THE APPLICATION OF THE TRADE PRACTICES ACT, 1974 (AS AMENDED) TO RESTRICTIONS IN PATENT, KNOW-HOW AND TRADE MARK LICENSING ARRANGEMENTS

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INTRODUCTION

It has been said by a leading United States' antitrust commentator that "licensing disperses technology among a large number of firms which may expand its uses, improve it, and use it to compete in the marketplace".[1] As the same commentator recognises, this statement cannot be accepted as a totally accurate description of the real world where restrictions of various kinds are imposed on licensees with grave implications in terms of competition law and policy, both nationally and internationally. On the wholly national level restrictions may have the important effect, for example, of dividing up the national market; on the international plane, market division may also be the result of restrictions in licensing arrangements.

Restrictions in international licensing arrangements carry negative implications for most countries. All countries, except the United States, are net importers of technology, that is, all nations except the United States receive less in payments for exported technology than they pay for imported technology. This is true for Australia,[2] but it is especially true

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1 P. Areeda, *Antitrust Analysis* (2nd ed., 1974) p. 442-3. Areeda lists the reasons which motivate licensing:
(a) The patentee may think it more profitable to license than to risk expansion beyond his usual geographical or product speciality.
(b) Industry-wide usage might increase consumer acceptance of a new product and thus generate greater sales for the patentee than he could have generated for himself.
(c) On any new undertaking, moreover, the patentee may prefer to avoid taking the entire risk of product and market development.
(d) To occupy the whole market might require a substantial investment which might be lost if the patent were held invalid or if his rivals discovered an alternative to the patent.
(e) There may be an industry custom by which each patentee permits his rivals to use his invention, albeit at a price.
(f) A patentee may fear that occupying the whole of a significant market invites antitrust troubles under *Sherman Act* section 2(7). A second source of production reduces the risk of supply interruptions and thus may help attract industrial patronage (ibid. 443).

2 The clearest indication is provided by balance of payments statistics published by the Australian Bureau of Statistics for 1973-74; royalties received into Australia

for the developing countries. In the light of these facts of technology transfer it is apparent that restrictions imposed by foreign licensors ought to receive some attention. Attention ought not to be focussed exclusively upon the activities of Australian licensors in Australia affecting only the Australian economy.

The primary agent of transfer of technology internationally is the multinational corporation, and United Nations reports have frequently pointed out that the most important restrictive practice of these corporations is their territorial production and market allocation arrangements. It is now part of the conventional wisdom that the multinational corporation organises production on a global basis with scant regard for national boundaries or for the effects its global strategies may have on individual nation states.[3] The privileges inherent in the industrial property rights of patents and trade marks are peculiarly favourable to the achievement by the multinational of its goals.[4] For example the patent right can be used to divide up markets by imposing export limitations or tying obligations upon patent licensees and the trade mark can be licensed to prevent the licensee from importing into its appointed territory goods bearing the trade mark and coming from sources other than the trade mark owner. Other restrictions, mentioned below, may extend the statutory monopolies beyond their proper boundaries in restraint of competition. An example of market division on a global basis is *Beecham Group Limited* v. *Bristol Laboratories Pty. Limited*,[5] (see infra).

Before the era of concern for the international licensing operations of multinational corporations the doctrine of patent misuse and the implications for the antitrust laws of restrictions in licensing arrangements were worked out in the United States, mainly to control the restrictive effects of licensing within the United States. The United States' experience has prompted other countries, including Australia, to make statutory provision with a view to controlling the restrictive effects of licensing.

(i.e. credit) amounted to 5 million dollars; royalties paid overseas (i.e. debit) amounted to 66 million dollars. The trend for previous years confirms this pattern: 1972-73, 4 million and 75 million; 1971-72 4 million and 56 million, 1970-71 6 million and 64 million, 1969-70 7 million and 68 million. Note that these figures include copyright as well (undifferentiated). Also evident in the pattern is the increase in terms of volume of royalty payments overseas over the years, whilst royalty receipts remained relatively static. (Source: *Balance of Payments 1973-74*, p. 10 published by Australian Bureau of Statistics.)

[3] See e.g., the work of the U.N. body set up to examine the practices of the multinationals: reports of the United Nations Commission on Transnational Corporations.

[4] Many Reports, especially of UNCTAD, detail the empirical data which support such a conclusion, e.g. *Restrictive Business Practices*, Interim Report of UNCTAD Secretariat (1971) TO/B/C2/104; *Restrictive Business Practices: Review of Major Developments in the Area of Restrictive Business Practices* (Doc. No. TD/B/C2/159 of 29.4.75); *Control of Restrictive Business Practices in Latin America* (Doc. No. TD/B/C2/143 of 6.2.75).

[5] (1968) 42 A.L.J.R. 80.

Obviously the United States' case law on the subject will be relevant in determining the meaning and extent of the Australian legislation.

This article will be concerned, first, to identify generally the types of restrictions found in licensing arrangements, especially international licensing agreements. Secondly, the extent of operation and effect of the exemption accorded restrictions in certain licences by section 51(3) of the *Trade Practices Act* 1974 as amended, will be examined. Thirdly, section 51(3) will be noted from the philosophical standpoint of the very assumptions which underlie it, namely, the orthodox arguments supporting the patent system. Finally, specific restrictions will be discussed in the light of United States and European Economic Community (EEC) authority, and a point of view advanced about the permissibility of each restriction under the *Trade Practices Act* ("TPA").

GENERAL DESCRIPTION OF TYPES OF RESTRICTIONS IN LICENSING ARRANGEMENTS

The best starting point is the *Report of the Ad Hoc Group of Experts on Restrictive Business Practices* presented to United Nations Conference on Trade and Development (UNCTAD) in 1973.[6] UNCTAD entrusted to the Ad Hoc Group of Experts the task of reporting on the subject of restrictive business practices. The UNCTAD Secretariat recently described the work of the Group as an important and valuable step in the consideration of remedial action to control and, where possible, eliminate restrictive business practices.

A useful classification of restrictive practice in licensing arrangements was adopted by the Group: restrictions which, on the basis of knowledge and past experience, are likely to have significantly adverse effects whether in developed or in developing countries ("category A restrictions") and those restrictions whose adverse effect is less clear and the ill-effects of which may be offset by corresponding advantages, and hence more complete economic analysis is required, ("category B restrictions"). The Group took the view that *Category A* restrictions should be permitted only in the face of proof that real advantages would accrue to the country whose licensee accepts the restrictions. *Category B* restrictions are restrictions in respect of which no general case exists either for their retention or their imposition. The following restrictive business practices in *patent licensing arrangements* were determined by the Group to fall within *Category A*: agreements not to contest the validity of the patent, restrictions on use of technology after expiry of the contract, export restrictions (whether the restricted product is protected by patents in

[6] *Report of the Ad Hoc Expert Group on Restrictive Business Practices in Relation to the Trade and Development of Developing Countries* (U.N. Pub. Sales No. E.74 II D.11).

other markets or not), requirements that royalties be paid after expiry of the contract. The following were held to fall within *Category B*: limitations on scope or on field of use of a patented product produced under a patented process (these restrictions are discussed infra).

The following restrictive business practices in *know-how licensing arrangements* were determined by the Group to fall within *Category A*: restrictions on exports to certain markets or permission to export only to certain markets, requirement of prior approval of the licensor for exports, restrictions on level of production, restrictions on use of know-how after expiry of the contract and requirements that royalties be paid during the entire duration of manufacture of a product or application of the process involved i.e. no specification of time. *Category B*: limitations on field of activity (although it was recognised that in some cases the licensee might prefer this). The Group considered that export restrictions involving a global ban on exports should be totally prohibited in know-how licences.

The following restrictive business practices in *trademark licences* were determined by the Group to fall within *Category A*: export restrictions, the tying of the supply of imports of a product bearing a particular trade mark to the trade mark owner and thereby prohibiting imports from a third party or another licensee, provisions which constitute an abuse of the privilege granted by the trademark (e.g. requiring the licensee to act as a distributor rather than as a manufacturer, with some exceptions),[7] and obligations on the licensee to use a particular trade mark (some exceptions).[8]

The following restrictive practices common to patent, know-how and trade mark licences were determined by the Group to fall within *Category A*: tie-in clauses (recognising that where such clauses are employed they should not be used to obtain higher prices), provisions obligating the licensee to accept unwanted patents or know-how, provisions requiring payment of higher royalties for export goods (over goods intended to be sold in the domestic market), price-fixing, restrictions on obtaining patents, know-how, or trade marks from other licensors with regard to the sale or manufacture of competing products, and provisions requiring the licensee to use the distribution channels of the licensor (but recognising that sometimes this may be unavoidable). *Category B*: unilateral grant-back provisions (see infra) and provisions imposing obligations to transform royalty payments into capital stock. However, the Group developing countries by reducing demands on precious foreign exchange and benefiting the balance of payments, in joint venture arrangements:

[7] It was considered that restriction of a licensee's activities might be justified where "house marks" or "family marks" were involved.

[8] Obligations to use a particular trade mark in connection with the supply of know-how were considered permissible.

recognised that the latter type of provision may have beneficial effects for nonetheless, these provisions are undesirable from the viewpoint of a host country as they obviously increase foreign ownership of local enterprises if their use is not regulated.

The Group was concerned mainly, but not exclusively, with restrictive conditions in licensing agreements which affect the competitive position of firms in developing countries. But it should be noted that *Category A* restrictions were defined as restrictions which have significantly adverse effects whether in developing or developed countries. Export restrictions when used in patent, trade mark, and know-how licences, fall within *Category A* (in the case of know-how licences the Group found that no case at all can ever be made for global export restrictions). Tie-in clauses, when used in patent, know-how and trade mark licences, fall within *Category A*. Export restrictions and tie-in obligations are amongst the most significant restrictions in licensing arrangements to be examined in this article.

TRANSFER OF TECHNOLOGY AND SECTION 51(3) OF THE *TPA*

The term "transfer of technology" covers the transfer of proprietary and non-proprietary technology not only by formal written licensing contract between otherwise independent entities, but also arrangements of varying degrees of formality concluded between foreign parent corporations and their wholly-owned subsidiaries and affiliates and arrangements concluded in the context of joint ventures with various degrees of foreign and local ownership. Thus the term "arrangement" is to be preferred in contra-distinction to the narrower term "agreement". Included are: licensing of all forms of industrial property rights (not limited to, but consisting primarily of, patents and trade marks); know-how licences (including all forms of technical expertise transfer, such as plans, specifications, service and training contracts); arrangements covering the provision of engineering designs and the installation of plant and equipment; forms of acquisition (such as purchase and lease) of machinery, equipment, intermediate goods and/or raw materials, insofar as they are part of transactions involving technology transfers; and private industrial and technical co-operation agreements of any kind. Turning now to the *TPA*: section 51(a) grants no general exemption to acts authorised by a patent, trade mark, design, or copyright statute. However, section 51(3) does provide an exemption. Section 51(3) must be set out *in toto*:

> (3) In determining whether a contravention of a provision of this Part other than section 46 or 48 has been committed, regard shall not be had—

(a) in the case of a contract for or in respect of—

(i) a licence granted or to be granted by the proprietor, licensee or owner of a patent, a registered design or a copyright or by a person who has applied for a patent or for the registration of a design; or

(ii) an assignment of a patent, a registered design or a copyright or of the right to apply for a patent or for the registration of a design,

to any condition of the licence or assignment relating exclusively to—

(iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention;

(iv) goods in respect of which the design is or is proposed to be registered and to which it is applied; or

(v) the work or other subject matter in which the copyright subsists;

(b) in the case of a contract authorising the use of a certification trade mark—to any provision included in the contract in accordance with rules applicable under Part XI of the *Trade Marks Act* 1955; or

(c) in the case of a contract between the registered proprietor of a trade mark other than a certification trade mark and a person authorised by the contract to use the trade mark subject to registration as a registered used under Part IX of the *Trade Marks Act* 1955 to any provision of the contract with respect to the kinds, qualities or standards of goods bearing the mark that may be produced or supplied.

OPERATION OF SECTION 51(3): A LIMITED EXEMPTION

1 *Non-Application to know-how licences*

When s. 51(3) is compared with the definition of "transfer of technology" given above, it is immediately apparent that the exemption that is s. 51(3) does not "cover the field". In particular, the exemption does not extend to know-how licences. In practice, as Masterman and Solomon point out, patent rights are usually associated with know-how in licences.[9] In such a case, the exemption will not be available and the whole agreement will fall for examination under the Act, in particular s. 45. Masterman and Solomon suggest that it may therefore be convenient to deal with patents in a licence agreement separate from know-how. Another writer, however, questions the convenience of such a tactic because "this may not always be commercially expedient and revenue considerations

[9] Masterman and Solomon, *Australian Trade Practices Law* (1967) pp. 186-7.

may in a particular jurisdiction dictate use of a composite document".[10] Furthermore, the Commission might decide to read both documents together, to form a composite transaction, thus bringing the arrangement within section 45. An examination of the cases dealt with by the Commission suggests that most licence cases involve know-how, either alone or in combination with patents, and so the scope of the exemption is not in issue.

2 *Non-application to s. 46 (monopolisation)*[11]

In determining a contravention of s. 46 (monopolisation) the powers of the Commission are not limited by the s. 51(3) exemption. To what extent may restrictions in licensing arrangements fall to be considered under s. 46? It is evident that s. 46 will be relevant in assessment of cross-licensing pacts which have the effect of eliminating competition, as in the American cases (infra). The more interesting question is: when will there be a breach of s. 46 where the licensing is non-reciprocal?

Adopting the language of s. 46, it may be said that a licence provision imposed by "a corporation that is in a position substantially to control a market for goods or services" to "take advantage of the power in relation to that market . . . (a) to eliminate or substantially to damage a competitor in that market or in another market; (b) to prevent the entry of a person into that market or in another market; (c) to deter or prevent a person from engaging in competitive behaviour in that market or in another market", will contravene the Act (s. 46(1)).

"Market" is defined in s. 4 to mean "market in Australia", so export limitations (see infra) affecting entry by the licensee into an overseas market may not be encompassed by s. 46. On the other hand, a tie-in clause (see infra) imposed by a leading manufacturer-patentee on its licensee may in some circumstances contravene s. 46; indeed, s. 46(2) says that assessment of the crucial "position substantially to control a market" includes consideration of the availability of, inter alia, raw material, which are, as will be noted, often the subject of a tying arrangement.

Or, to further anticipate material dealt with below, a licensor might grant exclusive production licences to various licensees, assigning to each exclusively a specific territory within Australia, which may contravene s. 46, if the requirements of the section are met (see infra, under "Territorial Restriction").

3 *Non-appplication to s. 48 (resale price maintenance) (see below)*

[10] W. M. C. Gummow, "Abuse of Monolopy: Industrial Property and Trade Practices Control" (1976) 7 *Sydney Law Review* 339.

[11] On the requirements of s. 46, see Levine, "Aspects of the Trade Practices Bill, 1973" (1973) 47 *A.L.J.* 691-4. And see discussion in Gummow, ibid. 346-8. See also Note (1976) 50 *A.L.J.* 89-92.

4 *"Relate Exclusively" Test*[12]

The exemption is available in respect of conditions which, in the case of patent licences "relate exclusively to the invention to which the patent or application for a patent relates or articles made by the use of that invention"; in the case of registered design licences, "relate exclusively to goods in respect of which the design is or is proposed to be registered and to which it is applied"; in the case of licences of certification trademarks, "relate exclusively . . . to any provision included in the contract in accordance with rules applicable under part XI of the *Trade Marks Act* 1955"; in the case of licences of registered trade marks, "relate exclusively . . . to any provision . . . with respect to the kinds, qualities or standards of goods bearing the mark that may be produced or supplied".

It appears therefore that licences which attempt to incorporate collateral advantages not intrinsic to the industrial property right in question (to put the matter quite generally at this stage), will be outside the exemption granted by section 51(3). This problem will be considered further in relation to specific restrictions, infra.

5 *Australian industrial property rights*

It is open to inference that the exemption applies only in respect of conditions in licences of Australian-registered property rights[13] e.g. conditions in licences of United States or Japanese patents and trademarks will not be accorded the exemption and will fall for consideration under Part IV.

CONSEQUENCES OF NON-APPLICABILITY OF THE EXEMPTION

Once it has been determined that the exemption is not applicable it by no means follows that the licence provision in question is in breach of Part IV. The following considerations may be relevant in any given case.

[12] A similar (but not identical) test appears in the English Act: See s. 8(4) of the *Restrictive Trade Practices Act* 1956, which provides an exemption from registration under the Act in favour of any licence or agreement for a licence under a patent under which no restrictions are accepted except in respect of the invention to which the patent relates or articles made by the use of that invention.

The exemption corresponds broadly to the test which courts in the United States have applied in antitrust cases (starting with *U.S.* v. *General Electric Co.* 272 U.S. 476 (1926)) in creating the "patent misuse" doctrine (see text infra).

Wilberforce et al. have given the following illustrations, inter alia, of the operation of s. 8(4). The licence agreement will be registrable "if the licensee . . . accepts provisions relating to the prices and conditions of sale of the other articles manufactured by the licensor"; "if a manufacturer were to fix the price of an article incorporating some small patented device covered by a licence"; "a restriction by a patentee not to grant other licences without the consent of the licensee, or not to produce competing goods" (Wilberforce et al. *Restrictive Trade Practices and Monopolies* (2nd ed.) pp. 201-3, 298-9). The U.K. Act also makes provision in respect of certification trade mark and registered trade mark licences (s. 8(6) and 8(7) respectively). The provision relating to conditions in licences of registered trade marks appears to be significantly different from the *TPA* provision: the U.K. provision exempts only conditions in respect of *description* of the goods bearing the mark.

[13] Gummow, op. cit. 355.

1 *Extraterritorial Operation of* TPA

In connection with the question of the operation of s. 51(3) it is apposite to consider briefly the question of the extraterritorial operation to be given the subsection and the Act generally. S. 51(3) itself contains no words of territorial limitation. If a licence provision is outside the exemption, it will fall for consideration under particular provisions in Part IV: at that point the question of the extraterritorial operation of the *TPA* becomes relevant.

It must be said that the Act evinces "a clear intention to reach acts or persons outside the country".[14] But there must be a matter of Australian concern. The important link is the definition of "trade or commerce" in s. 4 to include inter alia, trade or commerce between Australia and places outside Australia. Sections 45, 47, 48, 49 are concerned with corporate activities "in trade or commerce". But it is to be noted that sections 47 and 49, unlike sections 45 and 48, do not apply unless the conduct in question "is likely to have the effect of substantially lessening competition in a market for goods and services and "market" is defined as a "market in Australia".

Section 5(1) extends the restrictive trade practices Part of the Act, inter alia, to "the engaging in conduct outside Australia" by bodies corporate incorporated in or carrying on business within Australia or by Australian citizens or residents. Section 5(2) extends the exclusive dealing and retail price maintenance provisions beyond the extension given by subsection (1) to "the engaging in conduct outside Australia by any persons in relation to the supply by those persons of goods or services to persons within Australia".

It is clear that both section 5 and the definition of "trade or commerce" in section 4, when read with Part IV, are meant to give the Act an extra-territorial operation only when there is a matter of Australian concern.[15] It is also clear that section 45, against which licence restrictions will be examined if they do not qualify for the exemption in section 51(3), contains no words of territorial limitation (as noted above, the reference

[14] Evans, "The Constitutional Validity and Scope of the Trade Practices Act 1974" (1975) 49 *A.L.J.* 670.

[15] The following hypotheticals are offered as illustrations of the extraterritorial operation of the *TPA* in relation to licensing arrangements; in each case it is assumed, for the sake of argument, that the restriction in question is not accorded the s. 51(3) exemption:

(1) Two foreign corporations, one United States the other British, cross-license patents on condition that the former will not obtain raw materials from sources within the British Commonwealth, and the latter will restrict itself to sources outside. The only connection with Australia is that it is a market for the raw materials. The agreement may be reached if the Australian source could be regarded as a "competitor" of the British corporation within the meaning of s. 47(2)(d); or if there is within s. 45 a contract in restraint of trade or commerce. Section 5(2) does not appear to be applicable.

(2) If the condition is that the United States corporation will not export products made with the patented process to any place within the British Commonwealth, then s. 45 appears to be prima facie applicable. However, it must be noted that there is nothing in s. 5 which assists that conclusion.

to "market" in section 47 (exclusive dealing) is a limitation, but section 45 does not apply to exclusive dealing arrangements (s. 45(5)(a)).

Two specific extraterritorial limitations of relevance to the present topic are to be noted. First, a recent amendment to section 51(2)(g) provides that in determining contraventions of Part IV regard shall not be had "to any provision of a contract or to any arrangement or understanding being a provision or an arrangement or understanding that relates exclusively to the export of goods from Australia . . .".[16]

It is possible that this amendment to section 51(2)(g) might be held to exempt the types of export restrictions discussed below when contained in licensing agreements. Whether this was the intention of the draftsman is a matter of some doubt. The proper subject of s. 51(2)(g) is export agreements which are often necessary and are encouraged to give firms in a given industry an improved competitive position internationally, e.g. by lowering the costs of business by joint export arrangements.[17] However whilst under the former s. 51(2)(g) it was arguable that an export restriction in a licensing agreement is not an act or thing relating exclusively to the export of goods because it was arguable that the former s. 51(2)(g) required that the *whole* agreement be an export agreement to be exempt, that tentative conclusion is now jeopardised by the language of the new s. 51(2)(g). It appears that as long as a single provision in a licence relates to export, the new s. 51(2)(g) will confer an exemption.

Secondly, the point made by Masterman and Solomon in respect of the old Act appears to be just as valid under the new Act: where the Australian licensee is prohibited not from exporting to a foreign country but from manufacturing there for sale in that country, it is less obvious that such a matter affects Australian trade or commerce.

2 *Dealings between related bodies corporate*

It seems that some restrictive provisions in certain types of licensing arrangements will escape the Act, even though the s. 51(3) exemption is not prima facie applicable, because the arrangement will be regarded as having been concluded between related bodies corporate, within the meaning of s. 45(7) and s. 47(6) (see infra). The evidence adduced below suggests that significant transfers of technology to Australia may be effected in that context.

[16] Section 51(2)(g), as amended, goes on to provide: ". . . or to the supply of services outside Australia, if full and accurate particulars of the provision, or of the arrangement or understanding, were furnished to the Commission before the expiration of seven days after the date on which the contract or arrangement was made or the understanding was entered into or the date of coming into operation of this paragraph, whichever is the later" (s. 7, Act No. 88 of 1976 assented to 31.8.76).

[17] See Wilberforce et al., op. cit., p. 302 and see H. E. English, "Specialization and Export Agreements: their potentials and limitations", in *Canadian Competition Policy* (1972) (Proceedings of a Conference held at Queen's University, Kingston, Ont., January, 1972).

3 *"Insignificant effect on competition"*

It should be noted that even if a restriction in a licensing arrangement fails to qualify for the exemption the avenue of escape provided by section 92 might be available i.e. "the proposed contract, arrangement or understanding does not have and is not likely to have . . . a significant effect on competition . . .". It appears that most licence cases so far considered by the Trade Practices Commission are cases where it was concluded that there was no significant effect on competition.

LEGAL EFFECT OF APPLICATION/NON-APPLICATION OF THE EXEMPTION

The Act clearly intends that in Commission determinations as to whether a contravention of Part IV has been committed, "regard shall not be had" to restrictions which fall within the terms of the exemption.

A licensor who imposes a restriction which does not qualify for the exemption and is in breach of Part IV may not only find himself saddled with a liability to pay pecuniary penalties or damages in accordance with Part VI; he may also, by virtue of section 51(4) find that both the patent and licence agreement are unenforceable. That subsection is a recognition of the doctrine that patent misuse precludes a patentee from enforcing a patent that has been the subject of improper licence restrictions. Patent misuse which is a breach of the *TPA* could also be the basis for positive action against the licensor by "a person who suffers loss or damage" (s. 82).

It is important to bear in mind that even if there is "patent misuse, it does not necessarily follow that the misuse embodies the ingredients of a violation (of the antitrust laws)".[18] Where there is patent misuse without a breach of the *TPA* the licence may be unenforceable by virtue of the *Patents Act*, e.g. s. 112 of that Act renders void tying obligations in certain circumstances; yet, as is mentioned below, there is some doubt as to whether tying obligations do or do not qualify for the section 51(3) exemption.

BASIS OF THE EXEMPTION: A CRITIQUE OF THE PATENT SYSTEM[19]

Section 51(3) is quite clearly based on the orthodox view that certain traditional monopolies should in the public interest be preserved despite the present historical movement in favour of free competition and away from even limited monopolies. The assumptions upon which s. 51(3) and

[18] *Zenith Radio Corp.* v. *Hazeltine Research, Inc.* 395 U.S. 100, 140 (1969).

[19] Much of the discussion which follows is a necessarily abbreviated summary of the relevant part of the voluminous *Report on the Role of the Patent System in the Transfer of Technology to Developing Countries* (UNCTAD Doc. TD/B/A.C. 11/19 of 23rd April, 1974). See, in particular, pp. 97-103. And see also E. Pen-

the patent system are based may, however, have lost or be in the process of losing much of their former validity. No more than a cursory analysis of the issues will be attempted here for reasons of space; but it is a question which must be dealt with inasmuch as shifts in the accepted rationale of the patent system may call for legislative amendment or repeal of s. 51(3).

At least five arguments are usually advanced to support the patent system. The first three propositions are nineteenth century in origin; the third and fourth are of more recent date. First, the "rewards" argument: this is the claim of a natural property right in the inventor in the ideas or commercial efforts involved in devising the invention or other item of industrial or intellectual property. Secondly, the incentive argument: here the rationale for the system is sought in the incentive it provides for expensive research and development which it is said would be less attractive to the corporations engaged in it but for the promised monopoly in the results. Thirdly, the public disclosure argument: giving an inducement to inventors to disclose their secrets to society so that there will be an increase in the stock of knowledge publicly available though not publicly usable. As regards these three arguments it has been said, contrary to the orthodoxy, that "unfortunately neither then (i.e. the nineteenth century and earlier) nor since has any conclusive empirical evidence been provided for or against any of these propositions".[20] The rewards argument is criticised on the grounds that (a) rewards can be given to inventors in many ways and the patent system is only one of them and (b) with more and more research being done by corporate bodies the question of a just reward for the lone inventor, which lies at the basis of the claim, is of much less economic significance today. The incentive argument is difficult to subject to empirical examination and it has been suggested that the large firms which do most research today will continue to do so, with or without incentive, because of the demands which competition places on the improvement of products. The disclosure argument is attacked on the ground that patent disclosure requirements are not effective today, particularly in relation to inventions in fields where the technology is sophisticated, and improvements are difficult to execute quickly and economically and therefore competitively. And, as Bloxam has noted, "it is possible for a patentee to obscure the issue by the very wealth of information he supplies"[21] as much as by disclosing too little, both of which practices are sometimes adopted.

rose, *The Economics of the International Patent System* (1951); Economic Council of Canada, *Report on Intellectual and Industrial Property* (1971); *The British Patent System: Report of the Committee to Examine the Patent System and Patent Law* (1970); and C. T. Taylor and Z. A. Silberston, *The Economic Impact of the Patent System* (1973).

[20] *Report on Role of the Patent System*, ibid. p. 99.
[21] *G. A. Bloxam, Licensing Rights in Technology: a Legal Guide for Managers in Negotiation* (1972) p. 17.

The fourth argument in the armoury of the supporters of the existing patent system asserts that the grant of exclusive rights for a limited period assists the patentee to undertake new production and to find the financial and other resources necessary to do so. A patent which is worked in a country contributes towards production and economic development in that country. The critics of the argument endorse its theoretical validity but point out that many large corporations take out patents in certain countries not with the object of establishing production facilities in those countries, but rather in order to establish secure export markets for the patented product shipped from other countries.[22] Most national laws give the patentee the right to oppose imports of the patented product. Large corporations utilize this arrangement to allocate markets and divide production along territorial lines determined by their managements without consultation with the host countries. The problem has been recognised in many countries, both developing and developed: for example in 1972 Canada amended its *Patents Act* to ensure "that new inventions shall so far as possible be worked on a commercial scale in Canada without undue delay".[23] Most national laws contain provisions, especially compulsory licence provisions, to deal with non-use of patents but the experience of Australia and other countries shows that compulsory licences are rarely applied for, let alone granted. "Whether this is a reflection upon the good conduct of patentees in Australia, or the timidity of interested persons in approaching the Court is unknown, as is the *in terrorem* effect the existence of the legislation has had on negotiations out of court."[24]

The fifth, and final, argument in support of the patent system is that the system provides the legal basis upon which technological information is bought and sold. The existence of patents, it is said, greatly facilitates licensing because, although "pure" know-how agreements are possible

[22] Report, op. cit. 99. The statistics on non-working of patents are remarkable. "Around 84 per cent of all valid patents in developing countries are foreign-owned with most of these in the hands of corporations based in five developed market economy countries; and . . . about 90-5 per cent of these foreign patents are unused" (Report 123). No similar study in relation to non-use of patents in developed countries appears to have been undertaken.

[23] S. 67(3) Canadian *Patent Act*, 1952-72 cf. Indian *Patents Act*, 1970 s. 83(b). After the revision of the Canadian law there was a substantial increase in the number of applications for compulsory licence.

[24] Gummow, supra note 10, p. 343. The *Report on the Role of the Patent System*, supra note 19, discusses, at pp. 110 ff, the limited usefulness of compulsory licensing as a remedial measure for failure to work. Table 13 in that Report shows that amongst a number of developed and developing countries, only Canada shows a large number of applications filed, coinciding with the recent amendment (supra) to the Canadian legislation. The main reason for the general scarcity of applications appears to be the fact that patent disclosure is often inadequate and the voluntary co-operation of the patentee is necessary. Further, at any rate in Australia, the courts take a very, some would say overly, strict view of the grounds upon which an application will be granted: see *Fastening Supplies Pty. Limited* v. *Olin Mathieson Chemical Corporation* (1969) 119 C.L.R. 572.

without patents, there is very little legal basis for them or legal security for the parties to them. The answer of the critics might well be that licensing would exist without this "solid" legal basis because licensing is, and would remain even in the absence of patent protection, the cheapest way of penetrating a foreign market. No investment and no labour force is required, as would be the case if business was conducted directly in the foreign country, and the risks to the licensor of a licensing arrangement are minimal.

The import ban which both the patent right and the trade mark right give and which, especially in the context of complex, highly "internationalised" technologies, is the single most significant advantage conferred by a licence agreement, is the most significant assistance which, ironically, nation states render the great global corporations in allocating markets and dividing production facilities along territorial lines. Section 69 of the *Patents Act*, 1952 obliquely recognises the right of the patentee to prevent imports of the patented article into Australia.[25] Thus the patentee is assured of specific territorial protection from the competition of the licensee and others. For example, in *Beecham Group* v. *Bristol Laboratories Pty Limited*[26] the plaintiff held a patent for penicillin preparation and certain processes used in production. For some years the defendant, pursuant to agreement with the plaintiff dividing the world market in penicillin preparation, had kept out of Australia; the case arose when the defendant sought to invade the Australian market with its own penicillin preparation. The High Court granted the plaintiff patentee an interlocutory injunction to restrain infringement of its patent, citing the "campaign . . . in litigation in several jurisdictions, in each of which, outside Australia, an interlocutory injunction has been granted to the present plaintiff or the party corresponding with it . . .".

Nevertheless, the import ban conferred by the patent has not escaped criticism in some countries, notably Canada, in the developed world, and in many developing countries. A report by the Economic Council of Canada recommends that the import ban be abolished "to prevent a patentee from using the Canadian patent system as a means of assisting any international price discrimination to Canada's disadvantage i.e. from charging an unjustifiably higher price in Canada than in other countries where it has no patent protection".[27] The import ban has also been held by

[25] Section 69 provides: "Subject to this Act, the effect of a patent is to grant to the patentee the exclusive right, by himself, his agents and licensees, during the term of the patent, to make, use, exercise and vend the invention in such manner as he thinks fit, so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention during the term of the patent." See also s. 112(d) *Patents Act* 1952 as amended. Cf. s. 103 *Trade Marks Act* 1955.

[26] (1968) 42 *A.L.J.R.* 80.

[27] See *Report on Intellectual and Industrial Property* (1971) of Economic Council of Canada.

the EEC authorities to be contrary to the principles of free movement of goods and free competition within the EEC.[28]

The topic cannot be treated adequately in the space available. However, enough has been said to indicate that the orthodox arguments in support of the patent system can no longer be accepted as uncritically as they have been in the past. Bearing that in mind, it is to be noted that section 28(1)(c) of the *TPA* provides that the Commission is entrusted with the broad function of conducting "research in relation to matters affecting the interests of consumers . . .". It is submitted that the Commission should act on the basis of this provision to conduct an investigation into the patent system as it operates in Australia, with particular reference to the matters referred to above; the assumptions upon which section 51(3) and the industrial property systems generally are based should be critically studied, if not by the Trade Practices Commission then by the Law Reform Commission or other suitable body of enquiry. It may be that in the light of the findings of such an enquiry section 51(3) will no longer be acceptable in its present form and operation.

SPECIFIC RESTRICTIONS

Both the Australian and the United Kingdom exemptions are based upon the United States' doctrine of patent misuse as elaborated by the courts, according to which a patentee may do as he wishes with the bundle of rights inherent in the patent, but as soon as he exceeds the boundaries of the patent monopoly he is abusing his privileges. The United States' case law on the subject of each specific restriction is therefore to be treated as of the utmost relevance in determining which restrictions in licensing agreements fall within and which fall outside the section 51(3) *TPA* exemption. And to a lesser extent the more recent EEC case law on the subject will be relevant to the determination of issues by the Australian authorities. Indeed, where both the corpus of American and EEC law condemn certain restrictions, it is difficult to see how a contrary conclusion should be reached in Australia. In the event of conflict between American and EEC authority it is submitted that the former should be accorded more weight (the American law reflecting conditions more closely paralleled by Australian conditions). The approach which will be adopted in the examination of specific restrictions in terms of the "related exclusively" test in section 51(3) will therefore be one which emphasises the conclusions reached in the other jurisdictions. However, it is emphasised that the treatment of specific restrictions in other jurisdictions should assist in determining only the threshold question of the application or non-application of section 51(3). If a specific *type* of

[28] See *Centrafarm B.V.* v. *Sterling Drug Inc.*, *Centrafarm B.V.* v. *Winthrop B.V.* [1974] 2 Common Market Law Reports 480.

restriction is held as a matter of law to fall outside the exemption, then the decision as to whether it should *in any particular case* be cleared or not will of course depend on whether there have been breaches of Part IV; that determination will require close examination of the Australian economic situation; economic conditions in the United States or elsewhere will then be of only marginal significance; and the test of "insignificant effect on competition" will become relevant.

1 *Territorial limitations (intra-Australia)*

A licensor assigns to each licensee a specific territory within Australia for production and/or sale of the patented or trademarked goods: parallel or multiple parallel licensing.

The grant of an exclusive production licence in a specified territory of the EEC has been held to restrict competition in breach of Article 85(1) of the Rome Treaty, even though no export prohibitions were imposed on the licensee. Rationale: third parties were thereby precluded from the possibility of exploitation of the patents and know-how in each specified territory.[29]

The *United States' Patent Code* provides that a patentee may "grant and convey an exclusive right . . . to the whole or any specified part of the United States".[30] Thus a U.S. patentee may assign to licensees exclusive territories within the United States.

However, the position in respect of trade mark licences may be different. In *United States* v. *Sealy, Inc.*,[31] a case dealing with territorial restrictions in a trade mark licence, Sealy licensed manufacturers of mattresses and bedding to make and sell products using the Sealy trade mark. In return for a promise not to grant other licences within a specified territory, Sealy obtained a promise from the licensee who sold in that territory not to sell outside the territory. The Supreme Court held that the arrangement was a horizontal territorial restraint which was per se violative of the *Sherman Act*. Semble, a provision in an Australian patent licence reserving an exclusive sale or production territory to the licensee could be said to relate exclusively to the invention or to articles produced with that invention (s. 51(3)); but in a trade mark licence the provision would not relate exclusively to the kinds, qualities or standards of goods, thus bringing section 47(2)(e)(ii) into play (practice of exclusive dealing where the licensor imposes a condition that the licensee "will not, or will to a limited extent only, in particular places supply any of the goods to other persons").[32]

[29] *Re the Agreements of the Davidson Rubber Company* [1972] Common Market Law Reports and see Dashwood, "Exclusive Licences in the Common Market" (1973) *Journal of Business Law* 205.
[30] 35 *U.S.C.* section 261 (1970).
[31] 388 U.S. 350 (1967).
[32] Note that at common law it is a patent infringement for the licensee to trade in the patented articles outside the area of the licence (*Fuel Economy Co. Limited* v. *Murray* (1930) 2 Ch. 93).

It should be noted that the exemption is not applicable in the case of s. 46 (monopolisation) and that the grant of exclusive sale or production licences dividing up Australia amongst licensees might in some circumstances be regarded as breaching s. 46 (consider the case where all the licensees were previously fierce competitors throughout Australia, and s. 46(1)(a)).

2 *Territorial limitations (export restrictions)*

Export restrictions may take many forms. A 1971 UNCTAD Report[33] identifies the pattern of restrictions which are commonly employed: global ban on exports; exports prohibited to specified countries; exports permitted to specified countries only; prior approval for exports required; export quotas; price control on exports; exports restricted to specified products; exports permitted to or through specified firms only; exports prohibited of substituted products.

The Report notes that the use of export restrictions enables the licensor to regulate the competitive impact of the licensee's activities upon his own interests in other markets. The global export prohibition is of course the most favourable from the licensor's point of view, for such a prohibition limits the licensee to his domestic market, and often the licensee is prohibited from selling to third parties who would export the goods. In cases where the licensor insists that the licensee obtain prior approval for exports, the licensor retains the option of imposing a global ban on exports or a selective ban. Perhaps the least restrictive of the restrictions is the prohibition of exports to specified countries only, particularly if the specified countries are those countries where the licensor has established interests e.g. other licensees, subsidiaries, or a well developed export market. In such cases the licensee may find it difficult to export to those countries, whether he is prohibited or not. Finally, where the licensor requires that the licensee sell only to specified firms, the restriction effectively serves the licensor's interests if the licensor has limited the capacity of those firms to export.

It is to be noted that not all export restrictions are territorial constraints. Export quotas, either alone or coupled with a territorial limitation can quite as well serve the interest of the licensor. The quota may be expressed in physical (volume) or in monetary terms. Restrictions on exports of specified products, or provisions prohibiting the export of similar or substitute products, may also fulfil the objectives of the licensor. The latter prohibition may be linked to a prohibition on user of a trademark in export sales.

Export limitations in licensing agreements have received attention in Australia. In the *Report*[34] *of the Committee of Economic Enquiry*

[33] *Restrictive Business Practices*, Interim Report of the UNCTAD Secretariat (1971) (TB/B/C2/104).

[34] See *Report of the Committee of Economic Enquiry*, May, 1965 (Cth. Parliament). The problem of limitations imposed on Australian firms by overseas interests is

published in May, 1965, it was stated: "The fact . . . remains that the export limitations contained in many licensing or franchise agreements or implicit in the understandings reached between overseas companies and Australian subsidiaries are serious disabilities from Australia's point of view. The adverse effects could become even more evident in the future."

Although there appears to have been no official study in Australia on restrictive export franchise or licensing agreements, a private study[35] has been made of export franchises of United Kingdom manufacturing subsidiaries, affiliates or licensees in Australia. This study estimated that one third of the 233 Australian manufacturing firms covered were not subject to export franchises. In another 46 cases (about 20 per cent) the United Kingdom firm concerned stated that there was no need for any agreement on the matter since the Australian company was either a wholly-owned subsidiary or branch of the United Kingdom firm, or the Australian companies concerned were orientated to the domestic market with no prospect of export. However, 47 per cent of all companies were subject to export restrictions. In about 9 per cent of those cases exports were completely prohibited; 18 per cent were restricted in their exports to New Zealand and the Pacific Islands; a further five per cent were limited to New Zealand and Asia; 9 per cent were subject to other territorial restraints on exports; and another 4 per cent were prohibited from using international trade names while only permitted to export under brand names. In those fields where production depends heavily on technological development (technology-intensive industries) it was found that greater use was made of restrictive export franchises. Further, the smaller the equity interest of the United Kingdom companies the higher was the proportion of effective restraints on exports.

Nevertheless, the language of the s. 51(3) exemption is capable of extension to export restrictions in patent licensing agreements. An export restriction is arguably a condition relating exclusively to the goods. The position of export restrictions in trade mark licences is more doubtful, for s. 51(3)(c) only exempts conditions in registered trade mark licences "with respect to the kinds, qualities or standards of goods bearing the mark that may be produced or supplied". It may be necessary to reconcile s. 51(3)(c) and s. 51(2)(g) (above) in the context of export restrictions in trade mark licences. Suppose a foreign trade mark owner licenses that

made more acute by the extent of foreign control of Australian manufacturing industry. The proportion of foreign ownership is high in technology—intensive industries, e.g. motor vehicles, chemicals, pharmaceuticals, telecommunication equipment, machinery industries, etc.

[35] W. P. Hogan, *British manufacturing subsidiaries in Australia and export franchises* in Economic Society of Australia and New Zealand, N.S.W. Branch, *Economic Papers*, No. 22, July, 1966, 10-27. See also H. W. Arndt and D. R. Sherk, *Export Franchises of Australian Companies with Overseas Affiliates*, Economic Record, August, 1959, 239.

mark to an Australian licensee but prohibits the licensee from export to Asian countries which the owner wants to supply itself, or prefers to license firms in those Asian countries, thus limiting the Australian licensee to the domestic market. It seems that s. 51(3)(c) would not accord the licence provision on exemption, but that s. 51(2)(g) might do so. The same conclusion is tenable in respect of export limitations in pure know-how licences which, as indicated above, do not fall within s. 51(3). But now consider the converse case in which an Australian licensor obligates a foreign licensee, for example in Indonesia, not to export goods to Australia. Section 51(2)(g) is not applicable. If the licence is of a patent, the export limitation may receive the s. 51(3) exemption; but if it is a licence of either know-how or a registered trade mark, the exemption will not be available and the restrictive provision will fall for consideration under s. 45.

In the study of United Kingdom firms operating in Australia noted above, it will be recalled that many firms reported that express export restrictions were unnecessary because of the dependent relationship of the Australian unit, whether it be subsidiary or branch, on the parent company or head office. Section 45(7) provides that section 45 does not apply to a contract, arrangement or understanding the only parties to which are two or more bodies corporate that are related to each other; likewise, section 47(6), in relation to exclusive dealing arrangements (see infra). Semble, where the arrangement restricting exports is between related bodies corporate the Commission cannot intervene, whether the restrictive clause is part of a licensing agreement or not.[36]

So in the example given above of an Australian licensor of a trade mark imposing upon an Indonesian licensee a ban on exports to Australia the restriction will escape the Act if the licensor and licensee are related bodies corporate. Yet the effect on the Australian consumer may be adverse if the Indonesian licensee could supply the same goods at a lower price.

Some light is thrown on the question of export restrictions by the attitude taken by the Trade Practices Commission to the know-how licences concluded between Rocla Concrete Pipes Pty. Limited and licensee companies in fourteen countries.[37] Each licence agreement

[36] It appears also to be part of the emerging EEC competition law that agreements between related bodies corporate will be immune from attack. See *Centrafarm* case, supra note 28: the European Court of Justice noted that Article 85 is "not concerned with agreements or concerted practices between undertakings belonging to the same concern as parent company and subsidiary, if the undertakings form an economic unit within which the subsidiary has no real freedom to determine its course of action on the market, and if the agreements or practices are concerned merely with the internal allocation of tasks as between the undertakings". But see opinion, in case, of Advocate-General on "Undertakings Forming Part of Same Group", and cases there referred to.

[37] *Agreements of Rocla Concrete Pipes Pty. Limited* C75/58, C4092-C4105. Most licence agreements cleared by the Commission appear to involve know-how,

restrained the licensee from using the licensed processes to produce pipes to be marketed outside the national territory of each licensee. The agreements were cleared: in the view of Commissioner Haddad the relevant market was the market for pipes and not pipes produced by a specified process, and the licensees were not prohibited from using other processes and marketing the output in any market. The restrictive clause had no significant effect on competition. It is worth noting that the concrete pipe market in Australia is supplied by nine or ten manufacturers, and Rocla, whilst the second biggest, has only 30% of the market.

Discussion of export restrictions in licensing agreements may be illumined by reference to the attitudes taken in the United States and in the EEC.

A two-fold standard has developed in the United States for judging licensing agreements, and other kinds of activities, under the anti-trust laws. First the American courts are inclined to find that certain activities are per se violations of the anti-trust laws i.e. certain things are illegal per se even if they do not substantially affect competition and the parties have small market shares. One example is horizontal price-fixing between two competitors.

Secondly, in relation to other activities the American courts apply a more flexible standard known as the rule of reason: under this standard restrictive practices become anti-trust violations only if they produce significant and unreasonable anti-competitive effects.

Parallel to the anti-trust rules runs the doctrine of patent misuse according to which, as explained above, a patentee may do as he wishes with the bundle of rights inherent in the patent, but as soon as he exceeds the boundaries of the patent monopoly he is abusing his privilege. Patent misuse may result in a patentee being denied the right to oppose infringement of his patent. The American rules relating to patent misuse appear to have been the basis for the exemption in s. (8)(4) of the U.K. *Restrictive Trade Practices Act*, similar to s. 51(3) of the *TPA* (but the U.K. Act does not employ the word "exclusively"). In the United States the Supreme Court has recently held that horizontal territorial restrictions are, like price-fixing, per se violations of the anti-trust law.[38] The parties to an international licensing agreement are in a horizontal relationship and hence licensors and licensees must act circumspectly to avoid breaching the anti-trust law. Analysing the kinds of hypothetical situations which may give rise to breaches of the anti-trust law, American commentators[39] have concluded that a territorial restriction in a licence

accordingly s. 51(3) is not at issue; and when cleared, it is usually on the basis of lack of significant effect on competition.

[38] *United States* v. *Topco Assoc., Inc.* 31 L. Ed 2d 515 (1972).
[39] Adelman and Brooks, "Territorial Restraints in International Technology Agreements after Topco" (1972) XVII *Antitrust Bulletin* 763, esp. 767-8.

agreement which benefits the licensor only should be permitted; the licensor should not be required to face competition in the home market with his own technology. Thus a term prohibiting the licensee from exporting to the licensor's home market should be regarded as legitimate. If, on the other hand, the licensor insisted on the condition to protect licensees in the home market, then the condition should not be permitted: the licensor does not need the territorial restriction because he can recoup any royalties lost from reduced sales by (home market) licensees from royalties charged the foreign licensee. A restraint for the benefit of others should be regarded as illegal.

Nevertheless, it must be said that the present legal position respecting export restrictions in licensing agreements in the United States is unclear. On the one hand there are cases[40] involving cross-licensing of patents on a territorial basis which serves as a system of naked territorial allocation and is clearly invalid as misuse of the patent right. On the other hand, there is a series of lower court opinions holding that "at least as to one patentee licensing one licensee under U.S. patents, the licensor may forbid the licensee to export".[41] The reasoning appears to be that since a patentee may limit a licensee to a specific part of the United States, he may likewise prescribe territorial restrictions upon import into or export from the United States. That reasoning has been subjected to criticism, and one leading commentator has said that "it is difficult to follow the reasoning . . . that rights under U.S. patents can justify restrictions on sales in foreign countries".[42]

The Supreme Court of the United States has yet to decide the question, but it is clear that in view of other Supreme Court decisions,[43] the older lower court holdings that export restrictions are valid may no longer be correct.

The position of international territorial limitations in trade mark licences is clearer, owing to the *Timken* case:[44] a trade mark licence agreement may not go beyond name and brand protection; certainly not to the extent of carving up territories amongst a series of exclusive licensees.

It is clear that restrictions which may be valid in a single patent or trade mark licence are not necessarily valid where there is a plurality of licences. Generally, the U.S. Supreme Court has indicated that restrictions for the purpose of preventing competition amongst licensees will not be

[40] E.g. *U.S.* v. *National Lead Co.* 332 U.S. 319, 63 F. Supp. 513 (1945).

[41] See W. L. Fugate, *Foreign Commerce and the Antitrust Laws* (2nd ed., 1973) p. 274. Cases are: *Dorsey Revolving Harvester Rake Co.* v. *Bradley* 7 Fed. Cas. 946 (1874) *Elliott* v. *Lagonda* 205 Fed. 152 (1913), *American Optical Co.* v. *New Jersey Optical Co.* 58 F. Supp. 601 (1945).

[42] Fugate, ibid. p. 275.

[43] E.g. *Topco*, op. cit. 38

[44] *U.S.* v. *Timken Roller Bearing Co.* 341 U.S. 593 (1951) 83 F. Supp. 284 (1949). And see Fugate, op. cit. 310-11; *U.S.* v. *Bayer Co., Inc.*, 135 F. Supp. 65 (1955).

within the scope of the patent grant. It is clear from the *Incandescent Lamp*[45] case that licensees under U.S. patents cannot agree to refrain from competing with foreign licensees. The signs are that the anti-trust enforcement policies of the U.S. Department of Justice in relation to international licensing arrangements will become stricter.[46]

The authorities of the EEC, whilst continuing to regard export restrictions between markets within and outside the Community as legitimate if they do not partition national markets within the EEC, take a strict view of the acceptability of export restrictions between member states of the Community. On the basis of Articles 36[47] and 85[48] of the *Treaty of Rome*

[45] 372 U.S. 253 (1963).

[46] See comments of Joel Davidow, Chief, Foreign Commerce Section, Antitrust Division, U.S. Dept of Justice in "Antitrust and International Patent Licensing" (1974) 43 *Antitrust Law Journal* 530, esp. 535.

The U.S. Department of Justice has indicated that two questions are relevant when analysing licence agreements:

(1) Is the provision justifiable as necessary and ancillary to a lawful main purpose? (the lawful main purpose is the public interest in developing and exploiting a patent or other industrial property, in the case of licence agreements).

(2) Are less restrictive alternatives available which are more likely to foster competition?

See Jones, "Licensing in the U.S.A.: Anti-Trust Aspects" [1975] *New Law Journal* 625.

[47] Article 36 provides:

The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

Articles 30-4 relate to prohibitions on restrictions on imports and exports

[48] For discussion of these articles see Taylor, "The Emerging Law of Industrial Property in the EEC" (1976) 4 *Aust. Bus. L. Rev.* 107. Article 85 provides:

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market and in particular those which:
   (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
   (b) limit or control production, markets, technical development, or investment;
   (c) share markets or sources of supply;
   (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
   (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.
2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.
3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
   — any agreement or category of agreements between undertakings;
   — any decision or category of decisions by associations of undertakings;
   — any concerted practice or category of concerted practices;
   which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

establishing the EEC the Community institutions declared export restrictions in licence agreements to be incompatible with Article 85(1) at an early time in the history of the EEC. For example, in 1966, in the *Grundig-Consten* case,[49] the German manufacturer Grundig placed an export prohibition on its French licensee and also allowed the licensee to register a trade mark as a means of keeping Grundig products not supplied by Grundig out of France. Thus the French licensee was supposed to have the whole French market to itself but could not sell outside France. The European Court of Justice held that both the export prohibition and the attempt to reserve the French market through the trade mark licence contravened Article 85(1).

The Organisation for Economic Cooperation and Development (OECD), of which Australia is a member, recently recommended that the governments of member countries should be alert "to harmful effects on national and international trade which may result from abusive practices in which patentees and their licensees may engage", including unjustifiable restrictions on exports of patented products.[50]

3 *Tying arrangements*[51]

Section 47(2) of the Act strikes, inter alia, at arrangements whereby the licensee is required, in effect, to purchase all or certain specified materials, components, or equipment exclusively from the licensor or designated suppliers. The licensor may impose such a restriction out of a genuine conviction that it is necessary to ensure the quality of the product produced under licence, or he may be motivated by taxation considerations (rather than receive royalty payments, he may prefer to take his compensation in the form of enhanced prices on tied purchases), or it may be a device to extend the contract beyond the term of a patent. When used in international commerce this kind of clause may operate to indirectly affect the export potential of the recipient firm because, some evidence suggests, tied purchase provisions often result in higher prices for finished products, or in some cases inferior or dated equipment being supplied, thus limiting the export potential and market effectiveness of the recipient. To be fair, however, it must be said that in some cases, and often in particular industries such as pharmaceuticals, the licensee has

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

[49] *Etablissements Consten S.A. and Grundig—Verkaufs—G.m.b.H.* v. *Commission* [1966] C.M.L.R. 418.
[50] OECD Council Recommendation of 22nd January, 1974.
[51] See G. Walker *Australian Monopoly Law* (1967) 265-8; *Masterman and Solomon*, op. cit. 286-8.

no choice (in terms of market availability) but to buy products from the licensor, quite apart from contractual considerations. Nevertheless, as the recent Report on the *Role of the Patent System* suggests,[52] the usual aim behind a tied purchase clause is to increase the profits of the licensor. The Report points out, in relation to the special position of developing countries, that most of the goods currently produced or planned for production in the developing countries are available in the world market from several sources at world market prices. Thus tied purchase clauses often prevent companies from exploiting available market opportunities, by tying their firms to a price structure determined by a unique supplier. Tied-purchase provisions may lead to monopoly control of inputs by foreign enterprises. This overpricing is a serious hidden cost of the transfer of technology affecting developed and developing economies alike.

It seems that the tied purchase clause in technology licensing agreements might be permissible on a literal reading of section 51(3)(a)(iii), in relation to patent licences, as a condition which relates exclusively to articles made by the use of the patented invention. Similarly, where the condition is contained in a registered trade mark licence the trade mark proprietor would argue that it is a provision of the contract with respect to "qualities or standards of goods bearing the mark" s. 51(3)(c). However, in all cases the effect of s. 112 of the *Patents Act* must be considered, at any rate where it is shown that the true effect of the provision is to force raw materials upon the licensee: any tying arrangement may be suspect under s. 112.[53] As mentioned above, section 47(6) of the Act

[52] Op. cit. cf. Areeda: "When two products are sold as a package, or otherwise tied together, the seller's receipts and buyer's payments necessarily reflect the aggregate transaction and are not 'truly' apportionable among the components. This obvious truth explains how a tie can be used to evade price control, to manipulate the computation bare for royalties or taxes, to 'conceal' the true price of using the tied product, to undercut minimum price regulation . . .". (*Antitrust Analysis*, op. cit. 572.)

[53] Section 112(1) declares unlawful conditions which have the effect of prohibiting or restricting the licensee from using articles or processes supplied by strangers to the contract, or which require the licensee to acquire from designated sources articles not protected by the patent i.e. conditions which prohibit the licensee from getting raw materials elsewhere, or which oblige him to acquire them from the licensor. But as Masterman and Solomon, op. cit. p. 286-7, point out, there are some important qualifications to s. 112, including: s. 112 does not in terms prohibit conditions which prevent the licensee *purchasing* elsewhere; nor does it stop the licensor restricting licensee output by restricting the *amount* of raw material the latter may use; the agreement may restrict the sale of goods other than goods protected by the patent (see especially, s. 112(7)(a)); the licensor may reserve the right to himself or others to supply spare parts or to keep the patented article in repair (s. 112(7)(d)); any of the condemned conditions will be allowed if at the time of the contract the licensee could have availed himself of the option of getting a licence elsewhere on reasonable terms which did not include the condition in question and the contract entitles the licensee to relieve himself of liability to observe the condition by giving three months' notice (and compensation) (s. 112(2)); finally, there is the decision in *Tool Manufacturing Co. Limited* v. *Tungsten Electrical Limited* [1955] 2 All E.R. 657 (H.L.): a provision requiring the licensee in certain circumstances to pay higher royalties if he obtains raw materials from other sources is not within the section.

removes exclusive dealing arrangements between related bodies corporate from the scrutiny of the Commission.

The EEC authorities take the view that requirements that licensees purchase supplies from a specified source are legitimate if necessary to the proper technical exploitation of a licensed patent. Standards of quality as well as technical production criteria may be imposed on licensees for that purpose. However, a commentator has recently urged caution in making assessments in this area "as the EEC law is certain to receive further development and in many cases these arrangements are prohibited by national law".[54] In the United States the general rule is that "tying agreements serve hardly any purpose beyond the suppression of competion"[55] though exceptions are noted, especially where the tie-in is genuinely believed to be necessary to ensure goodwill or the quality of the finished product.[56]

The tying arrangement often arises in connection with franchise agreements involving trade mark licences. Franchising involves the licensing of a trade name and a particular product or method of doing business. United States' case law contains examples of franchisors requiring franchisees to obtain all their ingredients for the final product from specified sources, and there are cases either way on the issue of the applicability of the anti-trust laws: in some cases the franchisor is able to set up the defence that the restriction is in the interests of quality control.[57]

The Council of the OECD has recommended that clauses concerning tied sales in licensing agreements should "alert" member states to their possible adverse effects on trade, unless the clauses are justified by technical reasons concerned with the quality of the goods manufactured under licence.[58]

4 *Royalty provisions*

It is arguable that any royalty provisions in relation to goods produced with the patented process should be accorded the exemption in s. 51(3) as conditions relating exclusively to articles made by the use of the

[54] Jones, "Fundamentals of International Licensing Agreements and their Application in the European Community" (1973) 7 *Int. Lawyer* 78. And see the two *Burroughs* cases in (1972) 2 CCH Common Market Reporter, para. 9485, and *Raymond-Nagoya* (1972) 2 CCH Common Market Reporter, para. 9513.

[55] *Standard Oil Co. of California* v. *United States* 337 U.S. 69 (1951).

[56] A good example is *United States* v. *Jerrold Electronics Corporation* 187 F. Supp. 545 (1960) aff'd 365 U.S. 567 (1961) (restrictions necessary to ensure reputation of the product). See discussion, Fugate, op. cit. 280-2. The leading U.S. "patent tying" case is *International Salt Co.* v. *United States* 332 U.S. 392 (1947): licensees of patented salt machines required to use only licensor's unpatented salt products in those machines.

[57] Contrast *Susser* v. *Carvel Corp.* 206 F. Supp. 636 (1962) aff'd 332 F. 2d 505 (1964) with *Siegel* v. *Chicken Delight Inc.* 311 F. Supp. (1970) mod. 448 F. 2d 43 (1969); cert. denied 405 U.S. 955 (1972).

[58] Op. cit.

invention. Unless the exemption is available discriminatory royalty provisions will fall for assessment under ss. 45, 47, 48, 49, as the case warrants.

In the United States the use of discriminatory royalty rates for ulterior purposes has been attacked as violations of the anti-trust law.[59] But it would appear that these and other practices in relation to royalties may be sanctioned on a literal reading of section 51(3) e.g. provisions fixing minimum royalties irrespective of production performance, or charging royalties in a cumulative way on parts as well as on the final product (so that the total charges are in fact larger than if the same percentages were applied on a net value-added basis); provisions whereby additional royalties or extra payments for the output exported by the licensee are charged; generally, provisions whereby observance of conditions favourable to the licensor decreases and non-observance increases, the quantum of royalty payable.

Of course, it may yet be decided that discriminatory royalties do not satisfy the "relate exclusively" text, i.e. that they are collateral restrictions falling outside the terms of s. 51(3). The most fertile approach leading to such a conclusion would be reasoning that when "ulterior purposes" are proved, the condition fails to satisfy the "relate exclusively" test. Some licence contracts oblige the licensee to pay royalties on patents after the expiration, termination or invalidation of the patents. However, s. 112(4) of the *Patents Act* offers the licensee an escape from such an obligation.[60]

Such a provision should not qualify for the section 51(3) exemption. The European Commission has held that patent royalties should not exceed the term of the patent.[61] The same position prevails in the United States.[62]

5 *Restrictions on resale*

Where the restriction on resale is as to *price* (RPM) then section 51(3) in its express terms denies the exemption.[63] Conditions reserving the right

[59] *La Peyre* v. *F.T.C.* 366 F. 2d 117 (1966). As to discrimination in granting licenses among competitors, cf. *Allied Research Products Inc.* v. *Heatbath Corp.* 300 F. Supp. 193 (1966) questioned in *Bela Seating Co.* v. *Poloron Products Inc.* 438 F. 2d 733 (1971) cf. *Hartford Empire Co.* v. *United States* U.S. 386 (1945).

[60] S. 112(4) provides that licences may be determined after patents have come to an end by 3 months' notice from either party.

[61] *Henkel/Colgate* decision of the Commission (1972) 2 CCH Common Market Reporter, para. 9491.

[62] *Brulotte* v. *Thys Co.* 379 U.S. 29 (1964).

[63] But note that it may be legitimate for a non-manufacturing patentee who licenses another to produce and sell to attach a condition as to RPM. See Gummow, op. cit. 10, 349, and s. 96 *TPA*. However, if that is so then s. 5(2) is puzzling: what is the effect of s. 5(2) on a foreign non-manufacturing patentee who licenses an Australian licensor to produce and sell with an RPM condition attached? Semble, s. 5(2) must be read subject to Part VIII. S. 45 would not be applicable because the condition is clearly one which relates exclusively to the goods within the

of the licensor to fix the sale or resale price of the products are also subject to attack under the U.S. anti-trust laws,[64] and, quite probably, under the regime of the European Community.[65] The Council of the OECD also condemns price-fixing in licences "contrary to national law".[66]

Where the restriction on resale is as to *manner* of resale, the position is the same in the United States: the restriction is subject to attack under the anti-trust laws. For example, in the pharmaceutical field, a restriction on the licensee requiring him to resell in dosage form rather than bulk is probably invalid in the United States. Since *United States* v. *Glaxo Group Ltd.*[67] it may well be that most restraints on where, how, or to whom the patented product is disposed of are illegal.

Restrictions on *manner* of resale might satisfy the "relate exclusively" test in s. 51(3), at least in relation to patent licences (in trade mark licences the position is more doubtful). Where the exemption is not applicable, s. 47(2)(e)(i) (customer restrictions) and s. 45 would be relevant.[68]

6 *Agreement not to contest the validity of the patent*

The section 51(3) exemption extends only to conditions relating exclusively to the invention and articles made by the use of that invention i.e. it does not extend to conditions relating to the patent. Therefore conditions of this kind, called "licensee estoppel" clauses, arguably fall for consideration under s. 45 of the Act.

meaning of s. 51(3). (Note that RPM may in certain case be in the public interest. If, for example, there are only one or very few licensees, the patentee might fear that too high a price will be charged to the public unless the licensee/s accept/s RPM.)

64 The condition was originally upheld in *United States* v. *General Electric* 272 U.S. 476 (1926) but the holding has been virtually nullified by later divisions e.g. *U.S.* v. *Line Material Co.* 333 U.S. 287 (1948) and *U.S.* v. *Huck Mftrg. Co.* 382 U.S. 197 (1965). In addition the Antitrust Division of the Department of Justice has announced its intention to seek overruling of *General Electric* in the near future, and most lawyers who draft patent licence agreements refrain from including price restrictions. See Fugate, op. cit. 270-2. Furthermore, it has always been unlawful for a patentee to attempt to fix the price at which the goods are sold after the first sale e.g. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.* 243 U.S. 502 (1917).

65 There are, surprisingly, no firm indications yet of the view the EEC authorities will take towards price-fixing, but it is hardly to be doubted that the view will be negative when the trend in other jurisdictions is observed and in the light of the interpretation of Article 85(1) which has been adopted towards other restrictions.

66 Op. cit.

67 *U.S.* v. *Glaxogroup Ltd.* 302 F. Supp. 1 (1969). See also *United States* v. *Farbenfabrieken Bayer A.G. and Chemagro Corp.* 393 U.S. 216 (1968) cert. denied 393 U.S. 959.

68 Note that at common law a licensor may control the methods and channels of distribution of the patented article: *Badische Anilin Und Soda Fabrikn* v. *Isler* (1906) 2 Ch. 443 Quaere, however, the applicability of s. 47(2)(e)(i): that provision applies only where the party imposing the restriction is supplying "goods", and for the same reasons advanced in relation to RPM (note 63 supra) a technology licensor might not be caught.

This conclusion is also supported by the decision of the U.S. Supreme Court in *Lear Inc.* v. *Adkins*[69] and the U.S. Department of Justice has said that it will contest the validity of patents if it is in the public interest to do so.[70] Decisions of the European Court of Justice have held[71] that undertakings of the licensees not to challenge, during the period of the licence, the validity of the patents, is an anti-competitive restriction prohibited by Article 85(1) of the *Treaty of Rome* (supra).

7 *Agreement by licensor not to grant further licences without the prior approval of the licensee*

For the same reasons as in (6) above, conditions of this type relate exclusively neither to the invention nor to the articles made by the use of the invention; it is a condition relating also to the patent and hence should be regarded as being outside the limited exemption provided by s. 51(3). In the United States a condition of this kind would be subject to attack on the ground that it imports elements of collusion and licensors should be free to license whom they wish.[72]

In the EEC it seems that an agreement of this type would be in breach of Article 85(1) of the *Treaty of Rome*, as precluding the possibility of other licensees entering into competition.[73]

8 *Agreement by licensee not to sublicense*

For the reasons mentioned in (7) above, such a condition would not relate exclusively to the invention or to articles made with the invention; it would relate to the patent, and hence not be accorded the exemption of s. 51(3).

Neither in the United States nor in the EEC, semble, is such an agreement normally held to affect competition. Decisions of the European Commission have held that explicit or implicit prohibitions on granting sublicences of patents or know-how are not restraints on competition.[74]

9 *Grant-back provisions*

On the basis of the distinction between, on the one hand, a condition relating exclusively to the invention or to articles made by that invention

[69] 395 U.S. 653 (1969). And see Stern, "Antitrust Implications of Lear and Adkins" (1970) 15 *Antitrust Bull* 663 (Mr Stern is Chief of the Patent Unit of the U.S. Department of Justice).

[70] On governmental challenge to patents see Note, (1973) 48 *Notre Dame Law Review* 1355.

[71] *Re agreements of Davidson Rubber Company* op. cit.

[72] Cf. *U.S.* v. *Besser Manufacturing Co.* 96 F. Supp. 304, aff'd, 343 U.S. 444 (1952), with *U.S.* v. *Krasnov* 335 U.S. 5 (1957); *McCullough Tool Co.* v. *Well Surveys Inc.* (1965) 343 F. 2 of 381.

[73] Cf. *Re Agreements of Davidson Rubber Company*, op. cit. and *Re Kabelmetal's Agreements* [1975] 2 Common Market Law Reports D40. For discussion of the latter case, see Taylor, op. cit.

[74] *Davidson Rubber Company*, ibid. and the two *Burroughs* cases, op. cit.

and, on the other hand, a condition relating also to the patent, it seems that a grant-back provision in a licensing contract falls within the second category; it is not a condition relating exclusively to the invention. By a grant-back provision the licensee undertakes to "grant-back" to the licensor any improvements to the patented process. The provision relates both to the invention and to the patent.

Under United States law grant-back provisions are suspect,[75] especially if unilateral and not reciprocal i.e. the licensee, but not the licensor, is obliged to license improvements. If there is reciprocity the provision may be upheld.

The "Christmas Message" of the EEC Commission sanctioned agreements concerning the mutual communication of know-how acquired during the licence and the mutual granting of improvements or new uses; but there must be reciprocity. This requirement has been affirmed in cases decided by the Commission.[76] The Council of OECD has criticised grant-back clauses "when the effect is to reinforce the dominant position of the licensor or to stifle the licensee's incentive to invent".[77]

10 *Limits on the ways a licensed patent may be exploited*

The licensor may limit the licensee to manufacturing, or to selling, or otherwise using, or the licence may be limited as to time (i.e. shorter than the patent period) or as to field of use. These kinds of limitations appear to relate exclusively to the invention (or to articles made by that invention) and hence are probably subject to the exemption in section 51(3). In the EEC, such limitations have been held not to restrain competition in that they relate to rights conferred by the patent itself and the patentee is free to deal with them as he would be to sell or assign all or part of his rights.[78]

In the United States these types of limitations would usually be regarded as unexceptionable. However, restrictions on field of use may be subject to anti-trust attack if they divide fields among licensees who would otherwise be competitors.[79] Some examples of field of use restric-

[75] *Transparent-Wrap Mach. Corp.* v. *Stokes & Smith Corp.* 329 U.S. 637 (1947); *Stokes & Smith Corp.* v. *Transparent-Wrap Corp.* 161 F. 2d 565 (2nd Circuit), cert. den., 322 U.S. 787 (1947). Cf. *U.S.* v. *General Electric Co.*, 115 F. Supp. 835, 847 (1953). See discussion in Fugate, op. cit. 276-8.

[76] See the two *Burroughs* cases, op. cit.

[77] Op. cit.

[78] The "Christmas Message" of the Commission permits division of the "bundle of rights" conferred by a patent into rights to make, use or sell: and divisions as to time and field of use. But as explained above, limitations as to the area in which the licence may be exploited (exclusive production licenses, above), may fall foul of the *Treaty of Rome*. See *Re Davidson Rubber Company*, op. cit. the *Burroughs* cases, op. cit. and *Re Kabelmetal's Agreement* [1975] 2 C.M.L.R. D40.

[79] *General Talking Pictures* v. *Western Electric Co.* 304 U.S. 175 (1938) *Baldwin—Lima Hamilton Corp.* v. *Tatnall Measuring Systems Co.* 169 F. Supp. 1 (1958) aff'd 268 F. 2d 395 (1959) cert. denied 361 U.S. 894 (1959). But see *Benger Laboratories Limited* v. *R.K. Laros Co.* (1963) 317 F. 2d 455 (two exclusive licences of

tions: the patentee attempts to restrict use of his patented article to incorporation into specified types of machinery sold by his licensees; the licensor of an improved process for melt-spinning nylon yarn limits the licensee to exploitation of the process to a field defined by reference to yarn of limited filament.[80]

11 *Other restrictions*

Restrictions on quantity that may be produced;[81] requirements that the licensee give exclusive sales or representation rights to the licensor in respect of the products made with the invention; requirements that restrict, or subject to approval by the supplier, the publicity or advertisement to be carried out by the licensee in respect of goods produced with the patented process; these restrictions may be accorded the s. 51(3) exemption as conditions relating exclusively to goods produced with the invention. In relation to trade marks it seems that provisions tying the supply of imports of a product bearing a particular trade name to the trade mark owner and thereby prohibiting imports by the licensee from a third party or another licensee, would be exempted as conditions relating to the kinds of goods bearing the mark that may be produced or supplied (s. 51(3)(c)); as would obligations to mark or identify the product.[82] On the other hand, it seems just as clear that the following restrictive conditions will not be accorded exemptions and will accordingly fall for consideration under s. 45:

- restrictions on obtaining competing or complementary technology (see also s. 112(1)(a) *Patents Act*) or products from other sources with regard to the sale or manufacture of competing products,[83] or restrictions on taking licences of competing trade marks;
- restrictions on use of the technology after the normal expiration of the agreement;
- obligations on the licensee to convert technology payments (royalties) into capital stock to be owned by the licensor;[84]

a drug, one for the human field, the other for the veterinary field, not antitrust violation).

80 Facts of *Ex parte British Nylon Spinners Limited and I.C.I. Limited in re I.C.I. Ltd.'s Patent* (1963) 109 C.L.R. 336.

81 Under U.S. law a single patentee may, in the absence of other restraints, limit the quantity to be produced by the licensee, except where the restriction is used as a device for product or price control in violation of the *Sherman Act* as in *American Equipment Company* v. *Tuthill* 69 F. 2d 406 (1934).

82 See, for the EEC, the *Burroughs* cases, op. cit. Generally, it seems to be accepted that such restrictions are reasonable to ensure both qualitative and quantitative control of products made under licence.

83 This is an example also given in Wilberforce et al. op. cit. 298. Provisions of this type are usually regarded as illegal in the United States: *F. C. Russell Co.* v. *Consumers Insulation Co.* 226 F. 2d 373 (1955); *U.S.* v. *Crown Zellerbach Corp.* 141 F. Rupp. 118 (1956).

84 And so the provision might fall for examination under s. 50.

- obligations to pay for unused or unexploited technology; requirements that the licensee accept additional technology not desired or not needed, as in forms of package arrangements,[85] as a condition for obtaining the technology required; limitations on the research and development policy and activities of the licensee;[86]
- requirements to use personnel designated by the licensor, or limitations on the use of local personnel;[87]
- requirements by the licensor to participate in the management decisions of the licensee enterprise;[88]
- obligations upon the licensee to purchase future inventions and improvements in technology from the licensor;
- limitations on access by licensee to new technological developments and improvements related to the technology supplied.

CONCLUSIONS

1. Section 51(3) has not in practice been of relevance to Commission determinations because licences are often licences of know-how, either "pure" know-how or know-how linked with patents, and in such cases section 51(3) is not applicable.
2. Where section 51(3) is not applicable most licences are in practice cleared because it cannot be said that the licence conditions have a significant effect on competition.
3. If a case should arise in which the meaning of section 51(3), particularly the phrase "relate exclusively", is critical, the Commission will be confronted with ambiguities and uncertainties. The principal concern of this article has been to highlight those uncertainties and to call in aid the experience of other jurisdictions for purposes of resolving the ambiguities. Thus a tentative start towards the elaboration of a theoretical framework for the assessment of licence conditions has been made.
4. The principal uncertainties are: the effect on competition of conditions in licensing arrangements concluded between related bodies corporate which escape the scrutiny of the Commission, the uncertain scope of the phrase "relate exclusively", and the doubt affecting the applica-

[85] See *Zenith Radio Corp.* v. *Hazeltine Research Inc.* 395 U.S. 100 (1969); *American Security Co.* v. *Shatterproof Glass Corp.* 268 F. 2d 769 (1959); *McCullough* v. *Wells Surveys*, 343 F. 2d 381 (10th Circuit, 1965). The OECD has also condemned package licensing when it is coercive in character (supra note 50).

[86] An interesting U.S. case is the recent *Smog* case (*U.S.* v. *Automobile Mftrs. Assn. Inc.* settled by consent decree): see Fugate, op. cit. 298.

[87] Note that s. 47 (exclusive dealing) relates to the supply of "services" as well as goods. The term "services" is broad enough to include rights or benefits under know-how licenses (s. 4 *TPA*).

[88] Except, of course, pure management contracts: our concern here is with management provisions in licensing arrangements.

bility of section 51(3) to export restrictions. Added to those uncertainties is a more fundamental one; the section 51(3) exemption may be based to some extent upon certain assumptions concerning the patent system which are no longer valid. These assumptions were discussed in the section called "critique of the patent system".

To summarise: section 51(3) is open to attack on two general grounds, namely, that it is based on assumptions and perceptions concerning the patent system and its operation in Australia which may be erroneous; at the very least, it must be said that those assumptions and perceptions have not yet been rigorously tested. Secondly, the provision as presently drafted is too uncertain to provide useful guidance to businessmen and their legal advisers.

5. The following recommendations are made:

(i) Research into the role of the patent and trade mark systems, in particular their licensing aspects, should be initiated by some appropriate organization. As pointed out, the Trade Practices Commission has statutory authorisation to conduct such research, but it may be that the Law Reform Commission is a better choice inasmuch as the researchers must look at patent and trade mark, as well as trade practices, legislation.

(ii) Subject to the findings of the investigating body, section 51(3) should be clarified to spell out the types of anti-competitive restrictions in licensing agreements that are considered to be detrimental. The investigating commission should also consider the desirability of having clear provisions inserted in patent and trade mark legislation defining the limit of rights exerciseable by patentees and trade mark owners. In the words of the Economic Council of Canada: "if this is not done, the courts and administrators will continue to be confronted with problems of consistency vis-à-vis two sets of legislation".[89] The object should be to minimise the uncertainties stemming from the clash of two opposing principles: restrictive trade practices legislation is based upon the principle that maximum competition free from restrictive relationships and with easy access to markets is the paramount good, whilst the industrial property system is based on the principle that competition should be restricted in the interests of promoting innovation and technological progress.

(iii) In determining whether specific types of restrictions should or should not be entitled to the status of exemption, close attention should be paid to the case law of the United States and, to a lesser extent, the EEC. As it stands the language of section 51(3)

[89] See, Canadian Report, op. cit. fn. 27.

is open to interpretation that the exemption extends to restrictive conditions which are not accorded favourable treatment in the jurisprudence of those jurisdictions, e.g. tie-in clauses and, perhaps, export restrictions.

The writer personally takes the view that the number of conditions entitled to exempt status should be strictly limited: all restrictions in all licensing agreements should be liable to evaluation under the *TPA* as are other forms of business restriction.

The recent Report[90] (August, 1976) of the Trade Practices Act Review Committee dismissed a submission that the exemption be extended to cover know-how licences. For the reasons mentioned earlier, it is the view of the writer that the Committee has not carried its recommendations relating to section 51(3) far enough.

[90] See *Report of the Trade Practices Act Review Committee* to the Minister for Business and Consumer Affairs, August, 1976 (Cth. Govt. Publication).