Monash University

From the SelectedWorks of Tyrone Berger

2015

Road to failure is paved with good excuses: Calls (again) to repeal s 51(3) of the Competition and Consumer Act 2010

Tyrone Berger, Monash University

Available at: https://works.bepress.com/tyrone_berger/20/
Road to failure is paved with good excuses: calls (again) to repeal s 51(3) of the Competition and Consumer Act 2010

Tyrone Berger  
MONASH UNIVERSITY

From the outset of the Commonwealth Government announcing a “root and branch” review into Australia’s competition policy on 4 December 2013 (Harper Review), many observers were left with little doubt that the “IP exception” under s 51(3) of the Competition and Consumer Act 2010 (Cth) (CCA) would come under attack again.

On 27 March 2014, the Competition Policy Review commenced with the release of its Terms of Reference, revealing that the:

Review Panel is to inquire into and make recommendations on appropriate reforms to improve the Australian economy and the welfare of Australians … in regard to achieving competitive and productive markets throughout the economy.

Key points of the review

• The Final Report was released on 31 March 2015, and is now under consideration by the Commonwealth Government.
• The review panel recommends repealing CCA s 51(3) (Recommendation 7), and for the Productivity Commission to undertake an “overarching review of intellectual property” in Australia (Recommendation 6).
• The review panel considers it appropriate that commercial transactions involving IP rights should be subject to the CCA in the same manner as other property and assets.

Background

There are a number of exemptions to CCA Pt IV (Restrictive Trade Practices) contained under s 51. For example, s 51(3) attempts to balance out the tensions between the competition provisions and the exclusive rights granted under a statutory IP regime, but it does not restrict the application of ss 46 and 46A with respect to taking advantage of substantial market power.

Calls for s 51(3) to be repealed or substantially narrowed can be traced back to the National Competition Council’s Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974 in 1999. Since then, several reviews have concluded that the current construction of s 51(3) has been seriously flawed and unclear; however, despite these many calls, successive governments have failed to bring about any change.

The difference this time, however, is the widespread consensus supporting moves to abolish s 51(3). As a concession of sorts, the panel has offered its backing for a “block exemption”, establishing a so-called “safe harbor”, in its place to operate at the discretion of the ACCC (Recommendation 39). The fate of s 51(3), along with more controversial reforms to s 46, now rests with the Commonwealth Government.

The law and its discontents

Section 51(3) provides a limited, rather than a general, exception for IP rights. That is, it relates to the “conditions” in licences and assignments only to the extent they “relate to” certain subject matter. The only case to consider the exception is Transfield Pty Ltd v Arlo International Ltd. Transfield entered into an exclusive sub-licence to make and use a patented process for the construction of electric poles. The licence contained a “best endeavours” clause whereby Transfield agreed to develop and promote the “greatest possible market for the [patented poles]”. It was alleged by Arlo that Transfield had breached this condition by adopting its own pole in relation to a tender with the Electricity Commission of NSW. Transfield argued that the best endeavours clause was an anti-competitive provision in breach of s 45, since it limited Transfield’s ability to manufacture or sell competing poles. Arlo argued that even if the clause had breached s 45, s 51(3) operated to exempt it from the then Trade Practices Act 1974 (Cth).

The High Court held that the clause did not contravene s 45, however two of the five judges went on to consider s 51(3) in this context. Mason and Wilson JJ held that the best endeavours clause was “a condition of a licence granted by the proprietor of a patent” and it did “relate to” articles made by use of the patented invention. According to Mason J, conditions imposed to
protect a patentee’s legal monopoly will fall under s 51(3), but where there are any conditions, which gain the patentee, some collateral advantage, s 51(3) will not apply.12

Therefore, the exemption only extends to the scope of the IP grant, and applying the test enunciated by Mason J in Transfield; it does not extend to any “collateral advantage” the parties may gain through licence or assignment. For example, an obligation on the licensee to “grant back” or licence back improvements will not be covered by the s 51(3) exemption since it does not relate to the scope of the patent.13 A licence back condition, which in effect represents a non-exclusive licence, will also not substantially lessen competition.

There are, in addition, a number of features to s 51(3) which limit its operation. First, s 51(3) only applies to statutory intellectual property, and not to “know how” or confidential information.14 Second, the exception only applies to quality control issues in relation to trade marks. Leaving aside the special category of certification trade marks, s 51(3)(c) exempts provisions in contracts, arrangements or understandings between the registered owner of the trade mark and a “registered user” under old legislation, the Trade Marks Act 1955 (Cth). Since the current Trade Marks Act 1995 (Cth) does not provide for registered users, this provision is now redundant.

Third, s 51(3)(a)(v) relates to the works or other subject material in which copyright subsists. However, copyright does not subsist in reproductions, and as Professor Ricketson points out, to fall within s 51(3) the condition must relate to the original work in which copyright subsists.15 As a consequence, the exception is rendered meaningless in respect to copyright. And finally, its operation is concerned with “conditions” in assignments or licences, and notably, does not exempt the assignments themselves, nor the underlying agreements between competitors that choose to accept an IP licence.

Behind the review panel’s recommendations

As mentioned, the panel was unequivocal in its recommendation to repeal s 51(3).16 Yet, for the sake of completeness let us take a look at the panel’s reasoning. The topic, Intellectual Property is given its own chapter in the Final Report, which seems to align with the panel’s introductory remarks “that Australia’s IP rights regime is a priority area for review”.17 Furthermore, the panel was quick to recommend that the Productivity Commission undertake an “overarching review of intellectual property” (Recommendation 6).18

The panel highlights two key themes. First, technological change (including disruptive technologies) has increased the necessity for current laws to keep pace with the new regulatory environment.19 And second, the panel believes that the IP system should “be designed to operate in the best interests of Australians”.20 At issue, for the panel, was “how closely tests for allocating IP rights are linked to ‘public benefits’”; especially in light of recent evidence suggesting that innovation can occur without IP protection.21

The panel also sought to draw attention to a number of submissions on the subject of balancing the granting of IP rights and promoting competition. Referring to the panel’s draft recommendation for an overarching review, there were mixed views from both industry and peak creative bodies about the timing for such a review.22

In respect to s 51(3) many submitters, including the Productivity Commission and ACCC, were of one voice on whether commercial transactions involving IP rights should be exempt from the CCA. The ACCC, for example, stated:23

On the use of intellectual property rights, the CCA should apply in the ordinary way. The ACCC recommends that section 51(3) of the CCA should be repealed and that, in general, there is no reason to treat intellectual property any differently to other services in relation to access.

In other areas of the economy, there were reservations about repealing s 51(3). Both the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the International Association for the Protection of Intellectual Property (AIPPI) Australia had concerns towards any moves that would have counterproductive effects on commercialisation activities.24 And, while these matters were duly aired in the Final Report, it seems that more weight was placed on the conclusions of past inquiries.

Good excuses or bad law?

The concern (now and past) for the government is achieving a balance between the granting of IP rights, which seek to increase incentives for R&D investment, and curbing any anti-competitive effects arising from increased market power. Encouraging firms to innovate is normally seen as an underlying justification of IP rights; but this is also a key goal of competition policy.25 Whether IP rights raise competition concerns must be viewed in terms of the nature of the rights, and the IP holder’s conduct in respect of those rights. A cursory examination of the operation of s 51(3) reveals its failure to take into account the intricacies of IP laws.

In March 2013, the Productivity Commission delivered its latest report into the patent system.26 The Commission, among other things, drew attention to earlier calls for proposed guidelines on s 51(3).27 To date, no guidelines have been released.28 Imposing any
restrictions on licensors to commercialise IP is invariably going to be contentious. Therefore, any reform to s 51(3) should be premised on the basis that neither set of laws has a greater right over the other.

Tyrone Berger
PhD Candidate
Monash University
Tyrone.Berger@monash.edu
www.monash.edu

Footnotes
1. As with most reviews, the reports delivered tend to be identified by the lead investigator; in this case, the panel was led by Professor Ian Harper. Other members of the review panel were Peter Anderson, Su McCluskey and Michael O’Bryan QC.
2. The review into Australia’s competition policy was announced by press release, stating that the “last comprehensive review of competition policy the Hilmer Review was carried out in 1993 and much has changed in Australia’s economy since then”. See Hon Tony Abbott MP, Prime Minister, press release, 4 December 2013, www.pm.gov.au/media/2013-12-04/review-competition-policy.
3. The “Competition Policy Review”, Final Report has its own website, which contains all relevant documentation and submissions to the inquiry, see www.competitionpolicyreview.gov.au.
4. Section 46 prohibits a corporation with a substantial degree of market power from taking advantage of its market power for the purpose of eliminating or substantially damaging a competitor, preventing or deterring a person from entering a market, or engaging in competitive conduct in that or any other market.
7. Competition Policy Review, Final Report, p 405. The proposed test for granting a block exemption would be similar in application to the ACCC’s authorisation and notification processes.
9. According to the panel, no equivalent to s 51(3) exists in the US, Canada or Europe: see Final Report, p 42.
10. Transfield Pty Ltd v Arlo International Ltd (1980) 144 CLR 83; 30 ALR 201; 54 ALJR 323; BC0000079. More recent cases have mentioned s 51(3) by passing reference only: see, NT Power Generation Pty Ltd v Power and Water Authority (2004) 219 CLR 90 at [85]; (2004) 210 ALR 312; [2004] HCA 48;

BC200106480; ACCC v Pfizer Australia Pty Ltd (2015) 110 IPR 324; [2015] FCA 113; BC201500877 at [76]–[79].
11. Generally speaking, s 45 prohibits a provision of a contract with the purpose, effect or likely effect of substantially lessening competition.
12. Above, n 10 Transfield Pty Ltd v Arlo International Ltd at CLR 102–103.
18. Competition Policy Review, Final Report, pp 41 and 104. It is suggested that the focus of the review should be directed towards IP and technology markets and international trade agreements containing IP provisions. For a discussion on a potential “IP review”, see Final Report, pp 111–112.
23. ACCC submission to the review’s Issues paper (released on 14 April 2014), p 58.
27. Above, n 26, p 139.
LexisNexis® eStore Book Club
Get more out of the pages you read

Get exclusive deals, news and reviews on all our books
Sign-up now and be entitled to the following:

☐ Free membership for life means you pay nothing ever.
☐ Discount booklet you can use across all LexisNexis eStore products.
☐ Exclusive chapter and author reviews on upcoming legal titles.
☐ Exclusive invitations to author book signings, launches and events.
☐ Pre-sale offers and additional discounts to help you save more.