

tional materials, etc., with your new member society here in Australia.

Now, getting back to the flexibility and approach of LES not becoming high-bounded, I'd like to tell you one final little story. This is the story of the Little Rooster. There was a farmer who had a tremendously vigorous hen yard; there were about 55 hens in this yard. They were all young and vigorous hens, and, he had had various roosters who had tried to service the hen yard, and about ten of them had died on the job — some of them after very short periods of service. He had given up finding anyone that could really do the job. Then one day, this scrawny little rooster walked up to him and said, "Say, boss how about giving me the job of taking care of the hen yard?" The farmer said, "Oh, go on, that's ridiculous, roosters twice as big and strong as you have tried it and they died on the job — I've just given up." The Little Rooster said, "Oh, come on, it won't hurt to let me give it a try, will it?" The farmer said, "Well, if you don't mind risking your life, just go right ahead; it's no skin off my back." So the farmer went on about his chores and turned the Little Rooster loose in the hen yard. He came back about an hour later, and, all the hens, were smiling; the ducks were smiling; the geese were smiling; even a few stray swallows were smiling. The farmer looked around for the Little Rooster, and, there he was, flat on his back with his eyes shut in the middle of the hen yard. He opened the gate to the hen yard and walked in there, and, as he walked in, he looked up overhead and there were about a dozen buzzards circling right over the Little Rooster in the center of the yard. He went over to the Little Rooster and he sort was talking out loud and said, "Damn it, Little Rooster, I warned you you couldn't handle this job. I knew this would happen, that you would die on the job. It's too bad too, because it looked like we were off to a pretty good start." With that, the Little Rooster opened one eye and said, "Quiet, boss, when you are after buzzards, you have to play their kind of game."

*\*About the Speaker: Marcus B. Finnegan, partner in the Washington, D.C. firm of patent attorneys of Finnegan, Henderson, Farabow and Garret, is President-Elect of the international organization, LES/International, and he is the incumbent President of LES/USA, Inc.*

#### LICENSING AGREEMENTS — INTERACTION BETWEEN TRADE PRACTICES LAW AND INDUSTRIAL PROPERTY LAW

by  
R. Bannerman\*

I am very interested to be here with you at the inaugural meeting of the Licensing Executives Society in Australia and to learn from the contact something of what you are doing and plan to do. It seems to me to be important work, not only because licensing itself is an important activity both from the point of view of the licensor and the licensee and their respective countries (if there is more than one involved, and very often there is), but also because you are trying to raise the standards of those concerned with licensing so that expertise will be developed or improved and hopefully will be matched by professional responsibility. I must applaud, and try to participate, even as modestly as I can.

Of course, licensing of patent and other industrial know-how and so on is by no means new in Australia. There are plenty of examples of it on the (confidential) register of trade agreements that the current Trade Practices Law requires me, as commissioner, to keep. There is licensing within Australia, there is more licensing to Australia from overseas, and there is a little licensing from Australia to overseas.



Center, at microphone: Ronald M. Bannerman, Australian Commissioner of Trade Practices since 1966. Seated: Dudley Smith, Eric Sunman, Chairman, Bendrix Australia; Paul Grant, C.S.I.R.O. President LES/Australia; Marc Finnegan; Eric Seidler, Vice President LES/Australia; and Mitsuga Okano.

No doubt the licensing I see is part only of the total, because what our law requires to be registered are agreements between competitors or persons who would be likely to be competitors but for the agreements. Very likely there are many agreements, particularly involving foreign parties, that are not registered because the parties do not regard themselves as such competitors. On the other hand there are some agreements registered that, for the very same reason, might not have had to be registered. This points up immediately the difference in thrust between our present law and the Trade Practices Bill introduced into the Parliament last October (1973).

Registration under the current law was merely a step towards case-by-case examination of agreements. First they had to be examinable, which meant shortly that they had to be between competitors and to be restrictive of competition, and then they could be considered from a public interest point of view, and if all went against them the Trade Practices Tribunal would strike them down. Under the new bill, restraint of trade is directly prohibited; there is opportunity to parties to seek authorization on public interest grounds, but they must do so *before* illegality falls on them and then must establish their public interest justification.

It follows that there is more pressure for businessmen, and their advisers, to consider licensing agreements (or for that matter, any restrictive agreements) than there used to be. This means, among other things, that questions of interpretation of some provisions that are common to the current law and to the new bill (and I particularly have in mind the exemption provisions in favour of industrial property) will now for the first time really arise in an immediate practical sense. The interplay between licensing and the Trade Practices Law is something we are all going to be concerned with.

Now I shall be addressing myself to the provisions of the new bill, because at this stage I think it would be unhelpful to be doing anything else. I shall be speaking only as an administrator, and with the reservations that are inherent in that. You know that the bill is under considerable debate, although it has not yet been reintroduced in the Parliament, and that it's final form may change. It would have been better to have been talking after the bill became an act, but your convention is on now, so I will do my best. It does seem to be clear that the current act is destined to be replaced, because there is much common ground in the Parliament, in spite of the areas of argument. In the area of restraint of trade and exclusive dealing the bill's provisions are probably not final, but I think the general position is clear enough for me to open the subject broadly with you.

The legislation will of course cover the case where the licensor is overseas and the licensee is in Australia. That is probably the commonest case, so, as the legislation is

expressly concerned with restrictions in licence agreements, it must cover that case; the restrictions would be operating in Australia.

Now licensing as such, and particularly international licensing as such, should not be discouraged, because we have much to gain from it. The spread of technology by licensing is going on in most parts of the world, and Australia is sharing in that. Some restriction is inevitable, and I think this has always been recognized here and abroad. The licensor, who is the owner of valuable industrial property or know-how, wants to profit from it by letting others also profit from it on terms that protect his own continuing interest. It is not as if he is making a once-for-all sale of goods and has no concern with what happens afterwards. In protecting his continuing interest, the licensor puts restrictions on the licensee and no doubt this affects the willingness to grant the licence at all and the price that is to be paid for it. So the restrictions have to be treated with respect.

The restrictions can relate to the licensed use of patents, copyright works, registered designs, registered trade marks, or know-how which is unpatented and perhaps unpatentable.

Take patents. Here we are dealing with a legal monopoly expressed in strong terms in S.69 of the Patents Act which recognizes the right to exploit the monopoly by licensing. Copyright is also in the nature of a monopoly right — of an author in his own work. Similarly with registered designs and registered trade marks. Know-how is different, because it does not carry monopoly rights. A little more about that later.

To return to patent and the other industrial property rights. Of their very nature they involve the power to exclude others from the use of whatever it is that is protected by the law. Exclusivity and monopoly on the one hand, trade practices laws aiming at competition on the other hand — is there a conflict? Only if industrial property laws and trade practices laws are each regarded as if they ought to be absolutes. But in Australia they are not absolutes, and the question is how do they shake down together. The patent law has long recognized public interest limitations; for example, in the provisions for compulsory licensing, and the provisions against unrestricted use of tying arrangements. The Trade Practices Bill (following the current act) gives an exemption in favour of patent licensing so far as any license condition relates exclusively to the invention or articles made by its use. If there is a case that falls outside the exemption, it can still be justified in public interest terms on an authorization application to the Trade Practices Commission. In acknowledging that there is interplay between industrial property law and trade practices law, we must acknowledge that trade practices law cannot operate in a vacuum. It must affect, and be affected by, other laws. The most obvious case is with respect to the law of contracts. So, in relating the licensing of industrial property to the operation of the Trade Practices Law, we need to be as specific as we can.

Let us look at the exemptions in the Trade Practices Bill in favour of patent licensing. It is not restraint of trade or exclusive dealing within the reach of the bill to have in the licence any condition that relates exclusively to the invention or articles made by its use. I think "exclusively" means that the condition must relate not the invention plus something else or to the articles plus other articles but to the invention only or to the articles only. This is the natural meaning and I think the context reinforces it: there is always the possibility that patents can be used to affect trade outside the patents in question — the patents act itself recognizes this. If the trade practices exemption had meant to permit this, it could hardly have said anything less appropriate than that the condition must relate "exclusively" to the patent or the articles. What then are conditions that "relate" to the patent or the articles? You can hardly get a wider word than "relate". Subject to the "exclusively" test I think conditions as to the following would "relate to" the patent or the articles,

and would therefore be exempt. —

Specifications and quality;

Price of first sale;

(But not resale, because of an express reference in the section)

Territorial limitations.

These are conditions for the exploitation of the patent, and not interfered with by the Trade Practices Law. There are other conditions that do not "relate exclusively" in the sense we have been talking about, and I think prime illustrations are "tying", "package deal" conditions, and exclusive dealing conditions that require the licensee not to deal in competitive goods. I do not suggest that conditions like this are necessarily bad, but they do not get an automatic statutory exemption to take them outside the consideration of the Trade Practices Law. And I think it is clear that cross-licensing and patent pooling arrangements get no automatic statutory exemption.

The statutory exemptions in favour of licensing of a registered design or a copyright are expressed the same way — conditions are exempt if they relate exclusively to the goods in respect of which the design is registered and to which it is applied or to the work or other subject matter in which the copyright subsists.

There is a difference when we come to registered trade marks. Here the exemption is narrower. In a contract with a registered user the test is not whether the conditions relate exclusively to goods bearing the mark; the conditions must not go beyond conditions with respect to the kinds, qualities and standards of goods bearing the mark that may be produced or supplied. This difference has existed since the current (1965) act was passed, and it traces from the British R.T.P. Act of 1956. I suppose one can say that a trade mark is a reflection of the reputation of its proprietor and that the conditions that are properly to be exempt in a licensing arrangement are those that relate to the things that directly affect that reputation, that is, conditions as to quality, etc. If the exemption went as wide as the exemption for patent licensing, the proprietor would be put in the same position for these purposes as a patentee of the goods, but he enjoys no monopoly in the goods, only a qualified monopoly in the mark, so he gets no exemption in respect of price restrictions, for example. Probably too this reflects the feeling that inventiveness leading to a patent deserves a higher reward and encouragement than does the mere identification of a trader with his trade mark.

Apart from the exemptions I have just been discussing that are spelt out in the Trade Practices Law itself (Clause 51(3)), there may be some possibility of exemption by virtue of specific authorization or approval by the Patents Act. The Trade Practices Bill (like the current act) exempts "any act or thing that is, or is of a kind, specifically authorized or approved by, or by regulations under, (another) act." (Clause 51(1)). An argument for exemption under this provision would face the immediate difficulty that the Trade Practices Bill itself gives direct attention to exemption for licensing of patents and other industrial property. For that reason Clause 51(1) may well be displaced in the licensing area by Clause 51(3). If, however, one did reach the point of applying Clause 51(1), one would need to consider whether there are provisions in the industrial property statutes specifically authorizing acts that would otherwise amount to restraint of trade. The emphasis is, I think, on the word "specifically". It is not merely that implied authorization is unacceptable and that the authorization must be express, but it must go further than that and be specific rather than general. I think the statutory grant of power to the patentee to exploit his exclusive right is not a "specific" authorization to a patentee to do particular acts in the course of exploitation that might otherwise be in contravention of the Trade Practices Law. Section 112 of the Patents Act might need to be considered too. That is the section that provides that tying

arrangements in patent licenses are not lawful, but says the provision does not apply if the tie can be broken and the licence still obtained for a reasonable royalty without it; the section also says that nothing in the section affects a prohibition against selling goods other than from a particular person, or a reservation by the patentee to himself of the right to supply spare parts, etc. Is this section a specific authorization or approval in the relevant sense? I think it is specific enough, but does it authorize or approve (an act or thing)? On the one hand it can be said that it does not; what it does is to make clear that the Patents Act does not prohibit, or does not prohibit in the circumstances, but it does not seek positively to authorize, perhaps recognizing that the common law or other statute law may be relevant to the overall question whether the conduct is lawful or not. On the other hand it can be said that the Patents Act in withdrawing a prohibition is really authorizing or at least approving, and that this view should be supported by an argument for strict interpretation against quasi-penal provisions like those of the Trade Practices Bill. The exclusive dealing that the Patents Act might be claimed to permit would include exclusive dealing that the Trade Practices Law would prohibit, unless it was authorized by the Trade Practices Commission on public interest grounds. The issue of course would not arise at all if Clause 51(1) does not apply in the licensing area because of the threshold argument that Clause 51(3) displaces it.

So far I have been discussing exemptions, because it is an obvious starting point for consideration. If something is exempted, there is no concern what might otherwise happen to it under the Trade Practices Law. But let us now take those arrangements that do not get a statutory exemption, and so need to be considered further under the bill. The main types are probably tying (and exclusive dealing) arrangements and cross-licensing and patent pooling. Without going into the detail of the restraint of trade and exclusive dealing clauses, because those clauses have been under considerable debate in published submissions of business and professional groups and may undergo some change, I think it can be said in broad terms that tying arrangements and cross licensing and patent pooling would be prohibited unless given a clearance or an authorization by the Trade Practices Commission. Shortly, a clearance would be appropriate where there was little effect on competition; an authorization would be appropriate where competition was affected but the public interest was nevertheless served on balance because of benefits to the public that would not otherwise be available. One could see this last position arising where, for example, tying arrangements were necessary to ensure proper quality of ingredients, etc. and were not directed at exercising leverage outside the patent area. And cross-licensing and patent pooling could serve the public well if it spread technology widely, removed blocks on development and was not anti-competitive in effect, as for example a patent pool would be if it were limited to a powerful in-group which excluded the rest.

The last, and often the most important, subject of licensing agreements, is industrial know-how. It is, of course, very difficult to define. It can range from a limited piece of expertise to detailed drawings and instruction manuals dealing with the running of a large plant. The banks' committee into the British Patent System in 1970 summarised know-how as being technical knowledge of industrial significance which has been built up in an organization and is not in the public domain. Obviously it can be valuable, and its value may largely depend on it continuing to be secret. It does not have any special protection by law. It is a personal thing; it is not disclosed to the public as is a patented invention and it does not carry any monopoly rights against others who use or discover the same practical information. It may in any event be unpatentable because it lacks the necessary inventiveness. It can be protected only in a personal way, in terms of con-

tract or of trust, and the remedies are personal remedies against persons coming in contact with it through the company that has the know-how.

Trade practices problems relating to know-how are not therefore special problems, as is the case with patents and other industrial property. Know-how does not have a special status to be protected, and there are no exemptions in its favour in the Trade Practices Law. So it really lies outside my subject. There is no 'conflict' with the Trade Practices Law to be resolved. The *Kewanee* Case, now reserved before the U.S. Supreme Court, concerns "conflict" between Trade Secret Law and Patent Law. If there is some U.S. bias against protecting trade secrets, I do not understand it to stem from anti-trust law, and I think if the same problem arose in Australia, it would similarly not be concerned with the Trade Practices Law. In any event, Australian courts would have to decide for themselves whether they would decline to protect know-how in a personal action as did the U.S. Court whose judgment is now under appeal in the *Kewanee* Case.

There is no way I can see that know-how would become entitled to special consideration as a subject of trade practices unless it acquired a recognized status in the industrial property laws. The Banks Committee considered whether it should be given such status and recommended against it. Neither the patent system for the copyright system were apt to deal with the problem. And if one thought of some new registration system, there was the practical problem that he was seeking to protect technical information which, by definition, the owner did not wish to publish, and which other companies might independently learn or already have learned.

Accepting, therefore, that know-how has no special position as such for the purposes of the Trade Practices Law, it follows that know-how licences, which contain restraints of trade or exclusive dealing provisions of the type we have discussed in relation to patents, etc., will fall within the ordinary reach of the law. They may get clearances from the Trade Practices Commission on the basis that they do not affect competition, and if they do affect it, they may get authorizations from the Commission on the basis that they are justified in the public interest. Cases must depend on their circumstances, but I think territorial limitations might well be justified as an essential condition of the licence being granted. I find it difficult to attempt generalization with other types of conditions that might be attached to know-how licences.

I close now, because I can't do any better with the topic of what is really a very awkward time, the form of the legislation not really being decided until it is passed. I did point out the difficulty when I was asked to speak. I can only offer to discuss the specifics of cases more fully with the people concerned later on.

*\*About the Speaker: Ronald M. Bannerman has been Commonwealth Commissioner of Trade Practices since 1966.*

**SPEECH GIVEN BY MITSUYA OKANO\***  
**AT THE L.E.S. AUSTRALIA INAUGURAL MEETING**  
**HELD MARCH 7, 1974**  
**WENTWORTH HOTEL, SYDNEY**

Mr. Chairman, honoured guests, ladies and gentlemen. It is very pleasant to be back in beautiful Sydney again. Of course, I am as pleased to see so many people from Melbourne, another beautiful city. I am especially honoured to have the opportunity to share this platform with distinguished speakers at this memorable occasion of the inauguration of L.E.S. Australia.