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Dear Sir/Madam

The repeal of section 144 of the *Patents Act 1990* (Cth)

1. This further submission is made by the Intellectual Property Committee of the Business Law Section of the Law Council of Australia (the **Committee**) in response to the invitation to do so from Paul Gardner in his email to the Committee of 20 May 2020.
2. The Committee makes the following comments regarding the operation of section 144 of the *Patents Act 1990* (Cth) (**section 144**) and the need to repeal this provision.
3. The members of the Committee comprise solicitors, barristers and academics practising in the field of intellectual property law, research and policy and include senior practitioners, many of whom are actively involved in licensing and patent disputes, including advising in relation to the operation of, and obligations under, the *Competition and Consumer Act 2010* (Cth) (**CCA**).

Background

4. Section 144 of the *Patents Act 1990* (Cth) (the **Act**) prohibits a condition in a contract relating to the sale or lease of, or a licence to exploit, a patented invention where the effect of the condition would be to:
 - prohibit or restrict the buyer, lessee or licensee from using a product or a process supplied by or owned by a third party; or
 - require the lessee or licensee to acquire a product falling outside the scope of the patent from the seller, lessor or licensor.

5. The provision also provides that the existence of a void condition of the type noted above is a defence to a patent infringement proceeding whether or not the void condition is contained in a contract between the patentee and the alleged infringer or a contract between the patentee and a third party.
6. The drafting of section 112 of the *Patents Act 1952* (Cth), which was in identical terms to section 144, was criticised because of the obscurity of its drafting by Justice Stephen in the High Court of Australia¹ in the following terms:

Unfortunately neither clause (which the court was required to interpret) nor section (section 112) is easy to construe with confidence; the section because of obscurities of drafting...

Any more precise analysis of par.(a) presents difficulties. Are "supplied" and "owned" each to be related exclusively to "articles or class of articles" and "processes" respectively, or do both past principles apply alike to both sets of nouns? Again, does "a person other than the covenantee" include the covenantor and, if it does, what meaning then does "supplied" bear – can an article be supplied by the covenantor to himself? What precisely is involved in the concept of an unpatented process being "owned" by someone? And what is the meaning to be attached to "prohibit" and to "restrict"?...²

7. The justification for the United Kingdom's (**UK**) precursor to section 144 appears to have been that:

(Patentees were)...in the habit of only supplying the patented article on the terms of the purchaser buying something else from him. That was something which was thought – rightly or wrongly – to be objectionable.³

8. More recently in *Fichera v Flowgates Ltd* ([1984] RPC 257) (at 626) the equivalent provision from the UK *Patents Act 1907* was justified on the basis that it would:

...prevent a patentee from abusing his monopoly by placing restrictions on the acquisition and use of products other than the patented product.

9. These "evils" to which section 144 is directed are now dealt with by the restrictive trade practices provisions of the CCA. In particular:

- Section 45 prohibits all contracts, arrangements, understandings and concerted practices which have the purpose or the effect or likely effect of substantially lessening competition in a relevant market;
- Section 47 prohibits the supply of goods or services on condition that the acquirer does not acquire from a competitor of the supplier or must acquire particular goods or services from a third party where there is the proscribed purpose, effect or likely effect; and
- Section 46 prohibits a person with a substantial degree of power in a market from engaging in conduct which has the purpose, effect or likely effect of substantially lessening competition in a relevant market,

(collectively, the **CCA Provisions**).

¹ *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 per Stephen J [5-7].

² *Ibid*, 93.

³ *Sarason v Frenay* [1914] 2CH 474.

10. Notably, in each case, the CCA also allows for the possibility that the otherwise prohibited conduct either does not have the proscribed effect or has public benefits which outweigh any anti-competitive effect.
11. Following the repeal of section 51(3) of the CCA on the recommendation of the Harper Review,⁴ commercial transactions involving IP rights are now fully subject to the restrictive trade practices provisions of the CCA. The repeal of section 51(3) was only a partial implementation of the Harper Review's recommendations.
12. The flexibility afforded by the CCA Provisions is more efficacious when compared to section 144, which is rigid in its application. Indeed, the UK equivalent of section 144 has been criticised as a harsh and penal provision and has been repealed except for agreements entered into before 1 March 2000. The rationale for the repeal was that the provisions of the *Competition Act 1998* and Article 81 of the *Treaty of Rome* establishing the EEC dealt with restrictive practices.⁵

The Harper Review and the rationale for repeal of s 51(3)

13. The Harper Review articulated, and the Government accepted, a fundamental set of principles which govern legislation. Its key conclusions in Recommendation 1 – Competition principles (relevantly) were that:⁶
 - Competition policies, laws and institutions should promote the long-term interests of consumers.
 - Legislative frameworks and government policies and regulations binding the public and private sectors should not restrict competition.

Applying these principles should be subject to a public interest test, such that legislation or government policy should not restrict competition unless:

- the benefits of the restriction to the community as a whole outweigh the costs; and
 - the objectives of the legislation or government policy can only be achieved by restricting competition.
14. The Harper Review's conclusions and recommendations were informed by a recognition that markets operate best and most efficiently where private parties are free to negotiate and agree arrangements on the basis of their own perceptions of value and interest subject to prohibitions on conduct which is anti-competitive or an abuse of market power. At 114 and 116, the Harper Review stated:

Regulatory restrictions can limit consumers' ability to exercise choice and businesses' ability to respond to consumers. They can determine who participates in the market, what they can produce and even the standard of the product or service they can provide.

Regulatory restrictions can affect: who can supply; what can be supplied; and when and where supply can occur....

.... The Panel considers the focus should be on better regulation. Already, regulation serves the public interest in a range of areas, for example, to protect public safety. The goal is to ensure that regulation does not restrict competition, except to the extent required to meet other overriding policy objectives. Pro-competitive regulation, combined with governments' general

⁴ *Competition Policy Review – Final Report*, (March 2015) recommendation 7.

⁵ *Fichera v Flogates Ltd* [1984] RPC 257.

⁶ *Competition Policy Review – Final Report*, (March 2015) recommendation 1.

deregulation agendas, will provide a more efficient and effective marketplace that offers consumers better value and choice.

15. Also, at 114, the Harper Review reported that legislative review under the National Competition Legislative Review Program had addressed 85% of nominated legislation and around 78% of 'priority' legislation.⁷
16. Turning to competition and intellectual property, the Harper Review recognised the generally pro-competitive nature of licensing and assignments of IP:⁸

The Panel considers it appropriate that commercial transactions involving IP rights, including the assignment and licensing of such rights, be subject to the CCA, in the same manner as transactions involving other property and assets.

In most instances, assigning or licensing an IP right to another person will be neutral from a competition perspective. The assignment or licence will involve a bare transfer of the exclusive right from one person to another. However, on occasions, the transfer may result in the other party acquiring substantial control over an area of commerce by reason of the accumulation of IP rights. The transfer of IP rights, whether by licence or assignment, is subject to the potential application of sections 45 and 50 of the CCA and is not protected by subsection 51(3).

The Panel acknowledges the original rationale for the exemption in subsection 51(3). The subsection applies where an owner of an IP right licences another person to commercialise that right, but imposes restrictions on the manner in which the commercialisation occurs; for example, quality specifications, quantity restrictions or territorial restrictions. If the IP owner were to commercialise the right, the owner would itself make decisions about quality, quantity and selling territory. The rationale for subsection 51(3) is that the grant of a licence to another person, subject to conditions or restrictions that the owner could have imposed upon itself, should not be regarded as anti-competitive and should be exempted from the competition law.

The Harper Review then explained why it considered s 51(3) did not properly achieve the goals of competition policy and intellectual property.

17. Accordingly, the Harper Review recommended the repeal of s 51(3). In doing so, it explained further:⁹

Accordingly, the Panel considers that the IP licensing exception in subsection 51(3) of the CCA should be repealed.

....

However, as is the case with other vertical supply arrangements, IP licences should be exempt from the per se cartel provisions of the CCA insofar as they impose restrictions on goods or services produced through application of the licensed IP. Such IP licences should only contravene the competition law if they have the purpose, effect or likely effect of substantially lessening competition.

⁷ Repeal of (now) CCA s 51(3) and Patents Act 1990 s 144 were recommendations of the Intellectual Property and Competition Review which had *not* been acted on.

⁸ Competition Policy Review – Final Report, pp. 108 - 109

⁹ Ibid, 110. The Productivity Commission recognised a similar need: Intellectual Property Arrangements – Final Report, pp. 443 and recommendation 15.1.

IP licensing or assignment arrangements that are at risk of breaching Part IV of the CCA (which covers anti-competitive practices), but which are likely to produce offsetting public benefits, can be granted an exemption from the CCA through the notification or authorisation processes.

Concerns expressed in submissions about business uncertainty and increased compliance cost likely to arise from repeal of subsection 51(3) do not weigh heavily with the Panel. The competition law, and competition policy generally, are of fundamental importance to the welfare of Australians. All sectors of the economy should be exposed to and disciplined by the competition law, despite the necessary compliance cost that entails. The economic benefits of increased competition almost always outweigh the compliance costs.

Additionally, the block exemption power recommended by the Panel (see Recommendation 39) could be used to specify 'safe harbour' licensing restrictions for IP owners....

18. The Harper Review's full recommendation, therefore, was that the exercise of intellectual property rights should be subject to and disciplined by the general competition law. The exercise of those rights in ways which might otherwise be in breach of competition policy, however, should be subject to the potential for exemption through the notification and authorisation processes.
19. The failure to repeal section 144 defeats the Harper Review's recommendations. Section 144 prohibits arrangements which do not have the purpose or effect of substantially lessening competition. It also precludes the operation of the exemption powers through notification or authorisation.
20. The Committee also notes that in amending the cartel provisions and repealing s 51(3), the legislation did not enact the protections for pro-competitive intellectual property licensing such as franchising included in the Harper Review.¹⁰

No rationale for section 144

21. At the outset, the Committee notes that the stated rationale for maintaining section 144 alongside the CCA Provisions is flawed.
22. The response provided by Paul Gardner to our submission states that:
 - *The Committee is of the view that there is little evidence at this time that section 144 is creating a problem; and*
 - *[T]he ACCC and the Treasury both agree with our current assessment that we do not have sufficient evidence of a real-world problem with s144 to justify action at this time.*
23. This rationale fails to recognise that there is not, and has never been, a requirement to demonstrate a 'real world problem' as a prerequisite to legislative reform. Rather, it is widely seen as desirable to tidy up outdated provisions to ensure that laws are fit for purpose and consistent with current policy. Indeed, consistent with this rationale, the charter of Australia's leading institute for law reform, the Australian Law Reform Commission (the **ALRC**), is to make recommendations that:
 - bring the law into line with current conditions and needs;
 - remove defects in the law;

¹⁰ Competition Policy Review – Final Report, recommendations 27 and 28.

- simplify the law;
 - adopt new or more efficient methods for administering the law and dispensing justice; and
 - provide improved access to justice.¹¹
24. It is our view that the repeal of section 144 is wholly consistent with these aims.
25. We note that the ALRC makes no mention of any need, or even a desire, to articulate a 'real world problem' as a prerequisite to legislative reform.¹²

Bring the law into line with current conditions and needs

26. As discussed earlier (paragraph 9), the CCA Provisions precisely address the restrictive trade practices for which section 144 was enacted. These provisions reflect the present intention of the Parliament with respect to anti-competitive conduct (having been amended as recently as 2017¹³) by allowing a degree of flexibility with regard to prohibited conduct.
27. Notably, and as pointed out above, the flexibility afforded by the CCA Provisions allows for the possibility that otherwise prohibited conduct either does not have the proscribed effect or has public benefits which outweighs any anti-competitive effect. For example, section 45(1)(a) of the CCA prescribes that a corporation must not make a contract '...if a provision of the contract...has the purpose, or would have or be likely to have the effect of substantially lessening competition.'
28. One of the mechanisms through which patentees generate income is through tie-in provisions with those seeking to use the invention. This is particularly common with method patents. Tie-ins are contractual terms which involve using, or not using, another material related to the patented product or process.¹⁴ In the patent area, these arrangements can in fact increase competition in the market, by permitting others to make or use the invention. In these cases, it is counter-intuitive to restrict this practice.
29. The CCA Provisions prohibit conduct that 'has the purpose, or has or is likely to have the effect, of substantially lessening competition.'
30. By contrast, section 144 contains no such moderator, and has the effect of voiding all conditions that have the potential to adversely affect competition, regardless of whether the condition has or may have such an impact. It then goes further to provide a defence to infringement for any person exploiting the invention without the consent of the patentee, a particularly penal result, particularly where a patentee's use of tie-ins is promoting competition in the market.
31. For these reasons, the expansive defence to infringement provided by subsection 144(4) of the Act is wholly inconsistent with current Australian commercial needs.
32. The legislature regularly repeals existing provisions where new measures more simply and accurately address the relevant concern. For example:

¹¹ <https://www.alrc.gov.au/about/>

¹² Ibid.

¹³ *Competition and Consumer Amendment (Competition Policy Review) Act 2017* (Cth) s 23; Schedule 7 ss 1-8; *Competition and Consumer Amendment (Misuse of Market Power) Act 2017* (Cth) Schedule 1 ss 1-2. By contrast section 144 was last amended in 2000, see *Patents Amendment (Innovation Patents) Act 2000* (Cth) s 75.

¹⁴ See *Patents Act 1990* (Cth) ss 144 and 146; Charles Lawson, 'Tie-ins in the Patents Act 1990 (Cth), s 144: Perhaps it's Time to Modernise?' (2010) 21 *Australian Intellectual Property Journal* 202, 203.

- The *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019* (Cth) repealed section 169 of the Act when a new arrangement for the Crown's exploitation of inventions was provided by new sections 163 and 163A.
- The *Intellectual Property Laws Amendment Bill 2014* (Cth) made several small changes to various intellectual property acts to):¹⁵

repeal unnecessary provisions that require the government to keep intellectual property documents for longer than they are needed.

- The explanatory memorandum to that Bill states that changes were necessary because the retention and disposal of documents was:

already comprehensively governed by the Archives Act 1983 and the records disposal authorities issued by the National Archives of Australia.

33. The CCA Provisions effectively and flexibly address the rationale underpinning the prohibitions set out in Section 144. Further, they will bring the law with respect to patents in line with competition law policy to match the modern approach that governs other potentially anti-competitive acts.

Remove defects in the law

34. Intellectual property law reform, like any legislative reform, regularly involves removing defects with the goal of simplifying the law and bringing it in line with current conditions and needs. For example, the explanatory memorandum to the *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019* (Cth) states that minor technical fixes have been made to:

address a small number of errors and inconsistencies in the IP legislation, and to improve the way IP Australia is able to deliver service to its customers by reducing the time both customers and IP Australia need to spend on administrative matters.

35. In addition to the reasons stated above, it is clear that section 144 no longer serves a purpose in Australian law.
36. The repeal of section 144 will correct the inconsistency, and in doing so, will relieve the overlap with the CCA Provisions and permit otherwise prohibited behaviour that does not cause the proscribed effect.
37. By repealing section 144, Parliament will have acted consistently with the aims of law reform by removing a defect in the law.

Simplify the law

38. In addition to modernising the law and removing a defective provision, the repeal of section 144 will simplify competition law with respect to patents. This will ensure that patentees can be confident that their contractual arrangements are permitted at law and improve access to patented inventions.
39. The repeal of section 144 will also simplify Australian law by aligning it with that of our trading partners.
40. The Legislature recognises the importance of a degree of consistency in intellectual property law in the global business environment. For example, the explanatory

¹⁵ Second Reading Speech, Intellectual Property Laws Amendment Bill 2014 (Cth).

memorandum to the *Intellectual Property Laws Amendment (Raising the Bar) Bill 2011* (Cth) included 'Schedule 6: Simplifying the IP system.' The schedule amends various IP Acts to:

implement a number of fixes to the system to remove procedural hurdles, streamline processes and make improvements to ensure that the system is fit for purpose in an increasingly electronic and globalised business environment.

41. Twenty years ago, the UK repealed its equivalent to section 144 (section 44 of the *Patents Act 1977*) on the basis that the *Competition Act 1998* (UK) and Article 81 of the *Treaty of Rome* establishing the EEC was better suited to deal with restrictive practices. Australia should follow this approach for the same reasons (due to the existence of the CCA Provisions).

Adopt new or more efficient methods for administering the law and dispensing justice

42. It is clear from the preceding analysis that Section 144 is a legal anachronism. It no longer serves a purpose in Australian law and its ongoing existence has a negative effect on competition.
43. Section 144 was introduced long before the *Trade Practices Act 1974* (Cth) (the precursor to the CCA) (**TPA**), and consequently, it does not address the underlying economic issues either adequately or properly.
44. The continued inclusion of section 144 is inconsistent with the reasons given for the repeal of section 51(3) of the CCA (as explained in the Committee's initial submission) to ensure that intellectual property rights are subject to, and are dealt with in accordance with the general restrictive trade practices regime.

'Real world examples'

45. Whilst it is not possible to share commercial in confidence information that would provide 'real world examples' of the need for reform, there is no requirement that such examples be identified in order to reform the law.
46. However, it is possible to share an example of existing reform that had little to no real world effect. Item 18 of the *Intellectual Property Laws Amendment Bill 2014* (Cth) made a very minor change to section 119(3)(b) of the Act, omitting the phrase '*through any publication or use of the invention.*'
47. The purpose of the amendment, as was expressly stated in the explanatory memorandum, was to bring section 119(3)(b) in line with section 24(1)(a) of the Act.¹⁶ In that document, the legislature expressly acknowledged that the reform was necessary even though it was:

highly unlikely to have an effect on individual rights, liberties or obligations. The likelihood of a person's rights being affected is so low that it is difficult to conceive of a situation where this might occur.

48. It is clear from this recent amendment to the Act that Parliament does not require a need to demonstrate one or more 'real world examples' as a prerequisite to legislative reform. So much is evident at least with respect to patent law.
49. A submission published in the ALRC's latest report,¹⁷ emphasised the unsatisfactory outcomes that result from overlapping sections across multiple Acts.¹⁸ In the author's

¹⁶ Explanatory Memorandum, *Intellectual Property Laws Amendment Bill 2014* 43

¹⁷ Australian Law Reform Commission, *The Future of Law Reform: A Suggested Program of Work 2020-25* No 1 (2019).

¹⁸ *Ibid* 64.

opinion, having separate provisions addressing the same issue across multiple Acts is highly undesirable. For example, the inclusion of provisions addressing misleading or deceptive conduct (**MDC**) in both the *Australian Securities and Investments Commission Act 2001* (Cth) and the *Australian Consumer Law* suggests that MDC is 'somehow different for a financial product as opposed to ...goods'¹⁹ when this is not the case.

50. This view is supported by the research of Professors Elise Bant and Jeannie Paterson who note that the repetition of MDC prohibitions in 'dozens of other legislative instruments at state, territory and commonwealth levels' creates 'a labyrinth that defies navigation, let alone rational analysis.'²⁰
51. The overlap of MDC legislation, (and that between section 144 and the CCA) is inconsistent with the overriding aim to create coherence in legal statutory development and interpretation.²¹
52. Judicial interpretation of the CCA Provisions and section 144 is likely to occur in parallel and will generate distinct interpretations that could lead to incongruous outcomes for patent disputes when compared with other competition law complaints.

Provide improved access to justice

53. The repeal of section 144 will improve access to justice. Small and medium enterprises (**SMEs**) struggle to assert their intellectual property rights against larger businesses, and the ongoing inclusion of section 144 has the potential to worsen the power imbalance.
54. By providing a defence to infringement if it can be shown that a clause prohibited by Section 144 exists, even between the patentee and a third party, it is possible for a large corporation to be exempt from infringement proceedings against a patentee relying on tie-in provisions of a contract to exploit its patent.
55. The overlap of section 144 (a provision with little case law explanation²²) with the more familiar provisions of the CCA may well lead to expensive, protracted litigation which may force SME patentees to concede against larger, well-funded opposing infringing parties.
56. This effect may be compounded by the minimal judicial guidance for the application of section 144, making it more difficult for SMEs to judge whether they can succeed at trial.²³
57. The relative obscurity of section 144, when compared to the CCA Provisions, also creates a genuine risk that section 144 could be overlooked, not only by competition lawyers unfamiliar with the Act, but also experienced patent litigators.

An ongoing call for reform

58. Section 144 ceased to serve a purpose in Australian patent law many years ago. In fact, its repeal has been advocated since at least 1986.

¹⁹ Ibid.

²⁰ Elise Bant and Jeannie Paterson, 'Developing a Rational Law of Misleading and Deceptive Conduct' in M Douglas et al (eds), *Economic Torts in Context* (Hart Publishing, forthcoming), cited in Australian Law Reform Commission, *The Future of Law Reform: A Suggested Program of Work 2020-25* No 1 (2019), 65.

²¹ Australian Law Reform Commission, above n 2, 65.

²² Just seven cases have cited the provision since its enactment in 1990 (searches of LexisNexis Advance and Westlaw AU).

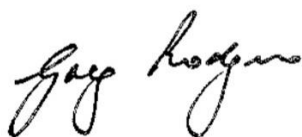
²³ Just seven cases have cited the provision since its enactment in 1990 (searches of LexisNexis Advance and Westlaw AU).

59. The Intellectual Property Advisory Committee chaired by John Stonier handed down its report in 1986 recommending that section 51(3) of the TPA and section 112 (now section 144) of the Act also be repealed, 'leaving those matters to be regulated by the *Trade Practices Act*.' This recommendation was not accepted.
60. In 2000, the Intellectual Property and Competition Review Committee (the ERGAS committee) recommended that section 51(3) be repealed along with section 144.²⁴ The ERGAS Committee noted that the conduct targeted by section 144 was not necessarily anti-competitive and that in many cases, it can in fact be efficiency-enhancing.²⁵
61. In 2010, Associate Professor Dr Charles Lawson of Griffith University published an article on this issue in the *Australian Intellectual Property Journal*. The article contends that having two different schemes to address the same regulatory problem is inefficient. On this basis, Associate Professor Lawson concludes that the more specific section 144 should be repealed in favour of 'a single, generally applicable, pro-competition scheme' in the CCA.²⁶
62. The repeal of this antiquated provision should not be further delayed. Given the duration of patent rights, any repeal of this provision will take 20-25 years to take full effect. It is in the best interests of all users of the patent system, and the commercial community as a whole, to simplify this area of law and provide certainty in this space.
63. Section 144 can be repealed as a simple addition to the next reform package. Its repeal is unlikely to be controversial and therefore little, if any, public consultation would be required.

Conclusion and further contact

64. The Committee would be pleased to discuss any aspect of this submission
65. Please contact the chair of the Committee, Matthew Swinn on +61 3 9643 4389, if you would like to do so.

Yours faithfully



Greg Rodgers
Chair, Business Law Section

²⁴ Intellectual Property and Competition Review Committee, Parliament of Australia, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000) 17.

²⁵ *Ibid* 26.

²⁶ Charles Lawson, 'Tie-ins in the Patents Act 1990 (Cth), s 144: Perhaps it's Time to Modernise?' (2010) 21 *Australian Intellectual Property Journal* 202, 202.