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Not patently obvious

HOLDERS OF PATENTS AND THE AUSTRALIAN TRADE PRACTICES ACT

Many holders of patents (and some intellectual property lawyers) do not realise that the exercise of patent rights is constrained by the provisions of the Australian Trade Practices Act 1974. In particular, the monopolisation section of the Trade Practices Act (section 46) may well be infringed if the holder of a patent refuses to grant a licence to a party that requests one. This bulletin discusses how economic analysis can play a vital role in a court's decision in such cases.

Some patent holders believe that the rights granted by their patents confer a sort of exempt status from the normal legal framework in which they operate. However, this is not the case. The *Australian Trade Practices Act 1974* (the Trade Practices Act) is the legal instrument that governs how the marketplace operates and so is of primary importance to patent holders. So how might a patent holder infringe this Act? We look at the case law below.

WHAT IS THE LAW?

The principal monopolisation provision of the Trade Practices Act is section 46(1). It states that a corporation infringes the section if it:

- has a substantial degree of market power;
- undertakes conduct by which it takes advantage of that power;
- with the purpose of substantially damaging a competitor or potential competitor.

Although there are provisions to exempt conduct from the reach of this proscription, these exemption provisions do not apply to patents. It is absolutely clear that the monopoly rights granted by patents can be the basis of an infringement of the monopolisation provision of the Trade Practices Act.

Section 46 does not prevent the charging of a high price. It does not strike at "monopolists" or those in a "monopolistic position". Nor does it look to attain a commercially reasonable result. Charging a price that is dependent on one's market power will constitute a taking advantage of that market power; but the conduct will not be for damaging a competitor. Indeed, the charging of a high price will be more likely to benefit one's competitors rather than damage them.

The exception to this generalisation is if a monopoly input supplier competes in a downstream market. In that case, charging a high price for the input may damage a competitor in the downstream market and, by this means, infringe s46.

DOWN TO THE WIRE

This was the situation in the seminal case under s 46: *Queensland Wire Industries Pty. Ltd. V. The Broken Hill Proprietary Company Limited & Anor* (1989) 167 CLR 177. In that case, BHP was found to infringe s 46 because it charged such a high price for Y-bar that it had constructively refused to supply this input to Queensland Wire Industries, which was its competitor in the downstream rural fencing products market. The High Court had no hesitation in upholding the finding of the Court at first instance that BHP's constructive refusal to supply was for one of the proscribed purposes.

Because purpose is readily established, most of the heavy lifting in deciding claims under s 46 is done by the requirement for a firm to 'take advantage' of its market power. This requires proof of a causal connection between the market power and the conduct that is said to infringe. As Mason CJ and Wilson J stated in *Queensland Wire*:

> *In effectively refusing to supply Y-bar to the appellant, BHP is taking advantage of its substantial market power. It is only by virtue of its control of the market and the absence of other suppliers that BHP can afford, in a commercial sense, to withhold Y-bar from the appellant. If BHP lacked that market power – in other words, if it were operating in a competitive market – it is highly unlikely that it would stand by, without any effort to compete, and allow the appellant to secure its supply of Y-bar from a competitor.*

A patent holder cannot defend itself against an allegation that it has infringed s 46 by arguing that its refusal to grant a licence is a use of a property right rather than a use of its market power. As Dawson J pointed out in *Queensland Wire*:

> *Nor is it helpful to categorise conduct, as has been done, by determining whether it is the exercise of some contractual or other right. …The fact that action is taken pursuant to the terms of a contract has no necessary bearing upon whether it is the exercise of market power in contravention of s 46.*

The High Court made similar remarks in *NT Power Generation Pty Ltd v Power and Water Authority* (2004) ATPR 42-021:

> *Further, to suggest that there is a distinction between taking advantage of market power and taking advantage of property rights is to suggest a false dichotomy, which lacks any basis in the language of s 46. As already discussed, property rights can be a source of market power attracting liability under s 46 and intellectual property rights are often a very clear source of market power.*

IS REFUSAL TO LICENCE LIKELY TO INFRINGE S 46?

Although *Queensland Wire*, involved a refusal to supply, a mere refusal to supply or license is unlikely to infringe s 46 because such a refusal would usually not be for one of the purposes proscribed in s 46. A refusal to supply is most likely to infringe s 46 if the owner of the patent is also a competitor in the market where the party that is refused supply is competing.

Following *Queensland Wire*, Australia has had a raft of refusal to supply cases. There have been some refusal to license cases but none of these has proceeded to judgment. However, the ACCC has shown an interest in the matter in the past and, on one occasion, went so far as to issue proceedings before the matter was settled.

In the first matter, the Australian Competition and Consumer Commission (ACCC) issued proceedings against the Commonwealth Bureau of Meteorology (BOM). The BOM had refused to license a potential competitor in the supply of weather forecast data to newspapers. The ACCC alleged that this refusal to supply infringed s 46. However, the case was settled prior to trial when the BOM agreed to make the data available.

At about the same time, the ACCC formed the opinion that Telstra had breached s 46 by refusing to license third parties who wished to use its Yellow Pages database to compete with Telstra in producing directories. The ACCC decided not to issue proceedings after extracting an undertaking from Telstra that it would supply the data to potential competitors on terms approved by the ACCC.

WHERE DOES THE ECONOMICS FIT, HYPOTHETICALLY SPEAKING?

The various refusal to supply cases under s 46 suggest that it is only a matter of time before Australia experiences the trial of a patent owner who refuses to grant a licence. In order for the refusal to infringe, the patent owner would have to be competing with the applicant – probably in a downstream market.

When confronted by such an allegation, a patent owner could argue that it did not have the requisite degree of market power and/or that its refusal to license did not constitute a taking advantage of its market power. Economists can help answer both of these questions: the first is the bread and butter of competition economists while the second involves an analysis of the firm's business.

A patent does not necessarily confer on its owner great market power: the patent may relate to a minor part of the activities of its owner or the commercial life of the patent may be very short. However, the various obiter referring to patents as sources of market power suggest that it may be difficult to sustain a claim that a firm that was undertaking conduct contingent upon a patent did not have the requisite degree of market power to infringe the section.

The more-likely form of defence would be to claim that the conduct did not constitute a taking advantage of market power. Firms can generate profits in two ways: (i) by using their market power; or (ii) by undertaking conduct that is economically efficient. One way of defending oneself against an allegation that the conduct constitutes a use of market power is to show that the conduct (in this case a refusal to license) is consistent with economic efficiency; to use the language of the United States' courts, one may be able to show that there was a valid business justification for the refusal to license that was unrelated to whether or not the firm had market power.

TO LICENSE OR NOT?

What reasons might a firm give to show that licensing may be inconsistent with the efficiency of its operations? One reason may be that it is very difficult to write efficient contracts. The marginal cost of using a technology that has already been developed is zero. Any licence fee that increases the per-unit costs of the licensee would tend to raise its marginal costs above the marginal costs of the vertically-integrated enterprise (the licensor). To avoid both the disputes to which such 'discrimination' could give rise and the difficulties of negotiating and enforcing a non-distorting contract (that is, a lump-sum contract) the more-efficient solution may be not to license at all.

Whether such arguments were relevant to any real-world dispute would depend on the particular industry in question. What is important is to recognise that economics can assist courts in deciding whether or not conduct (such as a refusal to license) constitutes a use of market power.

This bulletin is based on a paper presented by Philip Williams to the Annual Conference of the Institute of Patent and Trade Mark Attorneys of Australia in April 2010.

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