

**3 March 2020**

Mr Paul Gardner  
Acting Director, Domestic Policy & Legislation  
IP Australia  
Discovery House  
47 Bowes Street  
PHILLIP ACT 2606

**By email:** paul.gardner@ipaustralia.gov.au

Dear Mr Gardner

**Patents Act 1990 (Cth) – section 144**

1. This submission is made by the Intellectual Property Committee of the Business Law Section of the Law Council of Australia (the **Committee**) to IP Australia regarding section 144 of the *Patents Act 1990* (Cth) (the **Patents Act**).
2. The Committee proposes that section 144 of the Patents Act should be repealed for the reasons set out below.
3. Section 144 prohibits a condition in a contract relating to the sale or lease of, or a licence to exploit, a patented invention where the effect of the condition would be to prohibit or restrict the buyer, lessee or licensee from using a product or process supplied by or owned by a third party or to require the lessee or licensee to acquire a product falling outside the scope of the patent from the seller, lessor or licensor.
4. Section 144 also provides that the existence of a void condition of the type noted above is a defence to a patent infringement proceeding whether or not the void condition is contained in a contract between the patentee and the alleged infringer or a contract between the patentee and a third party. Thus, the effect of section 144 is potentially quite extreme.
5. The justification for the English precursor to section 144 appears to be that:

*[Patentees were]...in the habit of only supplying the patented article on the terms of the purchaser buying something else from him. That was something which was thought – rightly or wrongly – to be objectionable.<sup>1</sup>*

6. More recently in *Fichera v Flowgates Ltd* ([1984] RPC 257, at 626) the rationalisation was given that the equivalent provision from the *Patents Act 1907* (UK) was "...to

---

<sup>1</sup> *Sarason v Frenay* [1914] 2CH 474.

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

7. These “evils” to which the section is directed are now dealt with by the restrictive trade practices provisions of the *Competition and Consumer Act 2010* (Cth). In particular, section 45 of that Act prohibits all contracts, arrangements, understandings and concerted practices which have the purpose or the effect or likely effect of substantially lessening competition in a relevant market. In more specific terms, section 47 prohibits the supply of goods or services on condition that the acquirer does not acquire from a competitor of the supplier or must acquire particular goods or services from a third party where there is the proscribed purpose, effect or likely effect. Finally, section 46 of the Act prohibits a person with a substantial degree of power in a market from engaging in conduct which has the purpose, effect or likely effect of substantially lessening competition in a relevant market. In each case, the Act also allows for the possibility that the otherwise prohibited conduct either does not have the proscribed effect or has public benefits which outweigh any anti-competitive effect.
8. The UK equivalent of section 144 of the Patents Act (section 44 of the *Patents Act 1977* (UK)) has been repealed but for agreements entered into before 1 March, 2000. The repeal was effected by the *Competition Act 1998 (Transitional, Consequential and Supplemental Provisions) Order 2000* (UK). The rationale for the repeal was that the provisions of the *Competition Act 1998* (UK) and Article 81 of the Treaty of Rome establishing the European Economic Community dealt with restrictive practices.
9. The Intellectual Property Advisory Committee chaired by John Stonier and which handed down its report in 1986 recommended that subsection 51(3) of the then *Trade Practices Act 1974* (Cth) be repealed and that section 112 (now section 144) of the Patents Act also be repealed “leaving those matters to be regulated by the *Trade Practices Act*.” The recommendations were not accepted.
10. In 2000, the Intellectual Property and Competition Review Committee (the **Ergas Committee**) again recommended that subsection 51(3) be repealed along with section 144 of the Patents Act. The Ergas Committee noted that the conduct targeted by section 144 was not necessarily anti-competitive and in most instances can in fact be efficiency enhancing.
11. In 2015, the Competition Policy Review (the **Harper Review**) again recommended that subsection 51(3) be repealed. In conjunction with that recommendation, the Harper Review also considered at p. 42:

*However, as is the case with other vertical supply arrangements, IP licences should remain exempt from the per se cartel provisions of the CCA insofar as they impose restrictions on goods or services produced through application of the licensed IP.*

12. That is, the Harper Review considered intellectual property licensing arrangements should be subject to the general competition test, not *per se* exemptions nor restrictions.
13. The repeal of section 144 of the Patents Act is also consistent with the Harper Review recommendation (recommendations 32 and 33) to repeal subsections 47(6) and (7) of

the Competition and Consumer Act so that the current *per se* restrictions on third line forcing should be repealed so that all vertical trading restrictions are prohibited only where they have the purpose, or are likely to have the effect, of substantially lessening competition. See also Harper Review pp. 372 - 374.

14. In its 2015 Response, the government accepted both recommendations 32 and 33 and the recommendations were implemented by Schedule 7 of the *Competition and Consumer Amendment (Competition Policy Review) Act 2017* (Cth).
15. Similarly, the Productivity Commission in recommendation 15.1 of its *Final Report into Intellectual Property Arrangements* recommended the repeal of subsection 51(3) "at the same time as giving effect to recommendations of the (Harper) Competition Policy Review on the *per se* prohibitions."
16. Accordingly, the repeal of section 144 is consistent with all significant competition policy reviews since at least 2000.
17. With the removal of subsection 51(3) of the Competition and Consumer Act 2010 (Cth), tie-ins are now exposed to both the cartel and restrictive trade practices provisions of that Act. This allows for tie-ins to be assessed for their effect on competition (whether it be anti-competitive or pro-competitive) and whether or not they give rise to any public benefit. It is therefore appropriate that section 144 be repealed so as not to foreclose arrangements which have no anti-competitive effect or those which have a pro-competitive or beneficial effect.

#### **Conclusion and further contact**

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

Yours faithfully



**Greg Rodgers**  
**Chair, Business Law Section**