

Changes to the Interface Between Intellectual Property and Trade Practices Law in Australia



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INTELLECTUAL PROPERTY LAW AND TRADE PRACTICES LAW GENERALLY

Anti-trust or competition law in Australia is to be found in the Trade Practices Act 1974. The Act is reflective of both the anti-trust laws of the United States of America and, to a lesser extent, the European case law dealing with abuses of dominant positions. Broadly speaking, the Australian legislation is built around a market-based competition test with certain conduct being absolutely prohibited.

The inter-relationship between the Trade Practices Act and dealings with intellectual property rights is governed by a section which exempts (subject to specific exceptions) conduct in relation to intellectual property rights, and applications for rights, from certain of the provisions of the Act thus creating something of a safe harbor for intellectual property transactions. An expert committee ("the Committee")¹ has recently reviewed this safe harbor and handed down its recommendations. The Committee has recommended that dealings in intellectual property rights should be subject to the competition test contained in the Trade Practices Act. The Australian Government has indicated that it will move quickly to consider its response to

¹ The Committee includes John Stonier, a Past President of LES International.

the recommendations of the Committee and there is therefore a reasonable prospect that there will be significant changes to the law in Australia insofar as it affects dealings in intellectual property rights and applications therefor.

THE TRADE PRACTICES ACT

The Trade Practices Act is all-encompassing and applies to all contracts, arrangements, and understandings. Subject to the safe harbor discussed here, the Act would apply to all assignments and licenses of intellectual property rights.

As noted above, the Act is divided into conduct that is the subject of a market-based competition test and conduct that is absolutely prohibited. The specific conduct that is absolutely prohibited is:

- (1) exclusionary provisions (provisions in contract arrangements or understandings between persons, any two or more of whom are competitive with each other or would be, but for the provision), which have the purpose of limiting the supply of goods or services to, or the acquisition of goods or services from, particular persons or classes of persons or persons in particular circumstances or conditions by all or any of the parties to the contract, arrangement, or understanding;
- (2) price-fixing agreements between competitors;
- (3) third-line forcing (the sup-

ply of goods or services on condition that the acquirer acquires other goods or services from a third party);

(4) abuse of substantial market power;

(5) resale price maintenance.

All other conduct is subject to a competition test. If the particular contract, arrangement or understanding or conduct in the nature of exclusive dealing has the purpose, effect, or likely effect of substantially lessening competition in a market for goods or services, then the conduct is prohibited. It should also be noted that in some situations a refusal to supply goods or services is caught and made subject to the competition test. The offer or grant of a license under an intellectual property right is the supply of a service for the purposes of the Act.

When the Trade Practices Act was introduced in 1974, there was a concern that there would be a clash between the requirements of competition legislation and the benefits conferred by intellectual property rights. In particular, there was a perception that intellectual property rights created monopolies and were therefore inherently anti-competitive. Accordingly, in order to control the interface between competition law and intellectual property rights, a safe harbor was created for assignments and

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licenses. (However, over the years these perceptions have changed and it is now accepted that intellectual property rights do not create monopolies and are not inherently anti-competitive; indeed, that they are usually pro-competitive).

The current law is generous to assignments and licenses of intellectual property rights and applications therefor in that it exempts conditions in such agreements provided that they “relate to” certain subject matter. The safe harbor does not extend to abuse of substantial market power or re-sale price maintenance (4 and 5 above), but it does provide an exemption from the other per se prohibitions.

The review by the Committee was not the first review conducted of the safe harbor. A short time before the Committee’s review, the National Competition Council conducted a review and made recommendations which differ from the recommendations made by the Committee.

THE IDIOSYNCRASIES OF INTELLECTUAL PROPERTY

The Committee recognized that intellectual property possessed features which differentiate it, to some extent, from other property or assets. Among other examples, the Committee referred to the draft guidelines released in September 1999 by the Canadian Bureau of Competition and acknowledged that intellectual property is typically non-excludable; that is, “preventing others from using IP in the absence of an effective system of IP rights is difficult and at times impossible. Intellectual property is also typically non-rivalrous, in the sense that greater consumption by one party does not reduce the scope for consumption by others.” The Committee saw that contracts involving licenses and assignments had a central role in securing the

efficient use of intellectual property for three reasons:

1. The originator of IP rights is often not the best placed person to exploit those results;

2. Intellectual property rights do not generally represent products in themselves thus necessarily leading to the amalgamation of technologies and cross-licensing; and

3. “... The costs of impeding efficient licensing of IP can be especially high ... when parties are forced to ‘invent around’ existing knowledge, there is a risk that the resources consumed in the process will, in social terms, be largely wasted.”

THE EXPLOITATION OF INTELLECTUAL PROPERTY AND MARKET POWER

So far, so good. However, the Committee was concerned that IP rights not be used to provide protection beyond the market power that those rights directly confer. In the words of the Committee:

Put in slightly different terms, the system of IP rights acts to provide to those who invest in creative effort a claim on the differential efficiency associated with the results of their investment—that is, of the social gain consequent on that investment outcome. Those rights should not be used to secure a gain that goes beyond that differential efficiency through the exercise of market power. Thus, it is an inherent element in the IP right that the owner of a patent on an invention can secure an income dependent on the unique efficiency that invention allows, but it ought not to be acceptable for the owner of that patent to, say, through the formation of a patent pool with owners of competing patents, effect a horizontal cartel, raise prices, and secure monopoly rents. The grant of IP rights seeks to provide for creators a return on their investment in creation—the rights should not be used to secure returns that do not come from the social contribution that creation makes.

The use by the Committee of the example of a patent pool as constituting unacceptable behavior is

curious for two reasons. First, earlier in its report the Committee seemed to accept that patent pools could be efficiency enhancing where, for example, they facilitated the adoption of a common industry standard. Second, there has never been any suggestion that all dealings in intellectual property rights should be exempt from the operation of the Act. Indeed, there would be some doubt that a patent pool would be protected by the current safe harbor for intellectual property-related transactions.

The Committee’s Recommendation

The Committee then went on to pose correctly the issue as being whether the current safe harbor struck an appropriate balance in allowing the exercise of rights, but not their use, in ways that go beyond the purposes underlying those rights. The Committee ruled out the simple repeal of the section. Instead, the Committee concluded that the safe harbor should be recast to provide that the Act would not be contravened by reason of the imposition of conditions in a contract, arrangement, or understanding relating to the subject matter of an intellectual property statute, provided that those conditions did not result or were not likely to result in a substantial lessening of competition.

The Effect

The net effect of this recommendation is twofold. In the first place, conduct constituting an abuse of substantial market power or resale price maintenance to which the present safe harbor does not apply would be brought within that harbor. Secondly, whereas the safe harbor would previously have resulted in certain conditions not being considered in assessing the effect on competition in a market of a particular contract, arrangement, or understanding, those conditions will be considered for their effect

on competition in a market independently of the other provisions of the particular contract, arrangement or understanding of which they are part. The upshot is that, if the legislation were to be amended in the manner recommended by the Committee, the particular conditions in any contract, arrangement or understanding that relate to the subject matter of a particular intellectual property statute would need to be analyzed in isolation for their effect on competition in a market. Equally, it is presumed that an analysis would need to be undertaken of the balance of the provisions in the agreement to determine whether or not they, in isolation, would be likely to result in a substantial lessening of competition in a market. Thus, one of the differences between the current and the proposed safe harbor

would be that, under the present regime, one merely disregards—for example, in relation to patents—conditions which can be said to relate to the relevant patents, whereas under the proposed regime one would be required to analyze, in isolation, the competitive effect of those conditions. Whilst the Committee was at pains to reduce the costs of administration and investigation particularly on research and development institutions exploiting their intellectual property rights, with respect, the recommendation would appear to greatly add to the administrative burden when entering into intellectual property-related transactions.

In an effort to alleviate any burden, the Committee also recommended that the responsible authority for administration of the Act issue guidelines as to the man-

ner in which it proposes to enforce the Act in relation to intellectual property transactions. The Committee also recommended that provision be made for parties to intellectual property transactions to be able to obtain written clearance from the authority in relation to particular transactions notified to it.

It is too early to say whether the Government will implement these recommendations. However, if the recommendations are implemented, it will be incumbent on rights owners to have their intellectual property-related agreements assessed in a manner which has hitherto not been the case and which differs markedly from the approach taken in the United States, Canada, and Europe.