ABUSE OF MONOPOLY: INDUSTRIAL PROPERTY AND TRADE PRACTICES CONTROL

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General

The term "industrial property" has no settled meaning, but in this article it is used to describe patents for inventions, registered designs, copyright, registered trade marks, common law trade marks and trade names, and confidential information. Of these, the first four are governed by federal legislation, the Patents Act 1952, Designs Act 1906, Copyright Act 1968 and Trade Marks Act 1955. On the other hand, common law and equity continue to protect a large number of trade marks which are used in relation to goods but are not registered or not susceptible of registration; and marks which are used to denote supply of services rather than goods may be protected only under the general law, no provision being made for them under the trade marks legislation. The important and growing body of case law dealing with confidential information is quite independent of statute. It concerns know-how and techniques which often may to some extent have been suitable for protection under one or more of the established categories of industrial property, but for which the plaintiff relies rather upon general principles of contract and equity.[1]

All industrial property, statutory and non-statutory, confers on the proprietor in some measure a monopoly which is protected by an action to restrain abuse thereof by any party without the actual or implied consent of the proprietor; indeed this is the essence of "property" as generally understood throughout our legal system. For "(p)roperty depends upon exclusion by law from interference".[2] But the monopoly in most industrial property, unlike legal ownership of most tangible assets, is limited in duration; a patent lasts for sixteen years (s. 68 of the Patents Act) with some possibility of extension on the grounds of war loss or inadequate remuneration (ss. 90-96 of the Act); the maximum term of a registered design is fifteen years (s. 26 of the Designs Act); copyright in published original works endures for the life of the author and fifty years after his death (s. 33(2) of the Copyright Act). Trade marks and confidential information are in a different category; a registered mark may, subject to payment of renewal fees and continued use in the course of trade, endure indefinitely; a common

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[1] See generally on confidential information, Meagher, Gummow and Lehane *Equity: Doctrines and Remedies* Chapter 41.

[2] *International News Service* v. *Associated Press* 248 U.S. 215 (1918) at 246 *per* Holmes, J.

law (i.e. unregistered) mark will be protected by a passing-off action so long as it remains distinctive of the goods or services of the plaintiff; confidential information will lose that quality when published without restriction by the owner, or, perhaps, when a third party takes for value without notice of the plaintiff's rights, or *semble* when devised by the independent efforts of a third party.

The limited monopoly thus conferred is sometimes supported by the claim to a "natural property" right in the ideas or commercial efforts involved in devising the invention, design, copyright work, trade mark or confidential information. The party concerned should, like other artisans, enjoy the fruits of his labour, none the less so because he has devised a design or concept rather than a tangible object. Of course, much industrial property today is not the asset of the sole trader but of the large corporation which may employ a large staff with the object, for example, of producing patentable inventions for it. Here a rationale for the protection of industrial property 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. Otherwise, there would be, for example, insufficient headstart over those duplicating inventions to enable recoupment of development costs, without competition driving prices so low as to impede this recovery.[3] A recent British White Paper[4] expressed as follows the basic principle of the patent system:

> (A)n inventor who makes a full disclosure of what he has invented is granted a statutory monopoly of limited duration in which to exploit the invention. In this way, the inventor is encouraged by the prospect of protection and reward for his efforts. Industry, whether privately or publicly owned, is encouraged to invest and the disclosure of new technology which might otherwise have remained secret points the way to further worthwhile research. For the consumer, the system fosters an ever-widening choice of goods and services.

Control of Industrial Property Rights

The monopoly given the owner of industrial property may be used to achieve various collateral objects and so may have far-reaching commercial and industrial effects. Thus, the patent monopoly may be used to support an extensive system of resale price maintenance or to exclude, by refusal of licences, competitors from entry to a particular field. The licensor of a design or registered trade mark may condition licences thereof by stipulations restricting the licensee in the sources of supply of materials for the articles to which the design is to be applied or mark attached. Accordingly, there arises the important question of the extent to which in Ausralia the common law, pre-1974 statutes, and now the Trade Practices Act 1974 control the enjoyment of industrial property and its use to attain collateral objects. That is the subject of this article.

It will be seen that some assistance is derived in this article from decisions of the United States courts in the application of the anti-trust legislation of that country. But it is necessary to enter at the outset a caveat against too literal an application in this country of those authorities. First, although the ancestry in the Sherman Act, Clayton Act and Robertson Patman Act of

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[3] See generally *The Report of the Banks Committee 1970* (Cmnd. 4407); Areeda, *Antitrust Analysis* (2 ed. 1967) 319-322.

[4] *Patent Law Reform* (Cmnd. 6000) para. 2.

many provisions of Part IV of the Trade Practices Act is readily apparent, the texts of the legislation by no means correspond. Nor, although similar in concept, is there correspondence between the relevant industrial property statutes. In particular, the American patents legislation (35 U.S.C. (1954)) contains no provisions for compulsory licences or revocation for non-working,[5] and no restrictions on the terms of licences such as are found in s. 112 of the Australian Patents Act 1952.

Remedies under the Trade Practices Act 1974

Part IV of the Trade Practices Act describes various activities which corporations and those engaged in trade and commerce are exhorted to abjure: contracts arrangements or understandings in restraint of trade or commerce (s. 45), monopolization (s. 46), exclusive dealing (s. 47), resale price maintenance (s. 48) and mergers (s. 50). These duties and obligations are given point by the provisions of Part VI which is headed "Enforcement and Remedies". Of particular interest are ss. 80 (injunctions) and 82 (action for damages). Section 80 may be invoked before the Australian Industrial Court by the Attorney General, the Trade Practices Commission or "any other person". There seems no reason why as a matter of jurisdiction (rather than discretion) the Court is bound to require of a person seeking an injunction under s. 80 that his legal proprietary rights be directly interfered with by the conduct of the defendant which he seeks the Court to enjoin. The Court is not exercising a jurisdiction derived like that of the State Supreme Courts from the English Court of Chancery's power to issue injunctions in aid of legal rights. It exercises a statutory jurisdiction independent from such restraints.[6]

However, great doubt arises as to the nature of the injunctive power created by s. 80. The power is to "grant an injunction restraining a person from engaging in conduct that constitutes", *inter alia,* a contravention of a provision of Part IV. The phrase "engage in conduct" is defined in s. 4(1) as including "refrain from doing any act, including the making of a contract or arrangement". Suppose a person aggrieved by monopolistic conduct of the defendant in using his patent monopoly to prevent entry into a market, seeks, together with other relief in proceedings under Part VI, a mandatory injunction requiring the grant of a patent licence. The term "restraining" in s. 80 is descriptive of a prohibitory not mandatory injunction, and the curious definition of "engage in conduct" does not remove the strong doubt that s. 80 is so limited. There is a limited power in s. 87(3) for the Court in making ancillary orders to adjust rights between parties to contracts which contravene ss. 45 or 47 by what in substance is a mandatory injunction,[7] but the presence of the limited power serves to strengthen the view that there is no such general power under the primary provisions in s. 80.

Further, the action for damages created by s. 82 has several limitations. First there is a limitation period of three years; secondly, the plaintiff's loss or damage must be suffered by an act (rather than act or omission) of the

[5] See *Hartford-Empire Co.* v. *United States* 323 U.S. 386 at 415 (1945); *Special Equipment Co.* v. *Coe* 324 U.S. 370 (1945) at 382- 3 *per* Douglas, J. (diss.), and *cf.* Patents Act 1952 (Cth.) Part XII.

[6] See Meagher, Gummow and Lehane *supra,* Chapter 21; *cf. Schattschneider* v. *Schattschneider* (1974) 2 N.S.W.L.R. 124.

[7] S. 87(3) empowers the Court to make an order on the application of one party to a contract which offends s. 45 or s. 47 directing another party to the contract to "do any act in relation to the first mentioned party that the Court considers just and equitable".

defendant; and, thirdly, recovery is limited to "the amount of the loss or damage" thereby indicating some measure of special rather than general damages and excluding exemplary damages. And it is most important to note that Part VI contains no remedy to bring the defendant to account for his profits, rather than compensate the plaintiff for his loss or damage. It requires little reflection to see that the malfeasant's profit will not always correspond with the plaintiff's injury: see generally *Colbeam Palmer Ltd.* v. *Stock Affiliates Pty. Ltd.*[8]

Lastly (apart from the very limited power in s. 87(2)(a)),[9] there is no attempt to give in Part VI that modern remedy of great commercial utility, the declaratory order. This is most unfortunate when one considers the many difficult questions of construction with which the Act bristles. Do the State Supreme Courts have jurisdiction to declare rights in cases calling for interpretation of the provisions of the Trade Practices Act? The answer appears to be affirmative, though, of course, any particular case may attract an adverse exercise of the discretion to make a declaration. The Supreme Court of New South Wales has often granted declarations in matters arising under or involving interpretation of Commonwealth legislation, its source of federal jurisdiction being either s. 39 of the Judiciary Act 1903 or covering clause 5 of the Constitution,[10] and s. 87(5) of the Trade Practices Act clearly contemplates that the remedies under Part VI are not to exclude those of any other court with its own fount of jurisdiction in respect of the same subject matter.

It is true that s. 87(1) gives the Court general power in proceedings under Part VI to grant ancillary relief,[11] but on a fair reading of the whole of Part VI this provision would seem to stop short of filling the gaps in remedial power outlined above.

Non-Use: Compulsory Licences and Revocations of Grant

To a patentee the most satisfactory fate for his patent may be for it to be ignored; he may be unprepared to re-equip to the extent necessary to exploit the invention and not wish to invite competition from others by licensing it to them. The patent becomes a glove upon a dead hand. And in Australia this has been considered an abuse of the patentee's monopoly and economic power; in the language of the Patents Act 1952 (ss. 108, 109) the issue is whether "the reasonable requirements of the public with reference to

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[8] (1968) 122 C.L.R. 25. It has been suggested that the Commission may obtain an interlocutory injunction without giving an undertaking as to damages and indeed that it has not "power" to give such an undertaking: *Trade Practices Commission* v. *Vaponordic (Aust.) Pty. Ltd.* (1975) 6 A.L.R. 248. If this is so it presumably is because the Commission is an emanation of the Commonwealth Crown (see Meagher Gummow & Lehane *Equity: Doctrines & Remedies* pp. 498-499), and the result will be to oblige the Court to refuse interlocutory injunctions in many cases because the giving of an undertaking is a major element in deciding the balance of convenience. This appears to have been recognised by Evatt, J. in the above case.

[9] Where in a proceeding instituted under Part VI the Court finds there has been a contravention of Part IV, the Court may in addition to the primary relief, make an order, *inter alia*, "declaring the whole or any part of a contract or of a collateral arrangement relating to a contract to be void . . .".

[10] For cases of declarations see, e.g., *Chance International Pty. Ltd.* v. *Forbes* (1968) 3 N.S.W.L.R. 487, *The Commonwealth* v. *Sterling Nicholas Duty Free Pty. Ltd.* (1972) 126 C.L.R. 297; as to jurisdiction see *Felton* v. *Mulligan* (1971) 124 C.L.R. 367, Cowen, *Federal Jurisdiction* 151 *ff.*

[11] There must be "a proceeding instituted under or for an offence against this Part (VI)" and the Court must find "there has been a contravention of a provision of Part IV or V." Then the Court may, *in addition* to granting relief under ss. 77, 79, 80 or 82 (penalties, injunctions, damages), "make such other orders as it thinks fit to redress injury to persons caused by any conduct to which the proceeding relates or any like conduct engaged in by the defendant".

the patented invention have not been satisfied".

The Patents Act provides for the grant of compulsory licences and alternatively for the revocation of patents where the above "reasonable requirements" have not been met. The moving party may be any "person interested", a term which in comparable sections of the Act has been liberally interpreted.[12] Further, in s. 110(1) of the Act there is fairly clear legislative guidance given as to what is meant by the guiding concept of the reasonable public requirements from the patentee. The provision is worth setting out in full here, for it shows that in the past the legislature has been able to bring some specificity in controlling economic activity by legal norms; the stark contrast with the sustained amphibology in Part IV the Trade Practices Act 1974-75 of such phrases as "in restraint of trade or commerce", "significant effect on competition", "substantially to control a market" and the rest, is too apparent for further comment.

Section 110(1) of the Patents Act is as follows:

> (T)he reasonable requirements of the public shall be deemed not to have been satisfied—
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> (a) if, by reason of the default of the patentee—
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> (i) to manufacture to an adequate extent, and supply on reasonable terms, the patented article, or a part of the patented article which is necessary for its efficient working;
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> (ii) to carry on the patented process to an adequate extent; or
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> (iii) to grant licences on reasonable terms,
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> an existing trade or industry, or the establishment of a new trade or industry, in Australia is unfairly prejudiced, or the demand for the patented article, or the article produced by the patented process, is not reasonably met;
>
> (b) if a trade or industry in Australia is unfairly prejudiced by the conditions attached by the patentee, whether before or after the commencement of this Act, to the purchase, hire or use of the patented article, or to the using or working of the patented process;
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> (c) if the patented invention, being an invention capable of being worked in Australia, is not being worked in Australia on a commercial scale and no satisfactory reason is given for the non-working; or
>
> (d) if the working of the patented invention in Australia on a commercial scale is being hindered by the importation from abroad of the patented article by—
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> (i) the patentee or persons claiming under him;
>
> (ii) by persons directly or indirectly purchasing from him; or
>
> (iii) by other persons against whom the patentee is not taking, or has not taken, proceedings for infringement.

These provisions have been considered by the High Court only once in over twenty years; 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. The case where a compulsory licence was sought is *Fastening Supplies Pty. Ltd.* v. *Olin Mathieson Chemical Corporation.*[13]

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[12] *Kaiser Aluminum and Chemical Corporation* v. *The Reynolds Metal Company* (1969) 120 C.L.R. 136.

[13] (1969) 119 C.L.R. 5722.

The invention was for an improved bolt gun used as a driving tool for fastening timber to concrete, steel to steel, and steel to masonry. The patentee was a large American corporation ("Olin Mathieson") with a partly owned Australian licensee ("Ramset"). For ten years from the sealing of the patent until 1968 no bolt guns had been made available to the public. The petitioner was a small local company. Menzies, J. refused it a compulsory licence and his reasons for so doing illustrate some of the factors which in such cases will have to be weighed in a delicate balance. The crucial portion of Menzies, J.'s reasons is as follows:[14]

"I summarize the findings upon which I will have to base my decision as follows:

1. In December 1968 the reasonable requirements of the public in respect of the patented invention had not been satisfied.
2. Ramset, by manufacture in Australia as already described, is now in the process of meeting Australian requirements and has the capacity to do so.
3. The delay in meeting Australian requirements from Australian production has been due primarily to the difficulty of designing a tool in accordance with the invention that is of sufficient versatility and endurance to secure sales that would warrant the establishment of manufacturing capacity on the large scale that would be necessary.
4. That despite the imperfections of earlier tools made by Olin Mathieson, more could reasonably have been done by Ramset importing tools made in accordance with the patent to meet the Australian demand therefor.
5. The petitioner is not capable itself of undertaking manufacture of tools in accordance with the patent. It has neither the resources nor the skill that is necessary.
6. The petitioner's proposal for Australian manufacture by sub-contractors is of doubtful practicability as a means for the local manufacture of satisfactory articles.
7. The petitioner has no improved designs for local manufacture of tools in accordance with the invention. In the event of any manufacture under a licence it would do no more than to arrange for parts of the Obo tool (made in Germany by a competitor of Olin Mathieson) to be copied by sub-contractors and assembled.
8. That had an indemnity been forthcoming the petitioner would have sold Obo tools in infringement of the letters patents under which it now desires to obtain a licence.

In the light of these findings I consider that any compulsory licence granted now should not extend to the importation of articles covered by the letters patent. Moreover I consider that the production now established by Ramset will meet the reasonable requirements of the public for the patented articles. Finally, I am not satisfied that the petitioner is a suitable company to be granted a licence to work the invention by the establishment of manufacture in Australia."

There are complex provisions in the Copyright Act 1968, Part VI, whereby the Copyright Tribunal may, *inter alia,* deal with refusals to grant licences to persons seeking to join a "licence scheme". This is defined in s. 136(1) and presumably was intended to include organisations such as Australasian Performing Right Association Ltd. The owner of a registered trade mark in Part A or Part B of the register who registers without a

[14] *Supra* at 582-3.

bona fide intention to use the mark in the course of trade in Australia either himself or by a registered user, intending, for example, to preserve his registration as against the time he does wish to use the mark and in the meantime to exclude competitors who might wish to use the mark, is vulnerable to an application by a "person aggrieved" seeking to have the registration expunged under s. 23 of the Trade Marks Act 1955. There are no such provisions, either for revocation or compulsory licence in the Designs Act 1906.

Monopolization

The question that now must be considered is the extent to which failure to meet "the reasonable requirements of the public" in respect of a patented invention, or, indeed, a registered design, copyright work, or confidential information may attract a complaint of breach of Part IV of the Trade Practices Act 1974. The provision particularly relevant is s. 46, subsections (1) and (3) of which read as follows:

> (1) A corporation that is in a position substantially to control a market for goods or services shall not take advantage of the power in relation to that market that it has by virtue of being in that position—
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> (a) to eliminate or substantially to damage a competitor in that market or in another market;
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> (b) to prevent the entry of a person into that market or into another market; or
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> (c) to deter or prevent a person from engaging in competitive behaviour in that market or in another market.
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> (3) For the purposes of this section, a reference to a corporation being in a position substantially to control a market for goods or services includes a reference to a corporation which by reason of its share of the market, or of its share of the market combined with availability of technical knowledge, raw materials or capital, has the power to determine the prices, or control the production or distribution, of a substantial part of the goods or services in that market.

The patentee may refuse to deal with prospective licensees except by what amounts to exclusive dealing within s. 47 or resale price maintenance within s. 48; the factual possibilities are of course infinite. But the prime target is monopolization, although that term appears not in the text of s. 46, only in the side note. There are several points to be observed: (*a*) monopolization falling purely within s. 46 cannot be made subject of authorization or clearance under Part VII of the Act: (*b*) on its face s. 46 is not so much concerned with cutting down the ambit of the legal monopoly given by various forms of industrial property, nor with the mere accumulation of such rights in the one hand—"The mere accumulation of patents, no matter how many, is not in and of itself illegal"[15]—but with the use to which such power is put. This kind of distinction is well drawn in various areas of general law, the principles governing abuse of director's powers and, indeed, fraud on powers generally, being an obvious example: "(i)t is not the monopoly of the patent that is invalid; (i)t is the improper use of that monopoly".[16] (*c*) presumably, a petitioner who failed to obtain a compulsory licence or an order for revocation under the Patents Act (for example by inequitable conduct activating the adverse exercise of the court's discretion) would not necessarily

[15] *Automatic Radio Manufacturing Co.* v. *Hazeltine Research Inc.* 339 U.S. 827 at 834 (1950); *cf. United States* v. *General Electric Co.* 82 F. Supp. 753 (1949), *Parke Davis* v. *Probel* (1968) C.M.L.R. 47.

[16] *United States* v. *Line Material Co.* 333 U.S. 287 at 310 (1948) *per* Reed, J.

fail under the Trade Practices Act in establishing prevention of his entry into a market, within s. 46(1)(b); (*d*) the pecuniary and injunctive remedies contained in Part VI of the Trade Practices Act do not (without an impermissibly wide reading of the ancillary power in s. 87(1)) encompass revocation of a patent or design, or the compulsory licensing of industrial property generally;[17] (*e*) there is in s. 51(1) of the Trade Practices Act special exemption from Part IV for activities of a kind specifically authorised or approved by other statutes, but an exclusion is made from this for patents, trade marks, designs and copyrights; thus, the power to sue for infringement of those rights, given by the respective statutes, must be read as subject to s. 46 of the Trade Practices Act; (*f*) likewise, the special treatment in s. 51(3) of licences of patents, trade marks, designs and copyrights is specifically directed away from s. 46 so that s. 46 operates unimpeded; (*g*) the difficult issue of whether a corporation is in a position "substantially to control a market for goods or services" for the purposes of s. 46 may present a different appearance where abuse of patent monopoly is alleged. This has been clearly explained by Knox, J. (in the context of s. 2 of the Sherman Act) in his famous judgment in *United States* v. *General Electric Company*.[18] The vital passage is as follows:

> There may be considerable difference between the issues in a monopolization case which does not involve patents, and one which does. In a case not concerned with patents the first, and perhaps major, fact issue, is whether the defendants possessed the necessary percentage of market control to constitute a monopoly. Assuming that the requisite size is present, a number of legal questions present themselves which have only been conclusively answered in very recent Supreme Court pronouncements. These include the problem of whether actual exclusion of competitors is necessary, whether it is necessary to achi(e)ve the monopoly position by unlawful means, whether the monopoly position, once achieved, must have been abused, and what the requisite intent is. . . . On the other hand, depending upon the type of patents, in a patent case there may be no question of whether defendants monopolized. Here the patents defined a whole new industry. The defendants admit to monopoly. The defense is that the monopoly was lawful, coming within the protection of the patent grants. Decision must turn on whether or not the patent privilege has been misused. Although in a non-patent case exclusion, unlawful achievement, and abuse of monopoly power may not need to be proved, elements of such conduct are necessary in a patent case before Section 2 may be invoked.

What then are the kinds of activity with industrial property which in some circumstances might infringe s. 46? One is looking to the industrial property rights as the source or a source of the power of the defendant substantially to control a market for goods or services within the meaning of s. 46(1), and to "advantage" being taken of that power to achieve one or more of the results specified in paragraphs (a), (b) and (c) of that subsection.

Consider the position of a corporation, which upon the true interpretation

[17] The very general words of s. 4 of the Sherman Act and s. 15 of the Clayton Act have been used in the United States to develop something like compulsory licensing at reasonable royalties as a discretionary remedy in procedings under those statutes; *cf.* *Hartford-Empire Co.* v. *United States* 323 U.S. 386 at 417 (1945).

[18] 80 F. Supp. 989 at 1015 (1948).

of s. 46 is in a position substantially to control a market, in the following circumstances:

(*i*) it holds so many patents in the relevant field that, even if some are "weak" in the sense that they may be held invalid if contested, the probable validity of some is sufficient to confront a new producer with a real possibility of a successful infringement suit against it; hence, before committing itself to the expenditure necessary to establish the new venture, it seeks an accommodation with the patentee. The patentee offers licences on terms so disadvantageous as to deter the newcomes from entry into the market. In the United States the position appears to have been reached that while the individual patentee may still pursue his remedy for infringement, the courts may infer a scheme to monopolise a segment of commerce where competing patents have been accumulated under control of one firm and not freely licensed. In this situation the infringement action may be seen as a further *indicium* of monopolistic purpose: *Kobe* v. *Dempsey Pump Company*.[19] And joint activity by the patentee and exclusive licensee to preserve their dominant position may be seen as an illegal boycott: *United States* v. *Besser Manufacturing Company*.[20] But where there is between the patentee and licensees no pooling or joint control of competing patents, and no control by the existing licensees over the grant by the patentee of further licences, the courts have been less inclined to find an attempt to monopolise: *United States* v. *L. D. Caulk Company*.[21]

(*ii*) a second corporation enters the field and holds a number of patents; with those of the first corporation they "cover the field". The parties fall out. Each sues the other for patent infringement. The litigation is settled on terms that each party licences the other in respect of its patents and agrees not to licence any third party without consent of the other; such an arrangement, particularly if it has a covenant as to the price at which the patented product may be sold, is unlikely in the United States to survive scrutiny: *United States* v. *Line Material Company*.[22] Whilst cross-licensing is not *per se* illegal in the United States, the presence of such additional covenants indicates use by the consortium of its patent rights to lock out competition; the whole may thus be greater than the sum of its parts.

(*iii*) the corporation has, after grant, become aware of a prior publication which should destroy the validity of its main patents. The second corporation seeks to enter the field but is threatened with an action for patent infringement. It does not know of the prior publication; its advisers tell it that the patents are probably valid. Rather than risk the cost of unsuccessful litigation, the newcomer decides to withdraw;[23]

(*iv*) the corporation acquires a new patent which will render its existing

[19] 198 F. 2d 416 (1952).
[20] 343 U.S. 444 (1952).
[21] 126 F. Supp. 693 (1954).
[22] 333 U.S. 287 (1948). *Cf. Standard Oil Co. (Indiana)* v. *United States* 283 U.S. 163 (1931), *United States* v. *Singer Manufacturing Co.* 374 U.S. 174 (1963), *Re Robin Electric Lamp Company's Petition* (1915) 1 Ch. 780 at 792, *Re Permanent Magnet Association's Agreement* (1962) 2 All E.R. 775 at 780-1. Similar issues arise in operation of the EEC, from Article 86 of the Treaty of Rome, which speaks of abuse of a dominant position within a substantial part of the Common Market; see Gardiner "Industrial and Intellectual Property Rights: their Nature and the Law of the European Communities" (1972) 88 *L.Q.R.* 507. *Semble* where there is a cross-licensing arrangement there is no acquisition of assets within s. 50 of the Trade Practices Act.
[23] *Cf. Lynch* v. *Magnavox Co.* 94 F. 2d 883 at 887 (1938).

process and plant otiose and does not wish to make the capital expenditure to tool up for the new invention; it refuses the requests of competitors for licences.[24] One such competitor decides not to approach the High Court for a compulsory licence under the Patents Act, nor to seek revocation for non-working of the patent under s. 109 of the Patents Act, but rather to seek relief under ss. 80 and 82 of the Trade Practices Act. On the assumption that the necessary powers to award the relief sought may be found under the Trade Practices Act,[25] there is still the issue of whether the plaintiff may elect his remedies in this way. To what extent would the Court under the Trade Practices Act have regard not only to s. 46 but to the provisions of s. 110 of the Patents Act dealing with the reasonable requirements of the public?

Resale Price Maintenance

Where a patent has as its subject an invention the working of which produces articles of commerce, the patent rights of the owner of the invention do not cease with the sale of the goods to the first buyer. For the monopoly given by the Patents Act (s. 69) is to grant to the patentee the exclusive right "to make, use, exercise and vend the invention in such manner as he thinks fit". Thus, the patentee might sell but permit the buyer to use the goods only upon observance of conditions; and furthermore such limitations might be imposed so as to run with the goods into the hands of third parties. Resale price maintenance was an obvious subject for conditions so imposed. The usual rule at common law and in equity was that restrictions as to price maintenance were not enforceable against third parties.[26] But the above considerations flowing from the nature of the patent monopoly produced a different result for patented articles. The position was summarised as follows in *National Phonograph Co. of Australia Ltd.* v. *Menck* by the Privy Council in an appeal from the High Court of Australia:[27]

> In their Lordships' opinion, it is thus demonstrated by a clear course of authority, first, that it is open to the licensee, by virtue of his statutory monopoly, to make a sale *sub modo*, or accompanied by restrictive conditions which would not apply in the case of ordinary chattels; secondly, that the imposition of these conditions in the case of a sale is not presumed, but, on the contrary, a sale having occurred, the presumption is that the full right of ownership was meant to be vested in the purchaser; while thirdly, the owner's rights in a patented chattel will be limited if there is brought home to him the knowledge of conditions imposed, by the patentee or those representing the patentee, upon him at the time of sale. . . . On the one hand, the patented goods are not, simply because of their nature as chattles, sold free from restriction. Whether that restriction affects the purchaser is in most cases assumed in the negative from the fact of sale, but depends upon whether it entered the conditions upon which the owner acquired the goods. On the other hand, restrictive conditions do not, in the extreme sense put, run with the goods, because the goods are patented.

[24] The attitude to licensing of important patents is conditioned in the United States by the anti-trust consequences of unreasonable refusal of licences to competitors. The facts in *General Tire and Rubber Co.* v. *Firestone Tyre and Rubber Co. Ltd.* (1975) 2 All E.R. at 180-3 indicate a patentee anxious in this respect to comply with American anti-trust law.

[25] See nn. 7-11 *supra*.

[26] *Dunlop Pneumatic Tyre Co. Ltd.* v. *Selfridge and Co. Ltd.* (1915) A.C. 847.

[27] (1911) 12 C.L.R. 15 at 28-29.

The practice of resale price maintenance ("RPM") was first proscribed by the Trade Practices Act 1971, and these provisions are substantially reproduced in s. 48 and Part VIII of the 1974 Act. But the 1974 Act does not permit exemption for particular classes of goods as did the 1971 statute; and, importantly for present purposes, in determining whether there has been a breach of the RPM provisions it is not forbidden to have regard to the provisions of patent design trade mark or copyright licences and assignments (s. 51(3)). This must mean that the law laid down in the *National Phonograph Case* must be read subject to the general outlawing of the practice of RPM by s. 48.

There is an important area of price restriction outside the ambit of s. 48. Assume a patentee manufactures patented goods and on the sale thereof attaches a condition as to resale price; clearly this is not permitted. However, assume that the patentee does not manufacture himself but licenses another to do so, attaching a condition as to the price which may be asked by the licensee when he sells his goods. This is not an engagement by the patentee in R.P.M. That term, while defined at length in s. 96, requires the supply by the malfeasor of *goods*, whereas the patentee in the above example does not supply goods to the licensee, merely licensing the use of his patent. The term "goods" is defined in s. 4(1) to include *inter alia* "animals, including fish" (what, one wonders, of insects?), and "gas and electricity" (but not fire); even after a bemused perusal of this definition, the reader is left with the clear view that patents are not goods. There is, of course, in the example given a restriction in the patent licence which could fall within the terms of ss. 45 or 47; but it clearly is a condiiton relating exclusively to articles made by use of the patented invention and as such s. 51(3) requires regard not to be had to it in determining whether there has been a contravention of either of those sections. Thus, there is here a pricing restriction which should escape all the hazards of Part IV. In the United States a different position prevails. In the American legislation there is no equivalent of s. 51(3) and the matter stands to be judged under the primary provisions. In 1926 the Supreme Court condoned the right of a patentee to require a distributor to support minimum pricing,[28] but subsequent decisions have made it dangerous for any patentee to rely on covenants by licensees not to sell the patented products at below a specified minimum price.[29]

Licences of Industrial Property

The owner of industrial property may favour licensing of his rights for a number of reasons: (*a*) on a new undertaking he may prefer to avoid the entire risk of product and market development, (*b*) the greater the usage by various parties the greater the public acceptance and so the greater direct sales by himself, (*c*) he may fear, after education in the new anti-trust law, that occupation of a monopoly position may, without licensing, invite action under s. 6. Further, the granting of licences offers an opportunity to secure important collateral advantages. Many of these—in particular those limiting the future freedom of action of the licensee, his dealings with third parties and restrictions on use or price of the licensed articles—are on a collision course with various provisions of the Trade Practices Act.

A number of such practices in relation to patents are already dealt with

[28] *United States* v. *General Electric Company* 272 U.S. 476 (1926).

[29] *United States* v. *New Wrinkle* 342 U.S. 371 (1952); *United States* v. *Huck Manufacturing Co.* 227 F. Supp. 791 (1964).

in the Patents Act; these provisions now operate concurrently with the new legislation, and it is to them that one should first turn.

The Patents Act and Licences

Is a provision, whereby the licensee is to continue royalty payments after the expiry of the patent, valid? The licensee will now be paying for that which is open to his competitors without fee. At general law it seems such a covenant was valid and there seems no reason why the same result would not follow for any other species of industrial property. But special provision was made in s. 112(4) of the Patents Act 1952. This reads as follows:

> A contract relating to the lease of, or licence to use or work, a patented article or patented process may at any time after the patent, or all the patents, by which the article or process was protected at the time of the making of the contract has, or have, ceased to be in force, and notwithstanding anything in the same or in any other contract to the contrary, be determined by either party on giving three months' notice in writing to the other party.

More serious problems were sought to be dealt with by s.s. (1), (2) and (7) of s. 112—those which arose from conditions which (a) prohibited or restricted the licensee from seeking non patented articles from third parties and (b) required the licensee to acquire non patented articles from the patentee or his nominee. These provisions correspond to legislation in Britain and Ireland, which has been the subject of decided cases. It will be observed that these provisions now operate concurrently with the exclusive dealing provisions of s. 47 of the new Act (and to the extent that s. 47 does not apply to them, presumably s. 45 would). Therefore a perusal of the decided cases on the Patents Act provisions may give some insight of the judicial approach to ss. 45 and 47 by those trained in an Anglo-Australian rather than American mould. But first s.s. (1), (2), (5) and (7) of s. 112 of the Patents Act must be set out in full:

> (1) It is not lawful, in a contract in relation to the sale or lease of, or a licence to use or work, a patented article or patented process, to insert a condition the effect of which would be—
>
> (a) to prohibit or restrict the purchaser, lessee or licensee from using an article or class of articles or process, whether patented or not, supplied or owned by a person other than the seller, lessor or licensor, or his nominee; or
>
> (b) to require the purchaser, lessee or licensee to acquire from the seller, lessor or licensor, or his nominee, an article or class of articles not protected by the patent,
>
> and any such condition is void.
>
> (2) The last preceding sub-section does not apply if—
>
> (a) the seller, lessor or licensor proves that, at the time the contract was entered into, the purchaser, lessee or licensee had the option of purchasing the article or obtaining a lease or licence on reasonable terms without the condition; and
>
> (b) the contract entitles the purchaser, lessee or licensee to relieve himself of his liability to observe the condition on giving the other party three months' notice in writing, and on payment in compensation for that relief—
>
> (i) in the case of a purchase—of such sum; or
>
> (ii) in the case of a lease or licence—of such rent or royalty

for the residue of the term of the contract,

as is fixed by an arbitrator appointed by the Attorney-General.

(5) The insertion by the patentee in a contract of a condition which, by virtue of this section, is void is available as a defence to an action for infringement of the patent to which the contract relates, brought while that contract is in force.

(7) Nothing in this section—

(a) affects a condition in a contract by which a person is prohibited from selling goods other than those of a particular person;

(b) validates a contract which, but for this section, would be invalid;

(c) affects a right of determining a contract, or a condition in a contract, exercisable independently of this section; or

(d) affects a condition in a contract for the lease of, or licence to use, a patented article, by which the lessor or licensor reserves to himself or his nominee the right to supply such new parts of the patented article as are required to put or keep it in repair.

It will be observed: (*i*) from s. 112(7) that the practices expressly saved by paragraphs (a) and (d) thereof will now nevertheless be subject to s. 47 of the Trade Practices Act, unless there is some exempting provision in that statute, (*ii*) the criteria in s. 112(2) whilst sufficient to take a case out of s. 112(1) find no parallel in s. 47; the only question there is the general one of likely effect of substantially lessening competition in a market for goods or services, (*iii*) there is nothing in the enforcement sections of Part VI of the Trade Practices Act resembling the sterilization of the patentee's rights on an infringement action effected by s. 112(5). It remains to be seen whether in infringement actions the courts will (by some application or development of the maxim that he who comes to equity must come with clean hands)[30] exercise a discretion to withhold equitable relief from the patentee if he has "abused" his monopoly by conduct offensive to the Trade Practices Act and injurious perhaps to parties other than the defendant in the infringement action; such a discretion appears established in the United States with the "patent misuse doctrine". Indeed, the court dealing with the infringement suit may find "misuse" in the sense of contravention of the anti-trust law although there is no *res judicata* in proceedings instituted specifically under the anti-trust law.[31] This is of some significance in Australia where, on the one hand, the Australian Industrial Court, the forum designated under the Trade Practices Act, has no jurisdiction under the Patents Act and, on the other hand there is no express investing of jurisdiction in trade practices proceedings under Part VI, in either the High Court (subject to s. 75 of the Constitution) or, State Supreme Courts, the tribunals with jurisdiction in patent infringement actions.

The maxim that "he who comes into equity must come with clean hands" is concerned usually with the conduct of the plaintiff merely in regard to the controversy in issue, but that should not mean that it is confined to the private interests of the litigants where the subject matter is public rights of

[30] As to which see Meagher, Gummow and Lehane, *Equity: Doctrines and Remedies* 67-69.

[31] See e.g., *Morton Salt Co.* v. *G. S. Suppiger* 314 U.S. 488 (1942); *Swofford* v. *B and W Inc.* 251 F. Supp. 811 at 821-2 (1966).

general importance, such as an industrial property monopoly. Here, equity may require of the plaintiff conduct consistent with the wider public interest in his industrial property monopoly, as expressed in trade practices statute law. The matter has been forcefully expressed in *Precision Instrument Manufacturing Co.* v. *Automotive Maintenance Machinery Co.*[32] by Murphy J., speaking for the United States Supreme Court:

> This maxim is far more than a mere banality. It is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequitableness (*sic*) or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant. That doctrine is rooted in the historical concept of court of equity as a vehicle for affirmatively enforcing the requirements of conscience and good faith. . . . Thus while "equity does not demand that its suitors shall have led blameless lives," *Loughran* v. *Loughran*, 292 U.S. 216, 229, as to other matters, it does require that they shall have acted fairly and without fraud or deceit as to the controversy in issue. . . .
>
> This maxim necessarily gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant. . . . Accordingly one's misconduct need not necessarily have been of such a nature as to be punishable as a crime or as to justify legal proceedings of any character. Any wilful act concerning the cause of action which rightfully can be said to transgress equitable standards of conduct is sufficient cause for the invocation of the maxim by the chancellor.
>
> Moreover, where a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportions. For if an equity court properly uses the maxim to withhold its assistance in such a case it not only prevents a wrongdoer from enjoying the fruits of his transgression but averts an injury to the public. The determination of when the maxim should be applied to bar this type of suit thus becomes of vital significance. . . .
>
> In the instant case the patentee has sought to enforce several patents and related contracts. Clearly these are matters concerning far more than the interests of the adverse parties. The possession and assertion of patent rights are "issues of great moment to the public." *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238, 246, 265, 278. A patent by its very nature is affected with a public interest. . . . A patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity.

The Decisions on Section 112(1) of the Patents Act

The agreement before the House of Lords in the *Tool Metal Case*[33] provided that, in addition to the royalty reserved, the licensee was to pay a sum called "compensation" if, in any one month during the continuance of the licence, the aggregate quality of certain hard metal alloys sold or used by it (other than alloys supplied by the licensor and made under the subject

[32] 324 U.S. 806 at 814-16 (1945).
[33] (1955) 2 All E.R. 657.

patents) exceeded a named quota. The House held (with Viscount Simonds in energetic dissent) that the agreement offended neither paragraph (a) nor (b) of the British progenitor of the Australian s. 112(1). In the view of the majority, although the agreement offered a commercial and financial inducement as to the licensee's selection of its source of supply there was no condition with the effect of a "prohibition" or "restriction" as to dealings with third parties for paragraph (a), nor a condition with the effect of a "requirement" of dealings with the licensor for paragraph (b). These terms were all seen as applicable to conduct which was obligatory in the legal rather than commercial or "practical" sense. This approach may be compared to that of the Supreme Court of Eire in re *Thomas Hunter Ltd.'s Patent*.[34] In that case an English company held an Irish patent for a machine which sealed lids on Jam jars. An Irish company entered an agreement whereby it hired a machine "but without any right of user of the patent". However, the canny patentee sold raw (unpatented) jar lids each of which contained a licence to the "first purchaser" thereof to use the patented machine. The Court held that the prohibition in the hiring agreement was void under the Irish equivalent of s. 112(1). First, it "had the effect" of restricting the licensee from using lids supplied by other firms, and secondly its effect was to force the purchase of lids from the patentee. Further, the reference in s. 112(1) to the offensive matter being a "condition" in a contract was not to conditions in the strict sense; any contractual *term* might satisfy, even if only a warranty. It will be observed that "condition" appears in s. 47(2) of the Trade Practices Act in the confusing collocation "on the condition, or subject to a contract, arrangement or understanding".

Section 51(3) of the Trade Practices Act

This sub-section is of the first importance in assessing the impact of the restrictive trade practices legislation upon licences of industrial property. It must therefore be set out in full:

> (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 authorizing the use of a certification trade mark—to any provision included in the contract in accord-

[34] (1965) R.P.C. 416.

ance with rules applicable under Part XI of the *Trade Marks Act* 1955-1973; 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 authorized by the contract to use the trade mark subject to registration as a registered user under Part IX of the *Trade Marks Act* 1955-1973—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.

Section 51(3) says nothing as to licences of common law trade marks or trade names, or, more importantly, licences of know-how and confidential information. This means that restrictions which must of legal and commercial necessity be included in such arrangements will, on their face, fall within e.g., s. 45(2), unless deemed by s. 45(4) not to be in restraint of commerce.[35] The uncertain reassurance of s. 45(4) will no doubt cause many parties to seek clearances under s. 92. This lacuna in the Act presents a critical problem for those dealing in confidential information. The continued viability of the licensor's rights to protection of confidential information at general law requires it to remain secret and out of the realm of common knowledge; hence it is usual to include in the licence agreement restraints upon disclosure by the licensee, and these may fall within the terms of s. 45(2). However, the better view is that they are not contracts, agreements or understandings in restraint of trade or commence. In sum, conditions of non-disclosure in know-how agreements are words of limitation necessary to mark out the estate to be taken by the grantee; not restrictive conditions upon his enjoyment of that estate.[36]

Several further preliminary issues deserve comment: (*a*) Section 51(3) looks to a "contravention" of Part IV of the Act, not to the issue of whether *inter partes* a pre-existing contract is unenforceable under s. 45(1); a recent amendment (by Act No. 63 of 1975, which came into operation on June 19, 1975) adds subs. (4) to s. 51 and makes it clear that subs. (1) also applies to issues of unenforceability; (*b*) nothing in s. 51(3) has any effect upon what otherwise would be a contravention of s. 46 (monopolization) or s. 48 (resale price maintenance); (*c*) s. 51(3) fixes upon the current state of industrial property; it relates exclusively to present registered trade marks, designs, copyrights and patents, together with applications for patents and designs, so that at the time when the Act is enforced this subsection cannot be used, for example, to gain protection for agreements to assign or licence future patents or patents for future improvements; (*d*) the subsection saves "conditions" in patent, design or copyright licences or assignments, but "provisions" in registered trade mark user agreements; presumably no distinction of fiendish subtlety is intended and what is meant by both words is "terms", in the same sense as above observed in interpretation of s. 112 of the Patents Act; (*e*) assignments as well as licences of patents, designs and copyrights are

[35] S. 45(4) states that "A contract, arrangement or understanding . . . is not in restraint of trade or commerce for the purposes of this Act unless the restraint has or is likely to have a significant effect on competition between the parties to the contract, arrangement or understanding or on competition between those parties or any of them and other persons".

[36] S. 8(5) of the Restrictive Practices Act 1956 (U.K.) exempted certain agreements for exchange of information relating to manufacturing processes, patented or unpatented. In Australia *cf.* Income Tax Assessment Act 1936 s. 6 (definition of "royalty"), and Bankruptcy Act 1966 s. 138(2).

within the subject matter of s. 51(3); registered trade marks may be assigned with or without goodwill in the manner described in Part X of the Trade Marks Act, but the inscrutable legislature has not included assignments within the ambit of s. 51(3), so that they are fully exposed to the problems of Part IV and thus in the same position as confidential information and common law trade marks generally; (*f*) the reference in s. 51(3)(a)(i) to "a licence granted . . . by . . . the licensee . . . of a patent" etc. presumably is an attempt to bring within the umbrella of the subsection not only licences but also sub-licences; (*g*) it is reasonably clear on a fair reading of the whole of s. 51(3) that the industrial property there referred to is limited to that created pursuant to Australian statutes; thus, an agreement may deal with Australian and New Zealand patents together, and may affect trade or commerce within Australia or between Australia and places outside Australia within the definition of trade and commerce in s. 4(1); hence s. 45 or other provisions of Part IV may be attracted; (*h*) two consequences follow from the situation last noted; the first is that the New Zealand industrial property will be outside, the Australian within, s. 51(3); the second is that if the supporting obligations of the licensee of the kind usually seen in these licences are expressed indifferently in respect of all the licensed rights, not even the Australian element may be saved by s. 51(3), because the conditions do not "relate exclusively" to the working of the Australian rights.

Licences of registered trade marks present particular difficulties in interpretation of s. 51(3). The exemption in favour of registered trade marks (in Parts A and B of the register under the Trade Marks Act) is in the terms of s. 51(3)(c) limited to contracts "subject to registration as a registered user under Part IX of the Trade Marks Act 1955". The phrase "subject to registration" may be used with a temporal meaning, i.e., requiring registration to take place before the exemption under s. 51(3)(c) arises, or in the sense of a licence which is susceptible of registration although not necessarily registered, or may rather look to a term of the licence requiring registration as a condition precedent or subsequent to the licence coming into force as between the parties. In this regard it must be observed that not all trade marks may be subjects of registered user agreements, or, more accurately, the Registrar may properly decline to register licences of trade marks which by reason of information conveyed on their face will be inherently deceptive on the goods of any but the registered proprietor. This the High Court decided in respect of the Smirnoff Vodka label.[37] Such licence agreements, absent some expansive meaning of "subject to registration", will be outside s. 51(3). Further, a licence which, although it might be registered, is not registered may well be outside the sub-section, and, in addition, the result of non-registration may be to imperil validity of the mark under the Trade Marks Act.[38]

"Relate Exclusively"

As intimated above, these words, and the disjunctive "or" between sub-paragraphs (iv) and (v) of paragraph (a) and between paragraphs (b) and (c), cause much difficulty in the construction of s. 51(3)(a). The phrase suggests that a condition of the licence or assignment will not qualify if it relates not only to one of the criteria listed but to more than one of these, although not to anything else. Thus, provisions in an agreement whereby both

[37] *Heublein Inc.* v. *Continental Liqueurs Pty. Ltd.* (1960) 103 C.L.R. 435.

[38] See *Kerly on Trade Marks* (9 ed. 1972) 267-70, *re Caprice Foundations Pty. Ltd.* (1964) N.S.W.R. 432.

patents and designs (although not know-how) were licensed, and which governed the obligations of the licensee in respect of both patents and designs, could not be disregarded by reliance on s. 51(3). It follows, *a fortiori*, and even if sub-paragraphs (iii), (iv) and (v) are to read, not disjunctively, but conjunctively, that provisions dealing with know-how as one of the licensed rights as well as with patents (as often will be the case) will be outside s. 51(3).

Suppose further that the licence deals with patents for future improvements and applies to them the same provisions as govern the licence therein granted of existing patents. The future patents are but an expectancy; there may be improvements, these may lead to further patents, but at present these are neither patents nor applications therefor. Thus, on the hypothesis put, the subject provisions would fall outside s. 51(3)(a).

Furthermore, one cannot readily attribute these unfortunate consequences of the phrase "relate exclusively" to legislative inadvertence. For the phrase occurred in a similar context in ss. 38 and 35 respectively of the Trade Practices Acts of 1956 and 1971, and its singularity had had the attention of learned commentators.[39] It should also be noted that there is no clear support in the 1974 Act for severance of a mixed agreement in the sense under consideration. The general difficulty with the concept of severance in the application of the new Act has been analysed by Professor Heydon.[40]

It may seem a simple answer to have several instruments each dealing with separate subjects of industrial property; but this may not always be commercially expedient, and revenue considerations may in a particular jurisdiction dictate use of a composite document. If separate instruments are used, is this sufficient to save from contravention of, e.g. s. 45, those dealing with industrial property in the terms of s. 51(3), on the basis that they are independent "contracts" as described in the opening words of paragraphs (a), (b) and (c) of that sub-section? They might, together with a know-how licence instrument, all be part of an arrangement or understanding for the purposes of s. 45, but it would seem that in assessing whether the know-how instrument contravened that section, regard could not be had to the other matters in the s. 51(3) instrument. But that is not to say that the Commission in deciding whether to grant a clearance of the know-how instrument under s. 92 should no properly have regard to the whole arrangement or understanding. Indeed, failure to disclose the s. 51(3) instruments, when seeking that s. 92 clearance might well be to mislead the Commission within the meaning of s. 92(3). It must be emphasised that the effect of s. 51(3) is not to withdraw subject matter within its operation from the purview of all provisions of the Act.

The Subject Matter of the Exclusive Relation

Sub-paragraphs (iii), (iv) and (v) of s. 51(3) speak respectively of the subject *invention* and *articles* made by its use,[41] *goods* to which the design is applied, and the *work* in which the copyright subsists. It follows from this that, for example, licence agreements which deal with only one subject matter of industrial property, but go on to tie in various collateral obligations or advantages not otherwise secured by the monopoly given by the industrial property concerned, will contain provisions not relating to the subject matter of s. 51(3). Section 8(4) of the Restrictive Practices Act 1956 (U.K.) con-

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[39] See Masterman and Solomon, *Australian Trade Practices Law* 187.

[40] In "Section 45: Contracts Arrangements and Understandings in Restraint of Trade", *Australian Business Law Review* (forthcoming).

[41] This difference is of importance with process patents; for the subject of the invention and the articles made thereby will be quite distinct in character.

tained an exemption (from registration) in favour of restrictions in patent and design licences and assignments in respect of the "invention to which the patent . . . relates, or articles made by the use of that invention". These words are followed in the Australian s. 51(3)(a)(iii). Of the limits to be placed by these words, the leading British text states:[42]

> [I]f the licensee, in the licence, agrees to accept other restrictions, for example, if he accepts provisions relating to the prices and conditions of sale of other articles manufactured by the licensor, then, provided that the requirement as to two or more parties is satisfied . . . the licence agreement will be registrable. An example of such additional restrictions is provided in the Monopolies Commission's report on electric lamps: the licensee agreed, in that instance, not to supply any articles of type, size, characteristics and finish which differed from those sold by the licensor. . . . [I]n certain industries patent holding companies are established to hold, and grant licences under, all the patents of a group of companies. In such cases any licence, to be exempt, must only impose restrictions limited to the particular invention, or articles made by the use of the intention covered by any particular licence. A further instance where the exemption would not apply would be if a manufacturer were to fix the price of an article incorporating some small patented device covered by a licence. Or again, a restriction accepted by a patentee, as, for example, . . . not to produce competing goods, would not be within the exemption.

Further, it is to be borne steadily in mind that the provision in question must relate exclusively to the invention or articles made by its use; s. 51(3) does not speak of conditions relating exclusively to *the patent*, which in terms of s. 69 of the Patents Act grants the monopoly to make use exercise and vend the invention. A provision may embody some bargain between the parties as to the exercise of the monopoly in respect of the invention but not relate exclusively either to the invention itself or to the articles produced by using it. An example would be a covenant in a licence agreement whereby the patentee undertook not to grant further licences of the patent without the consent of the licensee. In the same way, a covenant by the licensee not to challenge validity of the patent during the term of the licence, which is apparently valid at common law,[43] relates not to the invention but to the patent for the invention. It is to be observed that such clauses are often used to maintain significant restrictions on competition where the parties concerned realise the relative weakness of the validity of the licensed patents.

Particular Licence Provisions

In summing up, one may briefly examine the present standing of several clauses of a type frequently encountered in industrial property licences.

(1) *Territorial limitations.* The licensee may be confined to selling the goods concerned within an area less than the whole of Australia. If the licence be of a registered trade mark, such a condition does not relate exclusively to "the

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[42] Lord Wilberforce and Ors, *Restrictive Trade Practices and Monopolies* (2 ed.) 298-9.

[43] See Blanco White, *Patents for Inventions* 3 Ed., 300; a covenant unlimited in time might not stand at common law. A wider view has been taken in the United States where the Supreme Court, speaking through Harlan, J., held that it would be contrary to public policy to prevent any licensee disputing his obligation to pay royalties upon what might be an invalid patent monopoly: *Lear Inc.* v. *Adkins* 395 U.S. 653 (1969). It had earlier been established a licensee might dispute validity if the licence contained other restrictions arguably unlawful under the anti-trust laws: *Sola Electric Co.* v. *Jefferson Electric Co.* 317 U.S. 173 (1942). The 1969 decision, of course, is in general terms and goes much further.

kinds, qualities or standards of goods bearing the mark", and so it is not within s. 51(3)(c) and must take its chances under s. 45, or possibly s. 47. If the licence be of a patent, then arguably the clause is within the more general expression "articles made by the use of the (subject) invention" in s. 51(3)(a).

(2) *Royalties.* The obligation to pay royalties is *per se* innocuous; one difficulty arises from the collateral advantages sought to be attached whereby observance of conditions favourable to the licensor (e.g. concurrent production of non-patented items) diminish the quantum payable and the reverse increases it. In patent licences s. 112 may avoid such conditions; and they may, according to their terms attract ss. 45, 47, 48 or 49. In addition, it seems feasible to fix an abnormally high royalty to ensure that the licensee does not undersell the licensor. Attempts in the United States to treat such an arrangement as a price-fixing scheme have recently succeded.[44] In Australia, the royalty rate *per se* appears protected by s. 51(3), and even if this were not so, the price discrimination provision, s. 49, speaks of discrimination between "purchasers of goods", words inapt to deal with an obligation imposed on a licensee making for himself the patented goods.

(3) *Limitation on Other Grants.* A condition that the licensor shall not grant other licences or himself compete with the licensee, or that the licensee shall not sub-license, is probably, as indicated above, outside s. 51(3)(a)(iii) (dealing with inventions), and certainly outside the other paragraphs of the subsection, and so exposed to s. 45.

(4) *Identification of Products.* Obligations concerning the identification and marking of products by the licensee, occur in many industrial property licences. Section 124 of the Patents Act clearly encourages the practice. The licensor has a legitimate interest to support his goodwill by ensuring that the products concerned are clearly shown to owe their origin to his patent design or copyright, or are marked with his trade mark. Such provisions would appear clearly to fall within s. 51(3) and in any event it is hard to see how such a provision without more could be more than *de minimis* in restraint of trade or commerce.

(5) *Quality and Materials Control.* It is in the public interest that quality controls be observed in patented and trade marked products—s. 51(3) appears to accept this. But the protection gained thereby may be lost if the "true effect" of such provisions is to force the licensor's raw materials (s. 47(2)—see para. (a)(iii) of the definition of "services" in s. 4(1)). And, subject to the interpretation to be given here to the words "a condition the effect of which would be . . .", s. 112 of the Patents Act may hold some terrors.

(6) *Competing Products.* Restrictions upon the licensee manufacturing competing products or taking licences of third party's patents competition with the licensee patent, or licences of competing trade marks, must fall outside s. 51(3), and within s. 45.

(7) *Improvements and Grant Backs.* As already indicated, s. 51(3) deals only with property rights already in existence, or at least the subject of applications for grant. Thus, an obligaiton on a licensee to grant back to the licensor patentable improvements will be outside the protection of s. 51(3). Such provisions are thus open to the criticism that they are in restraint of trade and commerce as removing the incentive for the licensee to seek to advance the state of the art. Thus, a clearance should be sought. In the United States the Supreme Court has to date refused to hold grant-back covenants illegal.[45]

[44] *American Photocopy Equipment Co.* v. *Rovico Inc.* 359 F. 2d. 745 (1966).
[45] *Transwarp Corporation* v. *Stokes Co.* 329 U.S. 637 (1947).

reasoning that if the licensor is not obliged to grant a licence in the first instance, it would be imprudent for him not to protect his patent rights by such provisions. In the future, argument may be expected that sufficient protection in the United States would be given by a non-exclusive royalty free licence of the improvement.[46]

Conclusion

No professional adviser dealing with industrial property may overlook the possible application to the matter in hand of the legislation now found in the Patents Act and Trade Practices Act and designed to regulate the use and exploitation of that property. All licences and assignments must be carefully scrutinised; it may be advisible, or indeed imperative, to obtain clearances in many more cases than has so far been deemed appropriate. For s. 51(3) has a far narrower exemptive operation than appears on a first reading, and where s. 112 of the Patents Act applies its effect is drastic. Further, there is now a detailed legislative pattern to restrain what might be called abuse of industrial property rights, so that cross-licensing arrangements, aggregation of numerous patents in the one hand and use of infringement suits to shut out competition can no longer be taken as unimpeachable use of industrial property for commercial betterment. In such cases the risk is not only of specific proceedings under the anti-trust law, but of a suspension of the property owner's rights to enjoin infringement, by adaptation into Australian equity jurisprudence of the American "patent misuse" doctrine.

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[46] See generally, Keating, "The Patent Monopoly Versus Antitrust Activism: Open Warfare or Armed Truce?" (1972) 77 *Dickson L.R.* 1, Kidwell, "Patent-Right Interchange and Antitrust Policy: Defining the Interfacte" (1972) 43 *Univ. of Colorado* L.R. 369.