe that these requirements should be on a nonexclusive basis. Only by so providing can it be said that the licensor is not utilizing his patent monopoly to obtain advantages additional to those allowed by statute.

(vi) Distribution methods requirements. (e.g. distribution is to be in not less than x dozen packages per order). Often an anticompetitive purpose will be the reason for such restrictions.

(vii) "Tie" arrangements. These may be anticompetitive because of the use made of the market power given by the patent in compelling ties. If there is a forcing of another person's product by use of the patent, this is per se illegal under the act. Some common types of "ties" which may be suspect in competition terms are:

— Compelling the licensee to adopt certain distributorship channels, whether or not the licensor has an interest in such channels.

— Preventing the licensee from obtaining patents, know-how or trademarks from competitors of the licensor.

— Controlling, by virtue of the patent, trade in nonpatented goods.

— "Package licensing," i.e. a requirement that the licensee take and pay for new patents obtained by the licensor (or perhaps adjusting royalties to obtain the same result).

(viii) Extending the term of the patent by devices such as:

— Imposing royalties on sales of similar items to the patented article (e.g. charging royalties on sales of *all* TV sets sold — not just those in which the patented article is used).

— Charging royalties on patents as they expire.

— As mentioned earlier, restraining the licensee, after expiration of the patent, from conducting business in a certain area or in a certain manner or prohibiting the licensee from dealing in certain products.

(b) *Franchise licensing*

Franchising (involving the use of a trademark or business name) is often an adjunct of technological licensing. It may, however, exist independently of technological licensing. For whatever reason, it is appropriate to comment briefly on points to be watched in franchising arrangements insofar as they relate to competition law.[45] The main aspect here seems to be not to tie in subsidiary restraints with use of a trade name. The Trade Practices Commission has on this basis regarded it as anticompetitive to tie the purchase of fixtures, furniture and insurance to a franchise arrangement in respect of steakhouses. There was no objection to the franchised outlets being required to have a certain style or decor but the purchase of the subsidiary items was not to be tied to the franchisor.[46] Similarly, the commission considered it anticompetitive to tie the use of stationery, motor vehicle accessories, tires, batteries, petrol and credit facilities to a Rent-a-Car franchise.[47]

There is at present no state or federal franchising law in Australia similar to that which exists in many parts of the United States.[48] However, this is likely to be a short-lived position. The Minister for Business and Consumer Affairs has announced that a proposed Petroleum Retail Marketing Franchise Bill will be made available in the immediate future for public comment.[49] Furthermore, a Franchising Bill of general application is suggested by the 1979 Committee of Enquiry into the Trade Practices Act and Small Business.[50] If the committee's recommendations are accepted, the Australian position relating to franchising will be somewhat more akin to that prevailing in the United States. What will be the ultimate fate of these proposals is, however, at the present time unknown.

WHAT IS THE POSITION WITH JOINT VENTURES?

Joint ventures are evaluated by the general test of Section 45 of the act. They are not illegal, in general terms, unless they have or are likely to have the effect of substantially lessening competition. They may be authorized if the Commission finds that the arrangements have resulted or are likely to result in a benefit to the public which outweighs the detriment to the public constituted by any lessening of competition that has resulted or is likely to result from the arrangements.

There are thus two issues involved. These are (a) when is a joint venture likely to be anticompetitive and thus in breach of the act and (b) under what circumstances can a joint venture be authorized?

(a) *When is a joint venture likely to be anticompetitive?*

There are no Australian court decisions as yet on the subject of what constitutes an anticompetitive joint venture. A ruling in this regard will, of course, depend upon particular fact situations. Similar principles apply, no doubt, in Australia to those in America though emphasis may vary. As an illustration of U.S. considerations, Donald Baker (U.S. Deputy Assistant Attorney General of the Department of Justice Antitrust Division)[51] in a 1974 speech listed the chief points of relevance in relation to joint ventures and antitrust as being:

- Does the creation of the joint venture restrain the competition (actual or potential) which might be achievable by individual effort?
- Is the joint venture subject to restraints on competition? (e.g. price fixing, market allocations, quota restrictions, etc.)
- Is compulsory access to a joint venture required? A relevant consideration is whether those who control an industrial resource are prepared to grant access on reasonable and nondiscriminatory terms to those in the trade.

There has been an immense amount written in the United States on antitrust law and joint ventures. These analyses are also relevant to Australian considerations of the problem. In this paper, however, I feel that all I can do with this quite immense topic is to refer the reader to some of the applicable material in which he may follow up the problems if interested.[52] For one detailed Australian analysis as to the effect of the Trade Practices Act on joint ventures, the reader is referred to a lengthy 1977 article by Mr. Douglas Williamson Q.C. in *The Australian Mining and Petroleum Law Journal.*[53]

(b) *Under what circumstances can a joint venture be authorized?*

The first point to be borne in mind is that, in order to grant authorization, the Trade Practices Commission must be satisfied that there is a public benefit achieved or likely to be achieved by the joint venture. The "onus of proof" in this regard lies on the applicant for authorization. The fact that the arrangement is not anticompetitive is not itself a sufficient reason for authorization though this will be a factor in weighing the anticompetitive detriment if any. For this reason, the commission has generally not authorized arrangements which merely give rise to the provision of a product. Many exclusive dealing and licensing arrangements have failed to obtain authorization for this reason. The provision of the product in such cases is thought by the commission not to be a specific public benefit relating to the particular arrangements "for such benefits as flow to the public are benefits which flow from the private enterprise system"[54] itself and not from any particular aspect of the arrangements in question. This does not mean that the arrangements involved breach the act if no public benefit is made out. What it means is that "the companies involved must take their own decision as to whether the agreement has the purpose or has or is likely to have the effect of substantially lessening competition".[54]

A number of joint ventures have, however, been authorized by the commission. So, in *North West Shelf Gas*[55] for example, the joint venture in question was authorized. The following points were of relevance:

— Investment was large and highly speculative.

— Customers (overseas or Australian) were typically large entities with economic bargaining power.

— There were substantial economies in distribution of gas by mixing the product of all producers together and it was not technically feasible in any realistic sense to "take off" individual shares of product and market it separately.

— The project involved the development of a natural energy resource; it depended upon the joint venture and the development was not likely to be realized without the joint venture.

On the balancing of competition point, the Commission said:

> The joint venture is not replacing competitive development by any of the parties of the relevant gas resource because this is not a real alternative.

There is not great benefit to be achieved here by going into lengthy details of decided joint venture cases. Most, to date, have involved resources development. In most it has been clear that, because either of risk factors or quantum of capital required, the ventures would not go ahead except on a joint basis. To this extent, it is fair to conclude that the arrangements may not have been anticompetitive in any event. Indeed, it is appropriate to note the commission's general view on authorization matters that:

> To get authorization, public benefits must be shown from the conduct, but as they have to be balanced against anticompetitive detriments, it is much more likely that an authorization will be granted if the anticompetitive effects are minimized. Applicants for authorization are well advised to choose the least anticompetitive means of achieving their business purpose.[56]

In any joint-venture planning, or indeed any other arrangements, it would be wise to keep the above guideline statement in mind.

One well known author and legal practitioner in the trade practices area states the following to be his conclusion in relation to mining and petroleum joint ventures and the Trade Practices Act:[57]

> The trade practices lawyer must not shrink from telling the client that aspects of the joint venture or indeed the personality of the participants will create problems. U.S. antitrust lawyers do it all the time and their advice is heeded. Nor need the client be advised always to take the matter to the Trade Practices Commission for an authorization because even though a vast project like the Northwest Shelf will obviously appeal to the commission as having substantial benefit for the public, many lesser mineral joint ventures, while having benefits for the parties and ensuring development of a project, nevertheless may not pass the . . . public benefit test. But that is not to say that ventures cannot be organized on an entirely legal basis which does not have the requisite effect on competition. The solution to this problem is to become thoroughly familiar with the way the markets operate and to reach an informed opinion on the basis of that complete information.

The one thing which can be said about the Australian Trade Practices Act in relation to joint ventures is that it is certainly no harsher than legislation in other developed countries of the world with competition laws on this subject. The act does not aim to prevent international technological participation in development of industry on a joint-venture basis. As in all competition statutes, there are some possibly blurred areas between that which is permissible and that which is not. But there is no evidence so far as I am aware that the act has in any way impeded joint-venture projects or caused legal problems of such magnitude that joint-venture projects have had to be abandoned or shelved.

It has been commented (I believe accurately) that:

> No doubt the device of the joint venture will continue to flourish notwithstanding the enactment of the Trade Practices Act 1974, and although henceforth joint ventures will be constructed with an eye to the

> possible application of the act, it is unlikely that the act will cause a market change in the type of joint-venture structure employed. It remains to be seen to what extent American case law will be applied . . . Nevertheless, we can always benefit from the experience of others, even if we do not take precisely the same route.[58]

HOW DO MONOPOLIZATION PROVISIONS AFFECT ARRANGEMENTS?

Australia's monopoly section (Section 46) operates only in respect of a corporation that is in a position substantially to control a market taking advantage of its market power for the purpose of:

(a) Eliminating or substantially damaging a person in that market or any other market.

(b) Preventing the entry of a person into that market or any other market.

(c) Deterring or preventing a person from engaging in that market or in any other market.

The 1979 Committee on Small Business Report[59] recommends that the section should have effect on companies that have "a substantial degree" of market power and not only those in a position "substantially to control" a market.

I cannot see the committee's suggested amendments, if implemented, making any difference to the thrust of Section 46. The short point to make here is that the section covers only predatory monopolization. In relation to patents and licensing matters, I am of the personal belief that the section cannot compel mandatory patent licensing. I find myself in agreement with the U.S. 5th Circuit Court of Appeals in the *Rohm Case*[60] where it states that "there is no general policy requiring a patentee to grant explicit licenses . . ." I cannot see any Australian court holding to the contrary in the foreseeable future.

The monopolization section is untested in the courts. It is not appropriate to write a treatise on monopolization in this paper. Two things stand out, however. The first is that it is far more likely that plaintiffs will at least initially seek to bring conduct within other more specific sections of the act rather than proceed under the broader, more general and as yet totally untested monopolization section. Litigating under Section 46 is at this stage probably a hazardous procedure and may well remain so for some time. The second is that, in any event, the section is not aimed at size or power as such but at abuse of a position by engaging in prohibited conduct. Thus, there is no reason, on structural grounds, why even the largest firms should be deterred by Section 46 from conducting business in Australia.

CONCLUSION

In this paper, an attempt has been made to outline the most relevant aspects of the Trade Practices Act insofar as it relates to technology transfer. The act cannot be ignored in technology transfer. It is proper in any advanced free-enterprise nation that competition concepts be protected. Without competition laws, our free-enterprise economy may not be truly free and it may not be very enterprising, either. Competition laws are not the enemy of technology. Neither are they the enemy of the basis on which technology is protected (patents) or transferred (licensing). It is not a question of one concept opposing the other. Patents, licensing and competition all promote innovation, enterprise and progress. The basic questions involve the limits to which each concept can go and the sketching of the areas in which one must defer to the other. I have attempted to trace these limitations and sketch in the possible relevant areas where competition policy affects technological matters. In doing so, I hope to have answered some of the antitrust questions frequently posed by businessmen concerned with building an Australian enterprise based on overseas technology.

NOTES

1. Amendments by Acts No. 63 of 1975; 88 of 1976; 81 of 1977; 151 of 1977; 206 of 1978 and 207 of 1978.

2. *Report to the Minister for Business and Consumer Affairs by the Trade Practices Review Committee* (August 1976) (T. B. Swanson, Chairman); *Report to the Minister for Business and Consumer Affairs on the Operation of the Trade Practices Act in Relation to Primary Production in Australia* (May 1979) — Trade Practices Consultative Committee (R. G. Blunt, Chairman); *Report to the Minister for Business and Consumer Affairs on Small Business and the Trade Practices Act* (December 1979) — Trade Practices Consultative Committee (R. G., Blunt, Chairman).

3. i.e. at the time of writing — 30 January 1980. The Trade Practices Commission was instructed in November 1979 to make this survey and to report by the end of March 1980. This time has now been extended until the end of May 1980.

3a. See now *Media Release of Department of Business and Consumer Affairs No. 80/15 of 30 January 1980* confirming the above and stating that the Minister expected the *Draft Petroleum Retail Marketing Franchise Bill* "would be available for public comment next week".

4. *Australian Licensing Practice* — Eric P. Charrett (Objective Publications Pty Ltd, Canberra, 1978.

5. I do not wish to be taken as blaming him for this. To encapsulate the act in a text on licensing is not an easy task. Indeed, in this paper, I am being highly selective in what I discuss and I can only issue the general caveat that both licensors and licensees should consult their own legal advisers in specific cases. It does help to consult a legal adviser who does have a knowledge of the *Trade Practices Act* (I do not make this comment facetiously. In days of specialization not all lawyers can know everything about everything).

6. *The Trade Practices Consultative Committee on Small Business* (see note (2) above) has suggested amendments to the monopolization section upon which it apparently places great faith as a protection to small business. I am more cynical, however, and am of the view that the amendments basically will not change the thrust of the section at all. I discuss the Committee's recommendations briefly in Part 6 hereunder.

7. There are some defenses which have been of no practical relevance and thus resale price maintenance is treated on a per se basis. Note a manufacturer/supplier can "recommend" a price. The prohibition is upon any attempt to enforce the "recommendation".

8. Will it go or will it stay? The *Swanson Committee* (see note (2) above) recommended abolition of the section in 1976. Amendments to the Act were introduced in 1976 to effect abolition of Section 49 but the Section, as a result of small business pressure, was granted a reprieve. Now the Report on Small Business of December 1979 (See note (2) above) also recommends abolition of the section. As I said in a 1978 Paper (and the comment is even more relevant now):

"... the future of section 49 is a clouded one, as is its past. Perhaps the main thing the section needs is a removal from political controversy in the hope that some will believe that it will remain on the statute book longer than each anniversary of the Trade Practices Act. Only if this belief becomes widespread will the section function in the market place . . .".

W. J. Pengilley — *Australian Laws Against Restrictive Trade Practices: Concept, History and Enforcement* — Background Paper to Address to International Bar Association — September 1978. (Reprinted by Leo Cussen Institute for Continuing Legal Education: Melbourne 1979).

Without going into detail, there are some quite significant differences between the present Australian Section 49 and its U.S. counterpart. The Australian Section is aimed only at predatory discrimination of a consistent and returning nature.

9. Pre-July 1977, there was quite a strong merger control law based on a competition test. Post July 1977, this test has been considerably relaxed so that only mergers resulting in control or domi-

nance of a substantial market in Australia are prevented. On court interpretation to date, it is clear that only the most monopolistic of mergers will be caught by the section and for most mergers the section can be ignored. (See *Trade Practices Commission* v. *Ansett Transport Industries (Operations) Pty Ltd* (1975) ATPR 40-075 (Federal Court of Australia)

10. $50,000 for individuals. In the case of Consumer Protection breaches, the penalty is $50,000 for a company and $10,000 for individuals.

11. As to Confidentiality Procedures and attitudes, see *Trade Practices Commission Information Circular No. 24* "Confidentiality — Exclusion of Documents from Public Registers" — 14 December 1977.

12. If no decision is so made the merger is authorized by statute. Because of the Post July 1977 weakening of company merger control (see note (9) above), very few company mergers can infringe the Act and thus there have been very few applications for exemptions of company mergers on "public benefit" grounds. However, it is significant that every merger exemption application since July 1977 has been granted — primarily on rationalization and efficiency grounds.

13. *Halsbury's Laws of England Third Edition Volume 38 p. 33.*

14. Note (13) above at pp. 33-34.

15. *Kewanee* v. *Bircon Corp.* 478 F.2d. 1074 (1973) (Sixth Circuit Court of Appeals) held that the U.S. Patent Laws overrode the common law of secrecy. So an article which could have been patented, but which the owner decided not to patent, could be lawfully exploited by a person improperly disclosing a trade secret which he was pledged not to divulge. The U.S. Supreme Court in 1974 reversed this line of reasoning (*Kewanee Oil* v. *Bircon Corp.* 663 ATRR p. G1) and, indeed, the logic of the 6th Circuit Court of Appeals was in any event contrary to that of three other U.S. Circuit Courts.

16. *Trade Practices Act* Section 4M.

17. *Charrett's* (see note (4) above) pro forma Licensing Agreement covers these aspects by the following suggested clause to which no objection could be made in Trade Practices Act terms:

"Upon termination of the agreement as herein provided Licensee shall forthwith cease to use any Technical information received by it from the Licensor hereunder in connection with the manufacture of the Product Line and forthwith shall discontinue the manufacture, sale and use of products enumerated therein. In addition Licensee shall return promptly to Licensor or his designee all Technical Information furnished to it by Licensor hereunder f.o.b. . . . or the address of such designee."

For commentary in relation to secrecy during negotiations and form of an agreement which can be utilized at this point, see the article by Paul Thygesen entitled *"Practical Aspects of Secrecy"* — a paper presented to the Licensing Executives Society Scandanavia Annual Meeting September 1978 (Reprinted in *Les Nouvelles* (Journal of the Licensing Executives Society) Vol. XIII No. 4 Dec. 1978 p. 253). I am of the belief that all clauses referred to in Thygesen's model agreement would have no difficulty under Australia's Trade Practices Act.

18. *Glenila Poultry Service* C5065, A5050-1; *J.J. & V. Randall* C20125; *Rheem Australia* C21551. (In this paper I cite Australian Trade Practices Commission decision by reference to their Commission Registration Number).

19. *Glenila* C5065 (see note (18) above).

20. *Kentucky Fried Chicken Corp.* v. *Diversified Pkg. Corp.* 1974 2 Trade Cases 75, 422 (S.D. Fla 1974); upheld on appeal 1977 1 Trade Cases 61, 339 (C.C.A. 5th Cir). In the context of this case there was a tie (held justifiable on the facts) to preserve quality control.

21. Forcing of another's product is the one exception to this statement. This is per se illegal. Notification is not available in respect of such practice though exemption can be claimed by way of authorization on public benefit grounds.

22. *Joseph Lucas (Australia) Pty Ltd* C20081 — see also *Kennedy Thompson Pty Ltd* C21999 and a number of other Commission decisions to similar effect there cited. (at Footnote (1)).

23. See cases cited at footnote (1) in *Kennedy Thompson Pty Ltd* (note (22) above). The statement is subject to the comment that there should be no anticompetitive restrictions after conclusion of the agreement (see text related to note (19) above).

24. *Broken Hill Proprietary Company Limited re Contract between BHP and Linde A.G.* C4020. The Commission recently, however, withdrew a notification in respect of exclusivity relating to a joint venture between BHP and Koppers for the processing of coal tar. The joint venture was entered into in 1967 and relates to a 20-year supply exclusivity with a joint venture subsidiary. When the venture was established in 1967 BHP had 55% of the coal tar market. With phasing out of local government gas production, BHP is now the sole supplier. The Commission's view was that the joint venture could be separated from the exclusivity and "it is clear that it is now the continued operation of these exclusive dealing terms themselves that have a substantial effect on competition". I dissented in the case being of the view that the arrangement was not anticompetitive and the decision in any event was inconsistent with *BHP/Linde* (above) and a prior decision in *Hydrocarbon Products Ltd* (*A14* and *A4029*). The Commission's decision is presently on appeal to the *Trade Practices Tribunal*. (See *BHP/Koppers* N90120).

25. *"Licensing Australian Technology Overseas"* — A publication of the Investment Overseas Section of the Department of Trade and Resources, Canberra 1978, p. 3. The publication is written from the viewpoint of licensing technology "out" of Australia but obviously the principle is applicable also to cases of licensing "into" Australia. It is not only the licensor who may require lengthy exclusivity. Frequently (perhaps more frequently than licensor exclusivity requirements) the licensee requires exclusivity as a safeguard for the often substantial investment which he has to contribute to the venture.

26. *G. Gramp & Sons Pty Ltd* C3052-3. The case involved exclusive dealing with grapes. The citation is for the principle involved and it is not suggested that the case is relevant in a factual context to the licensing of overseas technology. The commission gave its view in *Gramp & Sons* that a 20-year tie in the circumstances was likely to be anticompetitive but that a 10-12 year tie would not be so. This evaluation required a close study of the circumstances relevant to the industry. The commission's comment in reaching its conclusion was that "of course the matter has to be judged on balance and in the circumstances".

27. Of course, the commission can, by its decision, only affect the prospective position. It cannot retrospectively invalidate the protection given by the notification prior to its decision. Even if the commission lifts a notification, illegality does not necessarily flow. The position then is that the parties are not exempted from the act — they are "at risk" in the same manner as if they had not lodged a notification at all. The commission has given a view (and by such view withdrawn a statutory exemption from the act) but it is the court which must determine whether a violation of the law has occurred. The court's view may well differ from that of the commission.,

28. See cases cited at footnote (4) in *Kennedy Thompson Pty Ltd* (note (22) above).

29. *Twyfords (Australia) Pty Ltd* C4010.

30. See, for example, *Northern Pacific Railway Company v. U.S.* 356 US1; *Standard Oil Co. of California and Standard Stations Inc. v. U.S.* 337 US293.

31. *Shell Company of Australia & Ors* (Trade Practices Commission Public Hearing No. 1 of 1975 — Decision of December 1975). The Commission's Evaluation is akin to the logic of the U.S. Supreme Court in *Standard Stations* (Note (30) above).

32. *Ford Motor Co.* (Trade Practices Tribunal Decision 29 November 1977) (Ford dealers required to deal exclusively in Ford products).

33. *John Lysaght (Australia) Limited* N90004-6 (Distributors of steel produced by a company with up to 80% of the Australian market in some steel products were required to deal exclusively in that product).

34. *U.S. v. Arnold Schwinn* 388 US 365.

35. *Continental T.V. Inc. v. G.T.E. Sylvania Inc.* 433 US 36. The U.S. position is presently that always held by the Australian Trade Practices Commission.

36. See, among others, Commission Decisions C3005-6; C93-4; C4776-7; C3434-5; C3440-1; C88-9; C90-1. Note the situation may be different if the effect of an exclusivity arrangement is to "seal off" a foreign source of supply to an Australian firm such as when two Australian entities are importing direct from one supplier and the supplier subsequently grants Australian territorial exclusivity to one such entity.(*Electronics Engineering (Communications)* - C75).

37. Note (36) above.

38. *Coca Cola Export Corporation* N90030. Allowance was on the basis that anticompetitive results did not follow even though Coca-Cola was the largest of three firms, having between them 84% of the market. The commission noted that the following matters mitigated against anticompetitive results even though the territorial restrictions were imposed in a highly concentrated structural market:

1. There was interbrand competition, notably in advertising, display and service.

2. That at least one national chain and one national wholesaler distributed and marketed across territorial boundaries.

3. That distributors were not restricted as to products and a number of them marketed competing brands.

4. There was a good deal of substitutability for soft drinks by other products, e.g. fruit juices.

39. See FTC decision re *Coca-Cola Company* Dkt 8855-7 April 1978.

40. The principle is demonstrated in the U.S. case of *Burdett Sound Inc. v. Altec Corporation* 515 F.2d 1245 (5th Cir. 1975) at pp 1248-9 where it is stated:

"We think it indisputable that a single manufacturer or seller can ordinarily stop doing business with A and transfer his business to B. . . .

Lest any other former distributor succumb to the temptation of treble damages, we reiterate that it is simply not an antitrust violation for a manufacturer to contract with a new distributor and as a consequence to terminate his relationship with a former distributor, even if the effect of the new contract is seriously to damage the former distributor's business."

41. *Trade Practices Commission: First Annual Report Year Ended 30 June 1975* Paras 1.32 to 1.33. The commission has now "worked through" a considerable number of exclusive dealing cases whereas it had not done so as at 30 June 1975.

Some of the cases "worked through" have given rise to the principles stated in this paper.

42. I exclude from the present discussion horizontal aspects of patent "pooling" and various arrangements between competitors which may have anticompetitive effects. I am here discussing only bi-party arrangements between a licensor and a licensee. I am of the view that patent pools and other possibly anticompetitive arrangements will be dealt with in similar manner to that in the United States. I have dealt with these matters in parts of two lengthy articles to which the reader is referred if interested. See Pengilley: *"Patents and Trade Practices — Competition Policies in Conflict?"* Vol 5, No. 3 Australian Business Law Review (September 1977); Pengilley: *"Intellectual Property and Monopolization in Australia"* Vol 4, No. 1 (March 1978) and Vol 4, No. 2 (June 1978) Management Forum.

43. I omit detailed case citations and argument. As to these see the articles referred to in note (42) above. In these two articles can be found the detailed arguments for reaching the conclusions stated in the text.

44. See article *"Patents and Trade Practices: Competition Policies in Conflict?"* (Note (42) above) at p. 181 for the argument that licensees cannot be restrained as to prices charged. The argument involves a view that the U.S. Supreme Court decision in *General Electric* (1926) 272 US 476 is wrong — a view apparently widely accepted in the United States itself. The Licensing Executives Society of Australia takes a view (which I do not share) that specific exemptions in the Trade Practices Act allow a patent licensor to fix the price of first sale by a licensee of goods made in accordance with the patent. The argument is that this is a matter "relating exclusively to" the patent (and is thus exempted from the Trade Practices Act by Section 51(3) (a)). (See letter from Licensing Executives Society to The Hon. John Howard, Minister for Business and Consumer Affairs dated 11 March 1977). This letter was written prior to the 1977 Amendments to the act. Section 51(3) (a) post July 1977 exempts conditions "to the extent that the condition relates to" the patent. I do not think the amendment strengthens the position of the Licensing Executives Society. It does not vary my own view as expressed in the text.

45. I do not intend to cite detailed authority for the propositions put. I have dealt with these aspects in considerable detail in a previous article. See Pengilley: *"Distributorships, Franchising and Nonpatented Licensing-Developments 1974-1978 under the Trade Practices Act.* Management Forum Vol 5 No. 1 (March 1979).

46. *Double Bay Steak House Providors Pty Limited* C21815, C23480.

47. *Letz Rent-a-Car System Pty Ltd* C7278-9.

48. See, for a summary of these, *State Business Franchise Disclosure and Relationship Laws* (CCH Inc. — Chicago, Illinois 1978). See also *Federal Trade Commission "Disclosure Requirements and Prohibition Concerning Franchising and Business Opportunities* — 27 December 1978 Trade Regulation Rules par. 38029.

49. See notes (3) and (3a) above. When this paper is presented, details of the proposed Bill will, no doubt be available. Such details are not available at the time of writing.

50. See note (2) above.

51. *D. Baker; "Antitrust as a Positive Force in Relation to Financial Joint Ventures"* — Speech delivered at the U.S. League of Savings Association's 82nd Annual Convention November 13, 1974 — Reprinted 3 December 1974 ATRR (No. 691) pages D1 - D4. The points stated by Baker must be valid for any assessment of competition in relation to joint ventures. It may well be, of course, that Australian courts will put a different emphasis on the various points to that given by Baker or U.S. Courts. For a lengthier elaboration of these factors in a more Australian context, see *Williamson* note (53) hereunder.

52. Some of the relevant discussion may be found in *"Joint Ventures under the Antitrust Laws: Some Reflections On the Significance of Penn Olin"* R. Pitofsky - 82 Harvard Law Review p. 1007-1063; *"Joint Ventures in the Light of Recent Antitrust Developments: Anticompetitive Joint Ventures* - L. Bernstein 1965 Antitrust Bulletin p. 25; *The Competitive Significance of Joint Ventures* - W. J. Mead 1967 Antitrust Bulletin p. 819; *The Legal Status of Joint Ventures under the Antitrust Laws: A Summary Assessment* J. F. Bodley - 1976 Antitrust Bulletin p. 453; *Patterns of Joint Venture Activity: Implications for Antitrust Policy* - J. Pfeffer and P. Nowak 1976 Antitrust Bulletin p. 315; *Joint Ventures and the Antitrust Laws* - J. Backman (1965) 40 New York University Law Review p. 651; *Joint Ventures in Light of Recent Antitrust Developments: Joint Ventures in the Chemical Industry* - J. Backman 1965 Antitrust Bulletin p. 7.

53. D. Williamson: *"Trade Practices Law - Its Implications for Mining and Petroleum Joint Ventures"* Australian Mining and Petroleum Law Journal Vol 1 No. 1 (1977) pp. 59-107.

54. *Kennedy Thompson Pty Ltd* (note (22) above).

55. *Woodside Petroleum Development Pty Ltd* (formerly Bocal Ltd) A18492.

56. *Trade Practices Commission Information Circular No. 20 - "Clearance, Notification and Authorization"* - 30 June 1977 Par. 16.2 (my emphasis).

57. B. Donald: *"Comment on Trade Practices" Australian Mining and Petroleum Law Journal* Vol. 1 No. 1 (1977) p. 113 at p. 118.

58. F. L. Harrison *"Joint Ventures and the Trade Practices Act 1974: The American Approach and its applicability to Australia"* 1975 Australian Business Law Review p. 117 at p. 132. Mr. Harrison is of the view that Australian courts will not be prepared to make assumptions and inferences from arrangements where concrete evidence on which to base such matters is not available. He feels that American courts have done a good deal of this in the past. To the extent that this is true the Australian courts may be more kindly disposed toward joint ventures than their American counterparts. (He also criticizes the Australian Trade Practices Commission for conduct similar to that of the American courts. However, as not one Australian Trade Practices Commission decision is cited in the article it is difficult to know the basis of this comment).

59. See note (2) above.

60. *Rohm & Haas Co. v. Dawson Chemical Co.* 1979 Trade Cases 62780 (5th CCA).