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INTELLECTUAL PROPERTY RIGHTS AND COMPETITION LAW - THE INTERFACE

Research Paper for Competition Law LL.M.

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I INTRODUCTION

New Zealand law has long protected inventions, trade marks, designs, copyright and other intellectual property rights. Those rights confer on proprietors and their licensees exclusivity of use. In the trading context, for the duration of the rights, the freedom of competitors is restricted to the extent of that exclusivity.

With the passing of the Commerce Act 1986[1] and in particular the trade practices provisions in Part II, New Zealand has introduced, rather late compared with most other developed countries, the legal base for a policy to further competition.

As has occurred in other countries, there will be debated in New Zealand whether there is a conflict between the market exclusivity afforded by intellectual property rights on the one hand and the restrictive trade practices controls on the other. So as not to beg the question as to conflict, the issues are referred to as arising at the interface of intellectual property laws and competition laws.

This paper examines the scope and nature of New Zealand's intellectual property rights with particular reference to their competition implications.

One of the first problems encountered in relating the legal concepts of patent, trade mark and other rights to the economic language of competition policy is that of semantics. In particular the term "monopoly" is used in a different sense in each field. A clear understanding of this use of the same term to convey significantly different ideas is essential to a proper analysis of the issues.

Pengilley, the well known Australian commentator in the trade practices field, has noted in respect of New Zealand's C.E.R. partner, that "if United States experience is any guide, the *Trade Practices Act* will furnish fertile grounds of defence to patent infringement actions".[2] Presumably he would take a similar view in relation to other intellectual property rights. The Commerce Act 1986 is based on the Australian Trade Practices Act 1974 but the two statutes do not deal with the relationship between competition and intellectual property rights in the same way. The fertility of the ground in New Zealand needs separate examination.

The Australian Industrial Property Advisory Committee has recommended that patent rights should be accorded no special treatment whatsoever under trade practices legislation.[3] That is certainly not the present position in New Zealand, nor indeed in Australia.

The paper reviews the relevant sections of the Commerce Act 1986 and examines the scope of the specific exceptions to the restrictive trade practices provisions available to proprietors and licensees in the exercise of their intellectual property rights.

II THE INTERFACE IN POLICY

A. The Two Areas of Law

1. Intellectual Property Rights

The term "intellectual property" has broadened in scope over time. It was taken to refer to the rights conferred by the grant of a copyright in literary, artistic, and musical works.[4] More recently it has taken on a much broader meaning, including among the collection of disparate rights those known as "industrial property".[5]

In the United Kingdom "intellectual property" has been defined by statute. Section 72(5) of the Supreme Court Act 1981 (U.K.) states that "intellectual property" means any patent, trade mark, copyright, registered design, technical or commercial information or other intellectual property.[6]

In this paper the term "intellectual property rights" is taken to mean the proprietary rights conferred by statute in the Patents Act 1953,[7] the Trade Marks Act 1953,[8] the Designs Act 1953,[9] the Copyright Act 1962,[10] and the Plant Variety Rights Act 1987,[11] and also those interests in goodwill, get-up, trade secrets and confidential information, protected at law or in equity by the actions for passing off, injurious falsehood, perhaps even a tort of unfair competition,[12] and breach of confidence.[13]

2. Competition Law

The term "competition law" is taken to include those laws advancing competition policies,[14] the predominant legislation being the Commerce Act 1986.[15] McGonigal has described the economic goal of competition law as being:[16]

> "...to establish a competitive market place in which there will be pressures on participants to make the maximum use of available resources and to search for more efficient management, production and marketing processes or to develop new and better products".

The emphasis of competition policy is on the assumed public interest in free competition between traders, since free competition within markets is assumed to offer the most efficient means of allocating resources and of ensuring that quality goods and services are available to consumers at best prices and in sufficient quantities.[17]

Certain provisions of the Commerce Act 1986 have particular relevance to intellectual property. The Act has as its objective the promotion of competition in markets within New Zealand.[18] The Act does not affect the granting of intellectual property rights, in the sense of overruling the specific statutes which confer the rights. However the Act may affect the way those rights are exercised and restrain the conduct of those holding the rights.

Section 27 of the Commerce Act 1986 prohibits and renders unenforceable contracts, arrangements and understandings which have the purpose or effect of substantially lessening competition in a market. Where the nature of a particular market is such that an intellectual property grant confers significant market power, the licensing or assignment of that right may well be subject to attention under the Act. Section 45 provides that certain provisions of contracts, arrangements or understandings in relation to the use, licensing or assignment of intellectual property rights are exempted from the application of the restrictive trade practices provisions in Part II of the Act.

Section 36 of the Commerce Act 1986 prohibits the use of a dominant position in a market for anti-competitive purposes. It is conceivable that a person may be in a dominant position by virtue of a significant patent or other intellectual property right where substitute products or alternative technologies are not available. A person does not contravene s.36 by reason only of enforcing an intellectual property right. However other actions associated with those rights may be challenged under the restrictive trade practices provisions. An example might be accumulating rights for the purpose of restricting competition, in particular patent pooling.

There is some debate as to whether or not there is a fundamental conflict between the granting of intellectual property rights on the one hand, and competition policies on the other. There are largely two opposing viewpoints with the tendency often being to group intellectual property rights together and to argue either that on policy grounds they should remain unfettered from the application of competition law being in themselves pro-competitive in the longer run, or at the other extreme that intellectual property rights should be subject to the rigours of the competition laws without any special treatment.

The position was stated by the Australian Industrial Property Advisory Committee as follows:[19]

> "The inter-relation between patent law and competition law appears to be widely misunderstood. On the one hand, it has been suggested that competition law must bow wholly to patent law, because any constraints applied to the freedom of patentees to exploit, as they think fit, the exclusive rights which patents confer will detract from the fullness of the incentive to innovation which patent law is designed to promote. Conversely, it has been suggested that because patent law promotes monopoly, it is irreconcilable with competiton law which promotes competition, and therefore that patentees must be limited, wherever possible, in the exploitation of their patents".

However intellectual property rights cannot be dealt with so simply. Intellectual property law and policy seek to grant exclusive property rights to create an incentive for technological innovation (patents), product quality and informed choice (trade marks), and artistic development (copyrights).[20] Thus the common thread is the assumption that some price is necessary to encourage inventiveness and innovation. The law affords to the owner of an intellectual property right the protection to ensure that there will be an adequate return on, and control over, the subject of the owner's ingenuity and inventiveness. Essentially the protection given to owners of statutory intellectual property rights encompasses exclusivity limited in respect of territory and time. The proprietor is thus entitled to make best use of the right by himself exploiting it or by assigning or licensing its use to others, and to do so whilst imposing conditions on the licensee so as to protect his legitimate monopoly control.

Competition, trade practices, or anti-trust policy seeks to preserve free from private regulation and monopolisation a self-adjusting, self-regulating marketplace operating on the premise of freedom of choice, freedom of opportunity, and competitive rivalries.[21] The ideal of free competition really means that the market mechanism should operate at its optimal level, without restriction on competitive behaviour. It is one fundamental aspect of this free market view that competition and its resultant benefits are lessened or negated by the existence of monopolies or partial monopolies, for then the market is taken advantage of and monopoly profits are made, with a resulting lack of incentive to increase efficiency and product quality. Similar ramifications occur where individual traders reach agreement among themselves fixing matters such as prices, production quotas, territories of operation, and boycotts of other firms.[22]

It is not surprising that there is a continuing tension between these two seemingly conflicting legal and economic policies.

The conflict is such that 'war' and 'battle' metaphors abound in discussions about the relationship, especially between patent and anti-trust law in the United States.[23]

Each intellectual property right to a greater or lesser degree is capable of restraining competition. Professor McCarthy has said "to boil it all down to essentials, while intellectual property law strives to induce technological change and promote 'fair competition', anti-trust law strives to preserve 'free competition'".[24] The conflict may be seen as one between public and private interests. The public interest which competition legislation gives effect to, is the preservation and maintenance of competition and the provision of restraints over abuses of market power. The private interest is that of ensuring the owners of intellectual property rights receive the just remuneration and protection flowing from their ownership and possession of the rights.[25]

It is the exercise of the right to assign or license an intellectual property right which draws the owner into the realm of the public interest and hence within the ambit of competition laws. The conditions imposed should be consistent with the scope of the monopoly conferred upon the proprietor. A particular aspect of intellectual property protection which does not sit comfortably alongside competition law is the statutory term of protection. It seems, from the competition policy end of the tunnel, that a system which provides that all instances of innovation within a particular statutory category of intellectual property shall have the same period of protection, is inherently undesirable. The years of protection may in some cases substantially exceed the years measured in the worth of the innovation. Competition may be restrained for longer than is necessary to sufficiently remunerate the right owner, since some innovations pay for themselves within a short period whereas others may require far longer than the statutory term of protection to recoup the cost and effort expended.

The recent United Kingdom White Paper entitled "Intellectual Property and Innovation" referred to the arbitrariness of the patent term.[26] The term is arbitrary, both in length and in effect on different industries "since some products require, inherently or by regulation, more time than others to be brought to the market".[27] The New Zealand Industrial Property Advisory Committee (IPAC), in two reports to the Minister of Justice,[28] has recommended that any change to the term of patent protection in New Zealand should be dependent on harmonisation with the corresponding provisions in Australia, and also that the most desirable situation for New Zealand is a term for patent protection of sixteen years with provision for case by case prolongation with a maximum extention of four years, where it is shown that the effective term has been shortened by regulatory constraints preventing or restricting exploitation of the invention by the patentee.[29]

It is necessary for the duration of a property right to be ascertainable at the time of its acquisition. However, a system incoporating a term of protection determined by the judicial exercise of a discretion by the Commissioner of Patents may provide a workable solution at least in respect of those statutory intellectual property rights that require registration.[30]

B. Intellectual Property Rights and their Policy Goals

Amongst the arguments in favour of intellectual property rights it is said that although costs will increase in the short term, ultimately the gain will be transferred back to the consumer in the form of better goods and services. It is also argued that competitors will get access to technology and be able to use it, albeit after a delay, when otherwise that technology may have been secreted forever by an owner unwilling to divulge the invention. Intellectual property rights thus encourage the owner to take the short term gain whilst accepting that at least some of the innovation is now in the forum of the public. In connection with this it is said that innovation is often inhibited by the threat of piracy. This in turn encourages inventors or innovators to confine themselves to areas where secrecy can be maintained, using enforcement avenues such as breach of confidence where necessary.

On the other hand critics of intellectual property rights argue that they lead to protection motivated research rather than more fundamental innovation to do no more than circumvent others' intellectual property rights. Also the nature of intellectual property rights effectively discourages those who know that their research is behind that of their competitors; the unsportsmanlike 'why spend your money when you are going to lose it anyway'. Such altruistic considerations perhaps overlook the hard facts of research investment decisions.

It is necessary to look at each intellectual property right in turn.

1. Patents

> "The patent system ... added the fuel of interest to the fire of genius." Abraham Lincoln, lecture, 22 February 1860.[31]

In New Zealand the grant of letters patent for an invention is an exercise of the prerogative of the Crown. In practice it is effected by the Patent Office and is regulated by statute, namely the Patents Act 1953 and the Patents Regulations 1954.[32] The term "letters patent" means open letter, and is a document addressed to all the subjects of the Sovereign advising them that an exclusive grant of privilege has been made in favour of a particular person. A patent grant is a property right, in legal terms a chose in action, and is enforceable by the patentee in the courts. This property right is also transferable either in whole or in part by means of sale, or by the granting of licences.

To be patentable an invention must be novel.[33] This requisite element for patent protection effectively means that the grant of a patent monopoly does not deprive the public of anything that it had before. In fact the applicant gives something to the pool of public knowledge which it did not previously have.

The grant of a patent is not needed to permit the inventor to use the invention. This is a right which is automatic, so long as the use of the invention ia not contrary to law and the use does not infringe another patent. The grant of a patent gives to the patentee the right to decide who else may use the invention, and on what terms. The grant confers on the patentee the exclusive right to make, use or sell the invention. Thus the patentee may dispose of his right by selling or assigning the patent outright to another person, he may share it with others, or he may grant an exclusive or non-exclusive licence to others.

Patents are granted for inventions, and the term invention is defined in the Patents Act 1953 as "a manner of new manufacture".[34] This definition derives from the English Statute of Monopolies of 1624 from which the modern patent system descended. In simple terms an invention relates to the practical arts rather than the fine arts. Unlike copyright it must relate to commerce in some way. Nothing can be patented which is already in the public domain, or which is obvious. Obviousness must be judged against the common general knowledge, and what is known and has been used in the particular branch of technology at the time the application was lodged. The other requirement of an invention to obtain a valid patent is utility.

It is easy to see the tension between the grant and use of intellectual property rights, in this case patents, and trade practices laws when one considers that a patent system can be seen to promote many of the evils which trade practices law attempts to proscribe or limit. Pengilley referred to four in particular:[35]

(i) Non-availability of product to some sections of the market:
(ii) Objections by businessmen that they are precluded from certain markets;
(iii) Views by economists that the patent system does not give the most useful allocation of resources;
(iv) General complaints that prices are higher pursuant to monopoly than they would be under competition.

Turner has said that:[36]

> "The basic rationale of the patent system can be simply put. The economic case rests upon two propositions: first, that we should have more invention and innovation than our economic system would provide in the absence of special inducement; and second, that the granting of a statutory monopoly to inventors for a period of years is the best method of providing such special inducement."

Professor McCarthy identified two ways to stimulate incentive;

either by direct government funding of research and development or by the creation of a private property right in certain new technology for a limited time i.e. a patent.[37] An important advantage of the latter is that the value of the patent entirely depends on consumer demand for the goods or services produced as a result of the use of the patented technology.

The patent system is said to be justified since one of its perceived roles is fostering innovation and since there are public benefits associated with the sharing of otherwise proprietary information disclosed through the granting of a patent.[38]

One question often debated but seemingly virtually unanswerable is whether a patent is really financially necessary to stimulate inventors. It might be said that the fact that we have a patent system at all demonstrates that it is accepted that there is a causative link between the patent system and innovation.

In the recent Department of Trade & Industry discussion paper on intellectual property it was said that:[39]

> "A basic justification for the patent system is its role as an economic instrument for encouraging industrial innovation and the transfer of technology. In the first instance it is argued that research and development leading to innovation inherently carries with it high risks in terms of the likelihood of technical success, and commensurate risks applied to the commercial viability of the innovation. Innovative activity is very costly in terms of the resources required and the investment would not be made unless the rewards for success adequately compensate for the possibility of failure. The prospect that an innovation

> might be copied, thus reducing the potential rewards, may provide a disincentive to innovation. One function of the patents system, therefore, is to give exclusive rights to the patentee to exploit an invention as an encouragement to undertake research and development and subsequent manufacture."

In the discussion paper it was said "while the economic justification for the patent system has been clearly defined in theory, the actual effects of the system on innovation and technology transfer are complex and not well understood".[40]

Presumably it is an incentive for at least some inventors, for as has been often stated inventors cannot invent on empty stomachs.[41] A related question which is somewhat easier to answer is whether it is necessary that there be a financial incentive for investors. It is considered that invention is but a small part of the technological break-through, injection of capital is often also required.[42] A patent prevents imitators from "reaping without sowing", not only in respect of skill and innovation but also of risky investment.

The situation is really like the chicken and the egg metaphor; which came first the patent incentive or the invention?[43] One attempt at empirical analysis, a 1976 Canadian study,[44] found that 70% of Canadian companies questioned thought that patents had little or no effect on their decisions to pursue research.[45] In fact competition itself was said to be the greatest factor influencing Canadian research and development expenditure.[46]

Competition does promote innovation. If a firm does not innovate, it will be pushed out of the market by those that do.

Pengilley concluded from this Canadian study that inventiveness is not stirred primarily by patent law but for other reasons. From this study Pengilley said:[47]

> "[o]ne's conclusion could be that innovation is something like a lottery - it is only the high prizes which count. If you have a high enough prize, then perhaps it is valuable for its intrinsic merit, for its competitive advantage and its market place advantages rather than because it is subject to a statutory monopoly. And, indeed, in view of the rapid dating of technology, it may well be thought by many that the best way of exploiting a patent is immediately to produce the article rather than delay such production because of patent procedure."

Patents do create an incentive to disclose the results of innovations. Lack of secrecy it seems is an accepted cost of patent protection. That is the rights afforded by the patent system are provided in return for the public disclosure of the invention, providing information to others as a step towards further innovation. Hence the description of the invention is made public and the period of exclusivity is limited, in the case of New Zealand, to sixteen years .

The grant may be considered as a bargain between the applicant and the Crown. In return for disclosing the invention to the Crown, the applicant is rewarded by the grant of an exclusive right for a limited time.[48] Thus the patent system may be seen as a means for inducing inventors to disclose their inventions, which they may otherwise elect to keep secret.

However, Pengilley has doubted the effectiveness of patents in encouraging disclosure.[49] It is true that often a patent does not necessarily inform the public how an invention will work in practical terms. Such "know-how" is often kept highly secret. Pengilley drew from the Canadian study[50] as to the extent of this practice. That study cited a research project undertaken by George Washington University which showed that about 50% of United States patents studied had to be supplemented by "know-how" details before the patents became viable. From experience Pengilley was of the view that this figure may even understate the position. His conclusion was that given the small proportion of inventions that would be practically workable in the absence of "know-how" the patent policy of compelling inventive disclosure is not as effective to promote competition as it at first seems.[51] That is, many patentees gained the benefits of a patent without paying the price of full disclosure.

In addition availability in the public domain after expiry of the patent was undermined by copyright, which in many cases provided a form of product protection extending beyond expiry of the patent. The Copyright Amendment Act 1985[52] now provides that the copyright in an artistic work will not be infringed by copying into three dimensions the drawings of an expired patent or registered design of which drawings the artistic work forms part. Copying actual products embodying the invention may still give rise to infringement.[53]

While considering the arguments that patents do not bring the benefits it is said they do, it should be borne in mind that benefits will not fall evenly across all fields of technology. Consider the pharmaceutical industry. Research and development is immensely expensive, disclosure is essential on public health grounds, and copying is relatively simple. The costs of developing new remedies would not be justified without market exclusivity for a period.

The transfer of technology value of patents should not be overlooked. The know-how is usually licensed along with the patent and so the level of technical competence of recipients is increased. This is how Japanese industry was re-activated after World War II. This international transfer of technology has particular importance for New Zealand at its present level of industrial development.

Without a patent system, reseach and development would be directed towards innovation that could be kept confidential. Additional funds would be spent on security measures, for example attempting to prevent practices such as reverse engineering. Professor McCarthy is of the view that a nation without a patent system would suffer a "lower standard of innovation, industrial development and standard of living, with a few modest innovations elaborately guarded by secrecy".[54] Such countries would fall behind nations with patent systems in technological development. Certainly there would be more secrecy. Perhaps competition would ensure that there was still innovation.

The conferring of legal property rights on the holder of the patent may also be said to encourage the transfer of technology, by providing a financial incentive to trade in the property. Thus the patentee may license the manufacture of the invention covered by the patent and receive the benefit of the royalty payments.[55]

It is often argued that the grant of intellectual property rights has the same public policy objectives as does a competition statute. Professor Bowman has regarded the common objective as the desire "to maximise wealth by providing what consumers want at the lowest cost".[56] Eagles has explained this as follows:[57]

> "Anti-trust law does this by dismantling combinations or practices which would enable producers to raise prices or reduce output without fear of competition. Intellectual property achieves the same wealth maximising end by paradoxically allowing a present monopoly price or reduction in output to secure greater choice at lower cost at some time in the future."

Pengilley has summarised it thus:[58]

> "The argument goes that a patent grant encourages inventiveness and the public disclosure of the knowledge so obtained. A patent right is the incentive the inventor needs to invent. It is the incentive he needs to disclose, rather than hide, his new-found knowledge. This disclosure is said

> to be basically pro-competitive. Hence, the argument runs, there is nothing inconsistent, on the one hand, between a competition statute banning anti-competitive restraints of trade, anti-competitive exclusive dealing and monopolisation and, on the other, a *Patents Act* giving the patentee a sixteen-year statutory monopoly ..."

Neither, it is said, is there an inconsistency in a competition statute providing for specific exemptions in respect of conditions in licences or assignments of intellectual property rights.[59]

Pengilley doubts this because of the different mechanisms set up under patent law and competition law.[60] In the case of patents there is a set term during which the form of exclusivity is absolute. Also, unlike copyright, independent conception of the patented process is caught. In the patent system there is no regulatory body set up to review profits made by patentees on public policy grounds. In addition there is a specific statutory exemption in the competition legislation itself.

Pengilley did accept, however, that the framers of patent legislation saw in it a pro-competitive influence. He stated that "the whole "raison d'etre" of patent legislation assumes a heightening of inventiveness and greater disclosures. In this sense the patent legislation is assumed to give a positive contribution to the economy - a pro-competitive boost by the injection of new technology".[61] As Pengilley assumed, patents in their present form must be accepted as desirable. The legislature has said so. It is not for the Courts to doubt that general proposition. Pengilley concludes that the patent laws should be interpreted with this positive object and intent in mind, that is that pro-competitive factors are the ultimate objectives of patent laws.

Consistent with this an interpretation of patent and competition law must be taken which allows each area to achieve the pro-competitive ends asserted for it. In New Zealand, as in Australia, it must be assumed as a matter of statutory interpretation that both pieces of legislation can live side by side.

That is not to say that competition legislation should not provoke a reading down of patent rights. In this regard Pengilley[62] accepted the view of the United States Supreme Court in Standard Sanitory Manufacturing Co. v U.S.[63] that:

> "Rights covered by patents are indeed very definite and extensive; but they do not give, any more than other rights, a universal licence against positive prohibitions. The Sherman Law is a limitation of rights; rights which may be pushed to evil consequences and therefore restrained".

To argue that such a reading down of patent rights is an erosion of a patentee's freedom of action pursuant to the patent ignores the view that a patentee's rights may be seen as carrying into effect the proper pro-competitive objectives which patent legislation has sought to achieve by grant of patent. If a patentee exacts a restraint, unrelated to his rights as patentee, which if exacted by a covenantee outside the patent context, would breach competition legislation, then the exaction of that restraint is an abuse of market power in competition terms. As Pengilley said,[64]

> "It has nothing to do with a person's rights as a patentee to utilise his patent as he sees fit. It is not the rights in respect of the patent which are improperly exercised but the restraints attached. These arise not because of the patent itself but because of the abuse of power which the patent holder may carry into effect."

The United States Supreme Court has said that "[t]he dichotomy between personal liberties and property rights is a false one. Property does not have rights. People have rights".[65]

These matters lead Pengilley to the conclusion, or more appropriately to a starting point or ground rule in the alleged patent/competition conflict, that patents have no more right inherently to special protection from the ambit of competition law than has any other device by which market power or dominance is achieved. "The protection entitlement of a patent must be directly referable only to enabling its statutory purpose to be carried out and not otherwise".[66]

2. Trade Marks

(a) Registered Trade Marks

In modern law a trade mark is a mark used in relation to goods to indicate a connection in the course of trade between the goods and the proprietor or registered user.[67] A mark "includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, or any combination thereof;".[68] Thus a trade mark right is a legal right protecting some symbol which distinguishes goods; it does not protect the goods themselves. In Champagne Heidsieck et cie. Monopole Societe Anonyme v Buxton[69] Clauson J said a trade mark is a badge of origin, not a badge of control. Then goods can be identified by the consumer as perhaps having a reputation or as having been satisfactory in the past. The infringement of trade marks generally is determined by reference to the likelihood of confusion of customers.[70]

To be registrable a trade mark must primarily be distinctive, either inherently or by use.[71] "Distinctive" is defined as meaning "adapted, in relation to the goods in respect of which a trade mark is registered or proposed to be registered, to distinguish goods with which the proprietor of the trade mark is or may be connected in the course of trade from goods in the case of which no such connection subsists, either generally or, where the trade mark is registered or proposed to be registered subject to limitations, in relation to use within the extent of the registration."[72]

The Trade Marks Register is broken into two parts, Part A is for those marks that are inherently registrable and Part B may be used for marks which do not have the degree of distinctiveness required for registration in Part A, although they may be capable of becoming distinctive at some time in the future by their use.[73] The primary distinction is that a Part A registration shall after the expiration of seven years from registration be taken to be valid in all legal proceedings.[74]

Registration of a trade mark confers upon the registered proprietor exclusive right to the use of the mark in respect of the nominated goods, subject to any conditions imposed by the Commissioner of Trade Marks, and enables the proprietor to obtain relief in respect of infringement of the mark. Unlike patents, trade marks may be registered indefinitely, subject to the payment of renewal fees.

Trade marks can be seen as furthering a dual purpose, that of protecting the owner from commercial loss and that of protecting the consumer from being misled or deceived as to the source of goods or services.[75]

C.J. Markey said in James Burrough Ltd. v Sign of the Beefeater, Inc.[76] "[a] 'trademark' is not that which is infringed. What is infringed is the right of the public to be free of confusion and the synoymous right of a trademark owner to control his product's reputation". This second right means in effect that a trade mark owner has an incentive, or more appropriately a pressure, to create and maintain a good reputation for his goods. So it is argued that without trade marks product quality would decrease. In his book Trade Marks and Unfair Competition,[77] Professor McCarthy said "If all may take a free ride on the successful seller's mark and reputation, there is no incentive to distinguish one's own goods and services."[78]

Professor McCarthy has also argued that trade marks reduce a consumer's cost of acquiring information about products and services.[79] A consumer adverse to risk will purchase a brand familiar and proven. McCarthy acknowledges that product loyalty is often seen as a barrier to entry to the market. He points out that the opposite can in fact be argued, and indeed was in the U.S. Supreme Court in <u>Bates</u> v <u>State Bar of Arizona</u>,[80] a case involving the marketing of attorney fees, where the Court said attorney advertising should be permitted "so as to aid the new competitor in penetrating the market." It does seem inherently undesirable that a 'barrier to entry' that comes about through consumer preference and choice can be advanced as an argument that trade marks are anti-competitive. Competition law was never intended to inhibit efficient, successful, non-discriminatory trading.

(b) Unregistered or Common Law Trade Marks - Passing Off

Passing off occurs when a person represents his goods or services as those of the plaintiff, or holds himself out as having some association with the plaintiff, so as to cause damage or likely damage to the plaintiff's goodwill or reputation through the resultant confusion.

Originally the principal subject matter protected were trade names and trade marks.[81] This was gradually extended to cover other distinguishing features, such as get-up and packaging,[82] and to any conduct tending to associate the plaintiff's business with that of the defendant.

The nature of the interest protected by the action of passing off is now taken to be the property in the business or goodwill likely to be injured by misrepresentation.[83] In Cadbury-Schweppes Pty. Ltd. & Others v Pub Squash Co. Pty. Ltd.[84] Lord Scarman, delivering the judgment of the Judicial Committee of the Privy Council on appeal from the Supreme Court of New South Wales, Equity Division (Powell J), said:[85]

> "the tort is no longer anchored, as in its early nineteenth century formulation, to the name or trade mark of a product or business. It is wide enough to encompass other descriptive material, such as slogans or visual images, which radio, television or newspaper advertising campaigns can lead the market to associate with a plaintiff's product provided always that such descriptive material has become part of the goodwill of the product. And the test is whether the product has derived from the advertising a distinctive character which the market recognises."

The elements of a passing off action have been authoritatively identified as:[86]

(i) A misrepresentation;

(ii) Made by a trader in the course of business;

(iii) To prospective customers of his or ultimate consumers of goods or services supplied by him;

(iv) Which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably forceable consequence);

(v) Which causes actual damage to a business or goodwill

> of a trader by whom the action is brought or (in a quia timet action) will probably do so.

The action also applies to the carrying on of business in general.[87] Holding out the goods or services by making a representation is sufficient, there need not be an actual sale.[88]

The competition inplications of unregistered marks are the same in principle as for registered trade marks.

3. Registered Designs

The Designs Act 1953 protects features of shape, configuration, pattern, or ornament as applied to articles. To be registrable under that Act a design must be "novel".[89] It must not have been used in New Zealand or described in any publication available in New Zealand. Where an article's shape is due solely to its function, then it may not be registered.[90]

Registration gives the owner, referred to as the proprietor, of a design exclusive right to make, import, sell or hire the design.[91] This includes materials unique to the design such as moulds. This right is assignable. Registration in New Zealand is for five years with provision for up to two five year extensions.[92]

Because wholly functional designs and principles of construction are expressly excluded, protection of designs would seldom have any relevance for competition purposes. This is not a frequently used form of protection in New Zealand.

4. Copyright

Although a number of statutes in the eigtheenth and nineteenth centuries attached various forms of copyright protection to various products of literary, dramatic, musical and artistic creative endeavour,[93] the Copyright Act 1911 (U.K.) was the first attempt to provide a comprehensive code of copyright protection.[94] Common law copyright[95] had two purposes, firstly to provide protection for the investment of publishers, and secondly as a form of censorship, particularly religious censorship. By the eighteenth century, with the spread of literacy, there grew a large and flourishing publishing trade and protection became more predominant in the area of protection of investment of printers and publishers. Copyright later became a means of securing protection not only for inventors but for creators as well. In more recent times copyright protection has expanded into such areas as broadcasting and here it is to provide protection for entrepreneurial activity.

Now it may be said that the purpose of the Copyright laws is to encourage and reward authors, composers, artists, designers and other creative people as well as the entrepeneurs such as publishers who risk their capital in putting their works before the public.[96]

The author is given certain exclusive rights to enjoy the benefit of the created subject matter for a limited time, usually the life of the author plus fifty years.[97] Copyright is not a right to do anything, but a right to stop others from doing something. That which is susceptible of copyright protection is classified into "works", consisting of original literary, dramatic, musical and artistic works, and other "subject matter", consisting of creations of a kind which have come into prominence more recently such as cinematograph films, television and sound broadcasts, and sound recordings.[98]

As with patents, it can be argued that copyright does provide an incentive for creativity. However this purpose is valid only in so far as it may be said that when you provide protection for creativity you also to some extent provide an incentive for it.

In normal circumstances a right against copying will not interfere with the legitimate rights of competitors. However in New Zealand infringement by three dimensional reproductions raises certain competition issues particularly in the area of spare parts dealt with below.[99]

5. Plant Varieties

The Plant Variety Rights Act 1987 affords protection by registration for new plant varieties in New Zealand. This Act will come into force on a day to be fixed by the

Governor-General by Order in Council.[100] All varieties of plants except bacteria, fungi and algae can be protected.[101] In general only reproductive material is protected. Importation of the produce of plants of a protected variety from a country where protection is not afforded for that variety is also protected under the legislation.[102]

For present purposes protection of plant varieties under the previous Plant Varieties Act 1973 can be taken as substantially similar.

A variety is considered novel if reproductive material of the variety has not previously been sold for a period depending on the type of plant.[103] A variety must be distinguishable by one or more characteristics from any other variety whose existence was a matter of common knowledge when the application was made.[104] A variety must be stable which means it must remain true to its description in respect of cycles of reproduction or multiplication after repeated propagation or reproduction.[105] A variety must be homogeneous having regard to the particular features of its sexual reproduction or vegetative propagation as the case may be.[106]

Proprietors have the exclusive right to produce for sale or sell reproductive material of the variety concerned.[107] They also have the right to propagate for commercial purposes fruit-producing and ornamental vegetatively propagated plants.[108] They may license protected rights.[109] They may also prohibit the importation of reproductive material of protected varieties into New Zealand from countries where the variety concerned cannot be protected.[110]

Plant variety protection is subject to the right of any person to propagate, grow or use a protected variety for non-commercial purposes[111] and to use reproductive material from a protected variety for human consumption or other non-reproductive purposes.[112] If the production of a hybrid or new variety does not require repeated use of the protected variety, any person may hybridise or produce a new variety from the protected variety or sell any hybrid or new variety produced from the protected variety.[113]

The competition implications of the plant variety rights legislation will be the same as those for patents as dealt with above.[114]

6. Trade Secrets, Breach of Confidence, and Know-how

The terms "trade secrets" and "know-how" are really encompassed in the term confidential information which is protected by the action for breach of confidence.

Rights to prevent unauthorised use or disclosure of confidential information have variously been attributed to equity, contract, tort, and property. Regarding equity, Sir Thomas More once said "three things are to be helpt in conscience: Fraud, Accident and things of Confidence".[115] In some circumstances equity will require a person who has promised to keep a secret to do so. So a court may grant an injunction to restrain a promisor from breaking a promise to keep a confidence or award damages once it has been breached.[116]

Also a party to a contract may be bound by an express or implied term to keep certain information confidential unless there is an authorisation to disclose. But an obligation of confidence can arise in the absence of any express or implied contractual relationship.[117]

In the United Kingdom the Law Commission has recommended the creation by statute of a new tort of breach of confidence.[118] The law relating to unfair competition, which is at least analogous to tortious liability[119] can be viewed as a source of protection for trade secrets.

A trade secret can also be seen as property. If it is, then the misappropriation may give rise to civil remedies and criminal sanctions.[120]

In Fraser v Evans[121] Lord Denning explained the rationale behind remedies for breach of confidence:[122]

> "The court will in a proper case restrain the publication of confidential information. The jurisdiction is based not so much on property or on contract as on the duty to be of good

faith. No person is permitted to divulge to the world information which he has received in confidence, unless he has just cause or excuse for doing so. Even if he comes by it innocently, nevertheless once he gets to know that it was originally given in confidence, he can be restrained from breaking that confidence."

The idea must have some significant element of originality not already in the realm of public knowledge.[123] It must be established that the occasion of the communication was confidential and also that the content of the idea was clearly identifiable, original, of potential commercial attractiveness and capable of being realised in actuality.[124]

In Thomas Marshall (Exports) Ltd v Guinle[125] Sir Robert Megarry V.-C. outlined per curiam the requirements for success in a breach of confidence action in an industrial or trade setting:[126]

(i) The information must be information the release of which the owner believes would be injurous to him or to the advantage of his rivals or others;

(ii) The owner must belive that the information is confidential. The information need not in fact be confidential;

(iii) The owner's belief under the two previous heads must be reasonable;

(iv) The information must be judged in the light of the usage and practices of the particular industry or trade concerned.

Sir Robert Megarry V.-C. saw these requirements as a maximum threshold which if satisfied would entitle protection. It may be that information not satisfying all these requirements may still be entitled to protection as confidential information or trade secrets.[127]

In Faccenda Chicken Limited v Fowler[128], a recent breach of confidence case involving an ex-employee restraint of trade situation, it was held that only specific trade secrets so confidential that even though they may necessarily have been learned by heart they cannot be used for anyone's benefit but the master's even after the employment has ceased, are actionable if they are disclosed without the authority of the employer.[129]

An ex-employee must be able to utilise skill, knowledge and experience gained in former employment. The line between this and trade secrets must depend on the circumstances of each case.

In S S C & B: Lintas New Zealand Limited v Murphy[130] Prichard J found that the categorisation of information employed in Faccenda Chicken Limited v Fowler[131] did not really assist in a situation revolving around the question of status to be accorded to information pertaining to specific details of transactions between employer and customer, particularly in the situation where transactions were in progress at the time the transaction ceased. His Honour considered that the situation was entirely different and that information should be protected where the employee had taken full advantage of his special knowledge of activities of the business in relation to its clients' affairs in order to persuade those clients to transfer their business.[132]

The very nature of information protected by the law of confidence and the fact that protection is lost through public disclosure leave little scope for anti-competitive implications from agreements involving disclosure.

7. Broader Policy Aspects

It should be noted that in some instances an innovator of intellectual property may be in a position to choose which form of protection to seek, in addition to making the choice as to whether to seek protection at all (such as in the case of a patent where it may be decided to maintain secrecy instead). The Department of Trade and Industry discussion paper gives an example of the computer software industry where copyright has been used since it is more effective than patenting or design registration.[133]

Sometimes one form of protection may replace another, effectively continuing the protected life of the product. In New Zealand copyright has often been relied upon after the expiration of a registered design or patent.[134] This may be said to upset the balance between public benefit accruing from intellectual property systems and competition policies. Trade mark protection may also effectively replace patent protection upon the expiration of a patented product which is marketed under a trade name.

It must be accepted that it is for Parliament to decide the complex socio-economic question as to whether intellectual property rights do indeed serve the ends of promotion and disclosure of inventiveness such that they can be described as pro-competitive.

It is impossible to maintain the position that agreements relating to intellectual property are outside the purview of the restrictive trade practices provisions of the Commerce Act 1986 simply because it is the nature of intellectual property to create exclusionary privileges and therefore restraint of competition. The two fields are not incompatible. Conflict arises when intellectual property rights are used beyond their legitimate scope. The question is rather one of boundary: where does the patent privilege end and where does the unlawful restraint begin.[135]

There seeming to be at face value an inherent conflict between intellectual property and competition law, Eagles has said:[136]

> "while one may admire the ingenuity thus expended on these intellectual set pieces a point has to be made with some force is that they are utterly irrelevant to an assessment of the proper interaction of intellectual property and competition law (sic). Nowhere in the capitalist world does anti-trust law seek to do away with intellectual property rights altogether or even (in most cases) prevent their aggregation by a single holder. No-one doubts that some sort of intellectual property regime is a social necessity. None of this even begins to answer the real question which is not 'is intellectual property on balance a good thing?' but rather 'is it not rather too much of a good thing in a particular case and is competition law the most appropriate means of redressing the balance?' "

This perhaps is an over-generalisation. Different rights, even of the same kind, will have varying competition implications in different business contexts according to commercial and economic circumstances. Any view is difficult to establish empirically and attitudes to intellectual property rights in the competition area become very subjective.[137]

This must in turn depend upon the perceived goals of both intellectual property law and competition law. In New Zealand, it is submitted, we have a very clear statement of the essence of the goals of our competition law set out in the Commerce Act 1986. Competition law is not to be seen primarily to protect a status quo of many small entrepreneurs. If it were then the technological innovation and marketing success of some firms would be a threat to be dealt with harshly.

The long title of the Commerce Act 1986 states that it is "An Act to promote competition in markets within New Zealand ..."[138]

It is important to see the Act in the context of the Government's broad economic strategy which is that:[139]

> "the productive resources of the economy should be allocated more in accordance with the demands of consumers rather than the demands of producers. In one sense, the move is from a private enterprise approach to a free enterprise one. The Commerce Act 1986 is intended to underwrite this policy shift and the dismantling of public regulation which the implementation of this policy involves, by preventing the substitution of private regulation of competition in markets, by means of trade practices".

It is fundamental to New Zealand competition law that competition itself is seen as an ideal rather than the interests of competitors.

In addition to the Government's deregulatory economic management policies it is relevant that the Commerce Act 1986 implements an aspect of the C.E.R. Agreement,[140] which requires harmonisation of commercial laws between New Zealand and Australia, by closely following the Trade Practices Act 1974 (Aust.).

The Australian Industrial Property Advisory Committee has stated:[141]

> "**We see no reason why competition laws proscribing conduct which has substantially anti-competitive effects should not have full application in relation to anti-competitive conduct which involves patents.** In those cases where the patent of itself creates extreme monopoly power, this will mean that the patentee must limit the exploitation of his exclusvie right so as to avoid substantially lessening competition. In some circumstances, this could mean that he will be obliged to license others on reasonable terms.
>
> What is critical, however, whether patents are the sole factor or one of multiple factors contributing to market power, is that the circumstance attracting the operation and sanctions or remedies of the competition law should be that the conduct in question is calculated substantially to lessen competition, and not merely that it involes a patent or the exercise of patent rights. There is no reason for special treatment of patent-related conduct as such, by way of either special proscription or special exemption.

As Professor McCarthy has noted, it is also important to bear in mind that as the 'main-stream' of competition or anti-trust law and policy changes, so also does its impact upon intellectual property change, for the "intellectual property - anti-trust interface is but a tributary of the main stream of anti-trust law".[142]

C. Interpreting Policy Goals

In giving effect to the statutory provisions the New Zealand courts will face questions of construction in the light of the underlying legislative policy. The traditional methods used by common law courts to interpret statutes raise concerns about the broad policy concepts involved in competition law cases.[143] This concern is exacerbated when reference is made to economic concepts, which, it is said, must be read into the wording of certain provisions. How does this fit with canons of construction such as natural and ordinary meanings? A particular manifestation of this problem occurs when considering the role that lay members or expert witnesses may play in the determination of such questions of "law".

It is to be hoped that early cases will be argued according to clearly established economic concepts rather than competing theories, and that economic jargin will be avoided. With the advantage of experience accumulated in overseas jurisdictions in dealing with such issues, the courts in New Zealand should have little difficulty in finding the correct balance in applying economic principles and the law to commercial situations.

In addition to fears as to the use of statutory construction, Pengilley has said that the patent rights/competition conflict may be seen as involving essentially a question of personal property rights.[144] He regards the property analogy as designed more to enable the patentee to sell, lease, or licence the rights rather than for any other reason, and the property analogy incomplete since, firstly tangible property, without property rights in it, would cease to be manufactured and sold whereas a patent invention would not cease if patent monopolies were abolished, and secondly because a patent property right may carry an inherent position of market dominance, unlike tangible property.

Pengilley concluded by saying:[145]

> "For you do not have an absolute right to do what you like with your car. You must register it, keep it mechanically safe, it must have certain equipment in it and you must not drive it after indulging to excess. Your rights to deal with your car 'as you think fit' are largely circumscribed by other rules. Why should patent rights not similarly be circumscribed by competition rules even if there is a basic right to deal with your patent 'as you see fit'?"

D. Intellectual Property Rights and Monopolies

The intellectual property statutes and common law principles grant legal property rights in a variety of forms. Although the individual components of this system differ, in scope and duration, it is usual for an inventor or similar developer of intellectual property to be given an exclusive right to the object or idea he or she has developed. It is these exclusive rights which raise concern as to the detriments which are normally associated with the exercise of monopoly power.

It is important to distinguish between "monopoly" as it is used in economics and competition law and monopoly as it is used to describe intellectual property rights.

In economic terms in the context of New Zealand competition law[146] "monopoly" means a true market monoply which, in terms of the Commerce Act 1986, would generally give rise to a dominant position in a market. It connotes market power.

In the intellectual property context "monopoly" is used in a different sense, that of a property monopoly or monopoly in a particular product, process or method.

Eagles has said:[147]

> "[I]t is true that patented goods often face competition from products outside the scope of the patent. This does not, as has sometimes been argued, make the patent any less of a monopoly. All it demonstrates that a monopoly is not the same as market dominance (sic). One may have a monopoly on the production of glass bottles in New Zealand. This is of little use if bottles face stiff competition from cans. In such a case having the patent for bottles (if such a thing were possible) would be of little consolation."

The writer would argue that the word "monopoly" is misplaced in Eagles'example, since the writer regards a monopoly as a state of affairs in a market, and if substitutes are available, there is no monopoly. If so does not Eagles' example fortify the view that a true monopoly is quite different from the exclusivity of an intellectual property right?

The strength in market terms of an "intellectual property monopoly" is dependent on factors such as the nature of the product market. Despite intellectual property protection other participants in the market may be able to provide sufficiently close substitutes to prevent a serious lessening of competition. Moreover in a dynamic market the commercial advantage of legal dominance is not necessarily long lasting. In addition the "state of the art" in the particular product area will determine the degree of competition. The effect on competition will be much less in respect of refinements in technological terms than will be the case in respect of massive innovation.[148]

An exclusive right which cannot be avoided by substitutes or alternative technologies may well significantly inhibit competition in a particular market.

It is necessary to look to the extent to which each intellectual property right confers a true monopoly.

1. Patents, Registered Designs, and Protected Plant Varieties

In <u>British Leyland Motor Corporation Ltd. & Another</u> v <u>Armstrong</u>

Patents Co. Ltd. & Another[149] Lord Bridge of Harwich said "[t]he rights conferred by the 1977 [Patent] and 1949 [Registered Designs] Acts are clearly distinguishable [from the position under the Copyright Act], in that they are truly and expressly monopolistic".[150] In Hartford-Empire Co v United States[151] Rutledge J, though dissenting, said "[b]asically these [patent laws and anti-trust laws] are opposed in policy, the one granting rights of monopoly, the other forbidding monopolistic activities".[152] This is clearly Eagles' view also.[153]

In the Department of Trade and Industry Discussion Paper on Intellectual Property it was said that "the patent system creates a temporary legal monopoly for inventors".[154]

Professor McCarthy regards the view that a patent is a monopoly as a misnomer. He has stated:[155]

> "The term "monopoly" to an economist generally means nothing more than a seller who has some legal insulation from competitors and faces a negatively sloped demand curve. A patent is certainly "property" in the sense that it is a legal right to exclude others from making, using or selling that slice of technology defined by the patent claims. The problem is that the term "monopoly", largely neutral to the economist, is not neutral when used in an anti-trust context. It connotes that patents are somehow inherently anti-competitive and anti-social. But a true "monopoly" takes something from the consumer that already existed. A patent does not take away competition in a technology which previously existed: it grants a limited term exclusive right in a new technology introduced by the inventor. Unfortunately, the word "monopoly" has been devalued by its constant use as a sloganeering epithet by anti-patent zealots.
>
> A true "anti-trust monopoly" consists of very substantial market power in a relevant economic market. A patent does *not* define its own relevant economic market and in most

cases, a patented piece of technology faces considerable competition from alternatives. Without a searching relevant market analysis, one cannot state that the claims of all, or even many, patents automatically define a true "relevant economic market".

As Bowman observed:[156]

> "A very large percentage of patents granted, even those which involve nonobvious invention and result from substantial investment in innovative activity, may be in fields where substitute patents or non patented substitutes are so close that in economic terms the "patent monopoly" may be very limited or even non existent"."

An example of the distinction may be taken from the facts of Monsanto Co v Stauffer Chemical Co.,[157] which although not a competition law case, provides a set of facts which can be analysed using competition law concepts. In that case the Plaintiff had a monopoly right in a particular chemical herbicide, Round-Up, but that would not automatically translate into a dominant position or monopoly in the herbicide market.[158]

The same considerations apply to protected plant varieties.

In the Departmental Discussion Paper on Intellectual Property it was said that the Designs Act 1953 "provides the owner of a design with monopoly protection on trade in the article containing the design when that design is registered under the Act".[159]

2. Trade Marks

A trade mark is not a monopoly.[160] A registered trade mark does not prohibit the manufacture or sale or a product identical to a competitors so long as that product does not bear the competitor's mark.

McCarthy has said:[161]

> "the only market power a trade mark really gives is the right to prevent customer confusion....
>
> A "trademark" is created only in the public mind. And a trademark does not force anyone to buy anything:
>
> > "The most a successful trademark can do is to persuade a consumer to try the product - once. A trademark does not have the monopoly power to force the public to buy something it does not want."[162]
>
> Thus, to define all trademarks as "monopolies" in the absence of an exhaustive relevant market analysis is meaningless. The vast majority of trademarked products are in severe competition with other trademarked products. It makes no sense to say something like: "The Ford Motor Co. has a monopoly of FORD automobiles." FORD brand autos are not a relevant economic market. The [United States] Supreme Court observed that: "[T]his power that, let us say, automobile or soft-drink manufacturers have over their trademarked products is not the power that marks an illegal monopoly. Illegal power must be appraised in terms of the competitive market for the product."[163]"

However, that trade marks in the shape of a bottle would confer a monopoly, presumably in the intellectual property sense, led the House of Lords to refuse to allow an appeal against the Registrar of Trade Marks' refusal to register the Coco-Cola bottle as a trade mark.[164]

3. Copyright

Lord Griffiths referred to copyright in British Leyland[165] as "a right in the nature of a monopoly". Further his Lordship said "if, as I must for the purpose of this argument, I assume that Parliament has, through copyright, given a monopolistic right to the manufacturer in the shape of his spare parts".[166]

This appears, with respect, to miss the point that copyright is only ever infringed where the copyright work is substantially copied. Indeed a work identically emulating a copyright protected work does not infringe if it can be shown to have been created independently, since, for present purposes, the restricted act is reproducing the work or a substantial part of it.[167]

However, Lord Griffiths may have been referring only to the reality of the particular situation in that case that an exhaust system which was compatible with a British Leyland car could only be designed economically by resorting to copying or some form of reverse engineering. This reality was expressly referred to by Lord Bridge.[168]

Lord Bridge took a somewhat different view of the artistic copyright code. His Lordship said that it "does not purport to confer any monopoly, only, so far as relevant for present purposes, to protect the copyright owner from reproduction by copying".[169] The way in which his Lordship distinguished copyright from patents and registered designs also indicate this view.[170]

McCarthy also makes the point that the owner of copyright in a work does not have a "monopoly" in the sense that it must survive in a market amid a plethora of competitive works.[171] It is submitted this fits in with the writer's view that copyright does not create a true market monopoly, but only a "monopoly" in one particular work such as a certain novel. It is just a matter of degree which here makes the ordinary person reject the idea that a particular novel has a "monopoly" since copyright only confers a narrow "product monopoly".

Eagles points out that the view typified by McCarthy may well sit well with novels, but becomes unsound in the case of copyright protection for three-dimensional industrial objects, as exist in New Zealand.[172]

4. Trade Secrets, Breach of Confidence, and Know-how

The concept of trade secrets, confidential information, or know-how, by its very nature (secrecy), can give rise to exclusivity of products or services. In some circumstances technical advantage gives rise to market power.

A product or service based upon trade secrets or know-how will rarely enjoy a position in a market in which there are no reasonable substitutes. But as in the case of patents, there may be circumstances in which such products or services occupy a separate market so as to constitute monopolies.

Before leaving this discussion of monopolies, it should be mentioned that nowhere does the Commerce Act 1986 refer to "monopolies" or "monopolisation". Section 36 which in effect controls (but does not prevent) monopolisation, refers to a "dominant position in a market"[173] which represents a lower measure of market power than does a true monopoly.

In certain circumstances statutory monopolists may have competitors and conversely it does not take a true monopoly to fetter competition. For example we have seen that trade marks do not confer a true monopoly, and yet a trade mark may well be used as the vehicle for an anti-competitive scheme. This was recognised by the European Court of Justice in Pronuptia de Paris v Schillgallis,[174] where the mark, in that case, at least in part, identifying a franchised service, operated as the incentive to draw franchisees into an anti-competitive franchising agreement.

These comments as to the accuracy with which the label "monopoly" may be attached to various intellectual property rights must be borne in mind in applying the statutory enactment of New Zealand's competition policy. Semantics can lead to flawed conclusions.

III LAWS ADVANCING COMPETITION POLICIES OUTSIDE THE COMMERCE ACT 1986

A. Competition Policies Promoted in the Intellectual Property Statutes

Each intellectual statute has particular threshold requirements for protection which ensure that only "worthy" subject matter is protected.

Some of the intellectual property statutes make provision for the regulation of certain anti-competitive conduct on the part of right owners. Often this regulation is by way of compulsory licences. Although anti-competitive behaviour is not the only subject of these provisions, for they relate generally to the wider notion of the public interest, conduct such as refusal to license or otherwise failing to satisfy the reasonable requirements of the public for access to those rights can be prevented.

It should also be noted that, with the exception of copyright, registration is required under each of the intellectual property statutes before the inventor or designer has any enforceable legal rights in respect of the intellectual property. This does not apply to passing off and breach of confidence.

1. Patents Act 1953

The requirements for registration in themselves prevent unjustified appropriation of rights of exclusivity. These already have been dealt with above.[175]

Sections 46 - 50 of the Patents Act 1953 provide means for avoiding abuses of patent monopoly rights and protecting the public interest.

Section 46 of the Patents Act 1953 provides for compulsory endorsement or licences permitting others to use the patented invention on application to the Commissioner of Patents.[176] This provision prevents patent holders from suppressing inventions as a source of competitive advantage. The grounds upon which application may be made are certainly wider than for the purpose of promoting competition. They really apply where the reasonable requirements of the public in relation to a patented invention are not being met. They are outlined in s.46(2)(a) - (e):[177]

> "(a) That the patented invention, being capable of being commercially worked in New Zealand, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonably practicable:
>
> (b) That a demand for the patented in New Zealand is not being met on reasonable terms:
>
> (c) That the commercial working of the invention in New Zealand is being prevented or hindered by the importation of the patented article:

(d) That by reason of the refusal of the patentee to grant a licence or licences on reasonable terms -

(i) A market for the export of the patented article manufactured in New Zealand is not being supplied; or

(ii) The working or efficient working in New Zealand of any other patented invention which makes a substantial contribution to the art is prevented or hindered; or

(iii) The establishment or development of commercial or industrial activities in New Zealand is unfairly prejudiced:

(e) That by reason of conditions imposed by the patentee upon the grant of licences under the patent, or upon the purchase, hire, or use of the patented article or process, the manufacture, use, or sale of materials not protected by the patent, or the establishement or development of commercial or industrial activities in New Zealand is unfairly prejudiced."

The grounds do have overtones in terms of competition. Paragraph (a) is intended to prevent patents being sealed and then held unused by the proprietor. This in effect means that the holder ought to make use of the patented invention rather than merely endeavouring to prevent anyone else from doing so.

Paragraph (b) provides that an application may be made on the grounds that the supplier of the patented article is not meeting demand on reasonable terms. Although reasonable does not necessarily equate with competitive, anti-competitive conduct could well be said to be unreasonablé.

Paragraphg (c) relates to the encouragement of domestic industry emphasising the desirability of patents being worked in New

Zealand rather than any pro-competition grounds. From a competition point of view it does not matter whether the competition comes from within New Zealand or from imports.

Paragraph (d) relates to refusals to licence. Certainly anti-competitive conduct may afford a ground for an application for a compulsory licence under this head. For example if a patentee refused a licence under a patent over a unique form of machinery for use in paper mills or did so only on onerous terms this would prejudice the chance of competitors to compete. They would either have to continue to operate less efficiently without the machinery or pay the price for the licence, in which case they would still be operating inefficiently by paying too much for the use of the technology. Those competitors might have the right to apply under s.46 although presumably some evidence of inadequate or abusive use of the invention by the owner would also be necessary.

Paragraph (e) applies in similar circumstances where conditions prejudicing commercial or industrial activities are imposed by the patentee upon the grant of a licence. An example would be an attempt to restrict or control further manufacture using the patented product as an ingredient.

Subject to certain exceptions[178] the Commissioner, if satisfied that a ground is made out, may order that licence be granted, upon such terms as he or she thinks fit. Section 47 allows the

Commissioner to order the grant of licences to customers of the applicant also.[179]

Section 48(1) outlines the general purposes which the Commissioner should endeavour to secure when exercising the powers under s.46:

> "(a) That inventions which can be worked on a commercial scale in New Zealand and which should in the public interest be so worked shall be worked therein without undue delay and to the fullest extent that is reasonably practicable:
>
> (b) That the inventor or other person beneficially entitled to a patent shall receive reasonable remuneration, having regard to the nature of the invention:
>
> (c) That the interests of any person for the time being working or developing an invention in New Zealand under the protection of a patent shall not be unfairly prejudiced."

Again, whilst being much broader than merely advocating competition by limiting the use that can be made of a patent, these criteria allow, or indeed require, the Commissioner to take into account matters of competition policy that can be said to be in the public interest and to ensure that reasonable remuneration is given to inventors; excessive remuneration is not prohibited, but there is scope for the Commissioner to look at that.

The extent of the pro-competitive effect of the grant of a compulsory licence depends of course on the terms that the

Commissioner imposes. However the grant of a licence is itself a grant of limited monopoly.[180]

In the last resort a patent may be revoked. Two years after the making of an order for the grant of a licence under s.46, any person interested may apply for the revocation of the patent upon the same grounds as for the order made s.46.[181] If the Commissioner is satisfied that any of those grounds are established and the purposes for which an order may be made on an application under s.46 could not be achieved by making such an order as is authorised, he may order the patent to be revoked. Such an order can be made conditional on a failure to comply within a reasonable period with certain conditions.[182]

Section 66 of the Patents Act 1953 also provides that certain restrictive conditions in a contract for sale, lease, or licence of a particular article shall be void.[183] These are conditions which purport:

"(a) To require the purchaser, lessee, or licensee to acquire from the vendor, lessor, or licensor, or his nominees, or prohibit him from acquiring from any specified person, or from acquiring except from the vendor, lessor, or licensor, or his nominees, any articles other than the patented article or an article made by the patented process:

(b) To prohibit the purchaser, lesses, or licensee from using articles (whether patented or not) which are not supplied by, or any patented process which does not belong to, the vendor, lessor, or licensor, or his nominees, or to restrict the right of the purchaser, lessee, or

> licensee to use any such articles or process."

Paragraph (a) expressly forbids tying arrangements (of a "third line forcing" type)[184] such as a provision requiring the purchase of unpatented articles from the patentee as a condition of the sale of the patented articles. Thus there is a provision which directly invalidates a common anti-competitive practice. Paragraph (b) is aimed at exclusive dealing provisions, another common form of anti-competitive conduct.

Such a condition is not void if the vendor, lessor, or licensor proves[185] that at the time the contract was entered into he or she was willing to sell, lease, or licence, as the case may be, to the purchasor, lessee, or licensee, on reasonable terms specified in the contract and without the condition; and the latter may, under the contract, relieve himself of liability to observe the condition upon giving three months notice in writing and subject to payment to him of compensation determined by an arbitrator.[186]

However, a condition is not void by reason only that it prohibits someone from selling goods other than those supplied by a specified person, or, where the contract is for a lease or licence, that it reserves the right to supply the parts required to kept the patented article in repair.[187] These exceptions fit less easily into modern competition policies.

It is unnecessary to show that the likely effect of the condition will be a substantial lessening of competition as is required in s.s.27 and 28 of the Commerce Act 1986. However, the scope of s.66(1)(b) is limited. In Transfield Pty. Ltd. v Arlo International Ltd.[188] the appellants claimed that s.112(1) of the Patents Act 1952 (Cth.) as amended, which was, for present purposes the same as our s.66(1)(b), rendered void a clause requiring a licensee to use its best endeavours to promote the licenced technology. It was argued that it prevented the appellant from using an article or process supplied or owned by some person other than the licensor.

The majority of the High Court of Australia rejected this argument. Stephen J referred to the "obscurities of drafting"[189] in the section and confined his analysis to the fact that s.112(1)(a)[190] applies only to the "using" of articles or processes.[191] His Honour regarded the clause in the licence as containing no express prohibition or restriction on use. The clause did refer to the"selling" of the patented article and did require the energetic promotion and development of the greatest possible market for the patented article, and here it entered the area of implied prohibition and restraint, at least to the extent that the offering for sale and selling of competitive articles would prejudice the sale of the patented article.[192] However Stephen J held that the s.112(1)(a) reference to "using" articles or a process was not concerned with their "sale". His Honour relied on Tool Metal Manufacturing Co. Ltd. v Tungsten

Electric Co. Ltd.[193] and also the limitation placed on s.112 in s.112(7)(a) which in effect excludes from the prohibition in subs.(1) a condition prohibiting the convenantor from selling goods other than those of particular persons. Thus the respondents were free, to impose the "best endeavours clause".

In New Zealand s.66(5) incorporates the same exclusion. However it is somewhat limited in application by the phrase "by reason only". That distinction means the Australian position can be distinguished when there is some other aspect of the condition that is not protected by s.66(5).

The Australian Industrial Property Advisory Committee has recommended that s.112 should be repealed so that, if the exemptions in the Trade Practices Act 1974 (Aust.) relating to intellectual property were also repealed as recommended, the type of conduct caught by s.112 would be regulated under the Trade Practices Act instead.[194]

Regular renewal fees for patents also discourage unnecessary retention of patent rights.

In addition the Patents Act 1953 prevents a patent holder from extending his rights beyond the life of the patent, for at any time after the patent has ceased to be in force, the contract for sale or lease of the patented article, or for licence to manufacture, use, or work a patented article or process, or relating to any such sale, lease, or licence, may be determined notwithstanding provisions to the contrary in the agreement or any other contract, by three month's notice in writing.

The safeguards are designed to protect the public interest and have the effect of making a patent monopoly a qualified rather than absolute monopoly.

2. Trade Marks Act 1953

The requirements for registration of a trade mark restrict the anti-competitive use of the system.[195]

Section 14(3) provides "in determining whether a trade mark is adapted to distinguish as aforesaid, the Commissioner or the Court may have regard to the extent to which -

(a) The trade mark is inherently adapted to distinguish as aforesaid; and

(b) By reason of the use of the trade mark or of any other circumstances, the trade mark is in fact adapted to distinguish as aforesaid."

In Smith Kline,[196] a trade mark case under the very similar United Kingdom provision,[197] Lord Diplock observed:[198]

> "The reference to inherent adaptability would at first sight appear more apt where the mark has not already been used by the applicant in the course of his trade before the date of the application. However, long before the reference to inherent adaptability had been incorporated in the current statutes dealing with trade marks, it had been held on grounds of public policy that a trader ought not to be allowed to obtain by registration under the Trade Marks Act a monopoly in

what other traders may legitimately desire to use."

His Lordship referred to the "classic statement of this doctrine"[199] in the speech of Lord Parker in Trade Marks Registrar v W & G du Cros Ltd.[200] Lord Parker stated that the right to registration should "largely depend on whether other traders are likely, in the ordinary course of their business and without any improper motive, to desire to use the trade mark, or some mark nearly reasonabling it, upon or in connection with their own goods."[201]

Lord Diplock noted that the reference to "inherently adapted" in s.9(3)[202] has always been treated as giving statutory expression to the doctrine as previously stated by Lord Parker.[203]

The system for trade mark protection clearly is directed to distinctive or fancy features and will not permit traders to acquire exclusive rights in matter in the public domain. This avoids competition concerns.

The Trade Marks Act 1953 provides no system for compulsory licensing of marks. Provisions to prevent trafficking in trade marks[204] and to enable expungement of trade mark registrations for non-use[205] are included in the Act to prevent abuses of the statutory rights.

An attempt to introduce an element of compulsion into a voluntary trade mark licence proved unsuccessful when the High Court of Australia held, in respect of similar legislation, that the Registrar had no power to require, as a condition of registration as a registered user, that the user undertake to manufacture in Australia the goods in respect of which the mark is registered.[206]

3. Designs Act 1953

The requirements for registration of designs preclude protection for wholly functional articles and principles of construction. These requirements avoid monopoly rights in features which competitors must be free to use (in the absence of properly granted patent protection).

Section 14(1) of the Designs Act 1953 provides that any time after the design has been registered a person may apply to the Commissioner for the grant of a compulsory licence in respect of the design on the ground that it is not applied to a reasonable extent in New Zealand by any industrial process or means to the article in respect of which it is registered. The Commissioner may make such order as he or she thinks fit. Thus if the rights are insufficiently exploited, a compulsory licence may be granted. The registration cannot merely seal up the market by preventing competitors using a design the registered proprietor chooses not to use.

4. Copyright Act 1962

Fair dealing rights and rights of use for educational purposes fetter the power of publishers and other copyright owners or licensees to exercise their rights contrary to the public interest.

In respect of musical works, the Copyright Act 1962 makes provision for compulsory licensing. S.22(1) provides that the copyright in a musical work is not infringed by a person making or importing a record of the work intending to sell it by retail or supply it for retail sale or use it to make copies which will be so sold so long as records of the work, or of a similar adaptation,[207] have already been made in or imported into New Zealand or Australia for retail sale by or with the licence of the copyright owner, and so long as the person gives notice to the copyright owner of his intention to make or import the record and pays the owner the prescribed royalty. The royalty is prescribed in s.22(2) and was amended by the Copyright Amendment Act 1986.[208] The new rate is 5.6%, but is to be read as 5.3% until 31 December 1987, presumably to provide a transition period.

The Governor General may, by order in council, prescribe the manner in which and the time at which such royalties shall be paid.[209] The Copyright (Record Royalties) Regulations 1963 were subsequently issued.

Section 22(4) provides that the copyright in any literary or dramatic work comprised in the record shall not be infringed if either copyright does not subsist in the musical work, or if it does, the considerations referred to above are satisfied so long as the previous records were made or imported by, or with the licence of, the owner of the copyright in that literary or dramatic work, and the other considerations referred to are also satisfied in relation to that copyright owner.

The Copyright Tribunal has jurisdiction to hear a person who claims that the copyright owner has unreasonably refused to agree to some method of payment other than that prescribed by order in council, "or has made his agreement subject to unreasonable conditions", and may approve some other method of payment as it thinks fit.[210]

5. Plant Variety Rights Act 1987

The new Plant Variety Rights Act 1987 also provides for compulsory licences and sales.[211] After three years from the making of a grant any person may request the Commissioner to consider "whether or not reasonable quantities of reproductive material of a reasonable quality of the variety concerned are available for purchase by members of the public at a reasonable price".[212]

If the Commissioner is satisfied that there are not available such quantities, he or she shall issue a compulsory licence for the reproduction and sale of reproductive material of that variety or an order requiring that grantee to sell to that person reproductive material of that variety.[213]

In considering whether or not such quantities are available, the Commissioner is not to take into account any reproductive material "available only subject to the condition that all or any of the produce from that material must be sold or offered to a specified person, or to one of a specified group of persons, or to a member of a specified class or description of person".[214]

Thus the Commissioner is directly to look at whether there is in reality sufficient quality material available at a reasonable price. This certainly allows the Commissioner to grant a licence if there is insufficient competition due to the right being exercised in a particular manner.

The Commissioner is to specify a royalty or payment that the licensee or purchaser is to pay to the grantee.[215]

B. The Spare Parts Exemption

In the recent decision of the House of Lords in British Leyland Motor Corporation Ltd. and BL Cars Ltd. v Armstrong Patents Co. Ltd. and Armstrong Equipment Ltd.[216] the majority of their Lordships held that the Plaintiffs were not entitled to use their copyright in such a way as to maintain a monopoly in the supply of spare parts for their cars. It has been said that this prinicple "contradicts the very idea of copyright protection."[217]

Throughout the speeches of the majority reference is made to the fundamentals of competition policy. Lord Scarman said:[218]

> "the manufacturer of an article such as a motor vehicle or other 'consumer durable' cannot by the exercise of copyright preclude the user of the article from access to a free market for spares necessary to maintain it in good working order."

Lord Bridge said:[219]

> "what the owner needs, if his right to repair is to be of value to him, is the freedom to acquire a previously manufactured replacement exhaust system in an unrestricted market."

Further on his Lordship said:[220]

> "Either the court must allow the enforcement of the copyright claim to maintain a monopoly in the supply of spare parts for the copyright owner and his licensees, regardless of any adverse effect of the monopoly on car owners, or the right of car owners to a free market in spare parts necessary for economical repair should prevail .... it seems to me within the capacity of the common law to

> adapt to changing social and economic conditions to counter the belated emergence of the car manufacturer's attempt to monopolise the spare parts market in reliance on copyright in technical drawings by invoking the necessity to safeguard the position of the car owner."

Lord Templeman, referring to the practice of the car manufacturers, said:[221]

> "Ford have asserted copyright in their replacement parts and have adopted a policy of not granting any licences to manufacture or sell, thus asserting a monopoly which has been stigmatised by the Monopolies and Mergers Commission as an anti-competitive practice which tends to keep prices up."

Even Lord Griffiths, who found for Armstrong on the ground that the Copyright Act 1956 did not extend to confer protection against indirect copying of mechanical drawings, focused on competition. His Lordship said:[222]

> "This bizarre result is the consequence of the court's construing 'reproducing' in s 3(5) as including 'indirect copying' in circumstances where it is not necessary to do so to achieve the purpose of the Act which is to protect the commercial value of the artist's work and labour and not to grant a monopoly to a manufacturer."

Further, on the spare parts exception issue, his Lordship said:[223]

> "It seems to me highly improbable that a motor car manufacturer would exploit his copyright either to starve the spare parts market or to increase the fair price for his spare parts for I can think of nothing more damaging to his prospects of selling the car in the first place."

Though these concepts were to the fore throughout their Lordships' speeches, the decision of the majority was based by analogy on the principle of non-derogation from grant and cannot really be seen as a stance taken on competition grounds. That longstanding principle is that as between landlord and tenant and as between the vendor and purchaser of land, a grantor having given a thing with one hand is not to take away the means of enjoying it with the other. It was expressed by Bowen LJ in Birmingham Dudley and District Banking Co. v Ross.[224]

Lord Templeman saw no reason why this principle should not apply to the sale of a car. The grantor of a motor car sold with components which are bound to fail during the use of the car:[225]

> "will not be allowed to derogate from his grant by using property retained by him in such a way as to render property granted by him unfit or materially unfit for the purpose for which the grant was made."

This, Lord Templeman said:[226]

> "prohibits the copyright owner of the drawings from exercising his copyright powers in such a way as to prevent the car from functioning unless the owner of the car buys replacement parts from the copyright owner or his licensee."

As Lord Scarman said, the principle applies not only to motor vehicles but also to other 'consumer durables'.[227]

The law had long recognised the right of a purchaser of a protected item to keep it in repair without concern for breach of any rights - the "right to repair". That however did not extend to third party manufacturers of parts. Hence their Lordships used the non-derogation from grant principle to ensure the effectiveness of this right to repair in the modern context.

Unlike in its original use, the non-derogation from grant principle in its application to the right to repair a motor car, requires no privity between manufacturer and user. There need be no direct relationsip of grantor and grantee. The copyright owner sells cars to dealers who in turn sell to consumers. Also, though it does not effect the grantor-grantee relationship, the grantee actually contracts with a repairer who infringes the copyright, rather than the grantee infringing himself. The link though is in maintaining the usefulness in the grantees' right to repair.

The right to repair binds not only the manufacturer but also those sub-contractors who made parts on their behalf. Also it could not be negatived by contrary stipulation. Neither of these points have been shown in the derogation from grant precedents.

Problems of privity also led their Lordships to reject Armstrong's alternate submission that there was an implied licence. It appears odd that non-derogation from grant may be used by a third party independant manufacturer supplying the world at large. In land law a third party would not have locus standi to bring an action restraining a landlord from engaging in conduct that would render the tenant's demise unfit just because it is detrimental to that third party's interests. "The essence of non-derogation from grant is that it is a remedy that can be exercised only by the 'grantee', it being merely a covenant implied into the contractual relationship between grantor and grantee."[228]

According to the landlord and tenant cases of Port v Griffiths[229] and O'Cedar v Slough Trading Co.,[230] causing the grantee to lose profit or increase expenditure does not constitute a derogation from the grant. Thus it is not clear that British Leyland did render their grant (the rights of ownership in cars) "materially less fit"[231] for its purpose. Replacement parts were readily available from British Leyland or from their licensees, albeit at a slightly higher price.

It has also been said that the non-derogation from grant principle should be limited to land law since the sum of the protection that Parliament has thought it necessary to accord to a purchaser of goods has been embodied in the sale of goods legislation.[232]

It is of particular importance that British Leyland submitted that the conflict of competing rights between the copyright owner and the vehicle owner had to be resolved by reference to other legislation directed to the control of anti-competitive practices, in particular the Fair Trading Act 1973 (U.K.), the Competition Act 1980 (U.K.), and the relevant provisions of the E.E.C. Treaty. Lord Bridge found this unacceptable,[233]

> "If only for the simple reason that to accept it would imply that, had the problem arisen before 1973, no answer could have been found to it in the combined operation of the Copyright Acts and the common law."

However the force of British Leyland's submission can be seen. They were allegedly derogating from their grant by asserting a monopoly right in the replacement parts, thus enabling them to effectively control the price. Their Lordships clearly regarded monopolistic practice as inherently undesirable, but that is the problem specifically addressed by Parliament in the competition legislation. Indeed Ford have been stigmatised by the Monopolies and Mergers Commission for not granting licences to manufacture or sell replacement parts for their vehicles, pursuant to the Competition Act 1980.(U.K.).[234]

It was submitted by Shindler that Lord Bridge's reason for rejecting British Leyland's submission ignores the facts that copyright had not extended into this functional field before those Acts were passed, and that those Acts were passed precisely because there was no remedy available.[235] Shindler also noted that such reasoning was in conflict with the sentiment expressed by Lord Bridge in the paragraph following, that it is "within the capacity of the common law to adapt to changing social and economic conditions ..."[236]

However, the decision does not provide a precedent of wide ranging effect. The spare parts rule is confined to restraining the use of copyright in such a way as to maintain a monopoly in the supply of spare parts. It cannot apply to patents or registered designs. The rights conferred by the Patents Act 1977 (U.K.) and the Registered Designs Act 1949 (U.K.) are quite different from copyright. They are both "truly and expressly monopolistic."[237] Moreover both Acts provide for the grant of compulsory licences, "which must be taken to provide such safeguards as Parliament considered necessary against the possibility of abuse of the monopoly granted".[238]

Another difference, it was said, is that a patent is only infringed, for present purposes, where the invention is a product, by a person making or using the product without the patent proprietor's consent, not merely by repairing it.[239] Copyright is granted in respect of the drawings and not in respect of the article.[240] Finally Lord Templeman also said that the copyright owner is in the business of selling cars, which require exhaust pipes to function, not selling exhaust pipes. And the cars can only be kept in repair by the replacement of exhaust pipes which are not the subject of a patent. In such circumstances copyright cannot be asserted to prevent repair.[241]

Yet in such a case a compulsory licence might not be available . Exhaust pipes were being manufactured under licence and there appears to be no evidence that the demand for licences was not being met on reasonable terms.[242] 'Reasonableness' here is not synonymous with pro-competitive.

The interference with the copyright is said to flow from the fact that there might be less competition in the spare parts market if licences were required. As Lord Griffiths said this "applies equally to patented items and items protected by design copyright and is an obvious consequence of the grant of a right in the nature of a monopoly."[243]

Lord Templeman said that there is no inconsistency between, on the one hand, allowing patent rights to be exercised to prevent the reproduction of an article covered by the patent and, on the other hand, not allowing copyright to be exercised in derogation of grant to prevent the reproduction of an article which is not covered by the copyright.[244] This seems, with respect, to be in turn inconsistent with the notion of infringing by indirect copying. Lord Templeman himself said "the exploitation of copyright law for purposes which were not intended has gone far enough."[245] It is submitted that, accepting the concept of infringement by indirect copying, the law 'has gone too far' for their Lordships to retreat without going back on that proposition and doubting the cases which stand for it.[246]

In New Zealand it cannot be said that the law has gone too far, since the Copyright Amendment Act 1985 actually increased the protection afforded against indirect copying by protecting the copying of models, bringing the protection given to those who design with their hands up to that given those who design by drawing. This must be seen as legislative endorsement of the indirect copying cases.[247]

However if the basic idea behind granting intellectual property rights is to confer monopolies, in a broad sense, in order to reward the proprietor for his ingenuity, skill or investment, as Shindler observed,[248] then why does the non-derogation principle not also apply to patents, which confer a "true monopoly"? If the distinction rests on the fact that a patent confers a true monopoly and Parliament has provided for compulsory licences, then the logical answer is that Parliament should provide for compulsory licences in respect of this area of copyright, as it has done for musical works.[249] This was in fact suggested by Lord Griffiths.[250] It is not a true comparison to consider the public interest safeguard of compulsory licences against the patent monopoly right as against the non-derogation from grant exception to copyright. The compulsory licence under a patent acknowledges the patentee's right and assures him remuneration. The non-derogation from grant principle does neither of these things for the copyright owner. Assertion of an effective monopoly is allowed but assertion of a less effective monopoly is not.

Shindler also said,[251]

> "it is even less logical, and also of doubtful jurisprudence, to prevent a party asserting statute-granted monopoly rights solely because to allow him to assert these rights would confer a monolopy on him."

This does appear to insufficiently distinguish between the true market monopoly, and that product monopoly which copyright gives.

It appears that the House of Lords has, with the non-derogation from grant principle, done to the copyright law the very thing their Lordships say in British Leyland[252] that a copyright owner cannot do: "giving a thing with one hand and taking away the means of enjoying it with the other."[253] As Shindler observed,[254] there is perhaps a touch of serendipity about the opening of Lord Scarman's speech:[255]

> "I had intended to deliver a reasoned speech in this very important appeal. But I find myself in total agreement with the speech to be delivered by my noble and learned friend Lord Templeman."

The non-derogation of grant principle applies only to copying those parts of a manufactured article that are necessary to maintain it in good repair.[256] It is a matter of conjecture as to what constitutes a necessary repair. It has been said that "Lord Templeman's extension and remodelling of the 'right to repair' defence, ostensibly bottomed on impeccable legal analogies, is in fact radical and pretty nakedly legislative."[257]

The House of Lords declined to comment on another point regarding Article 85 of the E.E.C. Treaty prohibiting agreement tending to stifle competition. Armstrong had disputed British Leyland's claim on the ground that it infringed Article 85. The Court of Appeal had rejected that plea, finding that however anti-competitive

British Leyland's practice of entering into licence agreements with parts manufacturers other than Armstrong, its illegality could not affect British Leyland's ability to assert its intellectual property rights against those who refused to agree.[258] This may have some relevance for the exemption provided in s. 36(2).[259]

It is a pity their Lordships did not comment on this point. The Court of Appeal's rejection does not fit comfortably alongside the European Court's jurisprudence. In Deutsche Grammophon[260] it was held that national courts must refuse to allow a plaintiff to enforce otherwise valid rights if his object is to bolster an unlawful anti-competitive practice or agreement.

In April 1986 the U.K. Government stated in a White Paper[261] that it intended to narrow drastically the 'right to repair' defence enunciated by the House of Lords in British Leyland.[262] It is proposed to protect original designs of all articles (including spare parts) which are not artistic works by a new unregistered design right, and to provide a term of protection under the new right of ten years from first marketing but with licences available as of right during the second five years of the term. Conversion damages are to be abolished.

In New Zealand the High Court has already considered the British Leyland[263] decision. In Mono Pumps (New Zealand) Ltd. v Karinya Industries Ltd.[264] the plaintiffs claimed they had copyright in drawings from which pumps were made. They claimed that their copyright was infringed by pumps imported from India. In late 1984 Casey J granted an interlocutory injunction restraining the sale and importation of reproductions of the copyright works. After the House of Lords decision in British Leyland[265] the second defendant moved to vary the orders contending that the 'spare parts exception' enunciated in that case should be applied in New Zealand.

Tompkins J refused to follow the House of Lords decision. His Honour noted that such decisions are not binding on New Zealand Courts and where issues of social policy and legal phlisophy are involved New Zealand courts should decide what the policy of the law here ought to be.[266]

Tompkins J then compared the legislative provisions in the United Kingdom and in New Zealand, noting that until 1985 the relevant statutory provisions were for all practical purposes identical.[267]

Section 5 of the Copyright Amendment Act 1985 enacted a new s. 20B which provides for a special exception from protection of artistic works which have been applied industrially.[268] The making of an object in three dimensions (which includes a reproduction in two dimensions reasonably required for the making of the object) does not infringe copyright in an artistic work, if, when the object or reproduction is made, the artistic work has been lawfully applied industrially in New Zealand or elsewhere for more than 16 years. Subsection (2) defines when an artistic work is applied industrially. Hence a product is protected under copyright against copying for 16 years from commercialisation.

The Amendment Act also significantly curtails the remedy of conversion damages where the infringing copies are reproductions in three dimensions of an artistic work, or reproductions in two dimensions reasonably required for the making of the reproduction in three dimensions, or in respect of any plate used or intended to be used for making those infringing copies, unless the Court otherwise orders having regard to the specific matter set out in the subsection.[269]

The Amendment Act repealed section 20(8)[270] which was identical to section 9(8) of the United Kingdom Act, the subsection which Lord Templeman said was defective to achieve the intended purpose of preventing the extension of the scope of copyright into fields beyond its main original intent. Clearly the intention was that section 20(8) should be replaced by sections 20A and 20B.

Tompkins J concluded:[271]

> "that the changes to New Zealand copyright law achieved by the 1985 amendment have resulted in the law in New Zealand now differing from the law in the United Kingdom to such a degree that it is inappropriate for the New Zealand courts to follow the British Leyland decision."

Applying N.Z.E.I. v Director-General of Education,[272] Tompkins J looked at the Report to the Minister of Justice of the Industrial Property Advisory Committee on the law of copyright as it applied in New Zealand to industrial designs.[273] That report makes it clear that the proposals were intended, inter alia, to modify the then excessively punitive provisions in relation to conversion damages and the term of copyright protection when an artistic work is applied industrially. Tompkins J noted that although the report did not deal expressly with the spare parts exception, which had not been recognised at that time, it did expressly refer to submissions by the Ford Motor Co. of New Zealand relating to the spare parts issue.[274] Ford had been concerned at the danger that private manufacturers could select parts having high sales volumes and sell at significantly lower prices without the need to maintain quality or reputation. Rather than recommend a specific spare parts provision, however, the committee, in its final recommendation, made a recommendation which resulted in section 20B.[275]

Tompkins J said:[276]

> "in enacting that section the legislature not only expressly recognised the copyright resulting from artistic work which has been applied industrially - what might generally be referred to as industrial design - it also enacted a means by which the previously existing problem of the duration of such copyright should be solved, namely, by imposing a sixteen year term. It overcame the previously existing problem relating to conversion damages by enacting the new s.25(2A) effectively eliminating conversion damages in cases of industrial design unless the Court otherwise orders. So our legislature has expressly addressed itself to some aspects of the two respects in which Lord Bridge regarded the present law as highly unsatisfactory in the extract from his speech that I have already cited. Further, the repeal of s20(8) and its substitution by s.20B indicates that the legislature has expressly set out to remedy the defect in the previous law to which Lord Templeman referred in his speech."

To follow British Leyland[277] in New Zealand would result in the Courts imposing an exception that the legislature had not considered it appropriate to enact when it had expressly addressed itself to the problem of copyright in industrial design. Any further exception, Tompkins J said, should be enacted by the legislature, not by the Court.[280]

Ironically though, the Parliamentary Select Committee was advised to leave any spare parts exception to the courts.[281] Tompkins J, it is respectfully submitted, should have had the courage to say the House of Lords was wrong and that he was not prepared to follow it.

In addition to the difference in legislation between New Zealand and the United Kingdom Tompkins J regarded two matters as having some bearing on whether British Leyland[282] should be followed in New Zealand.[283] These were firstly that the misgivings expressed by Lord Griffiths were to a considerable extent shared by Lord Edmund-Davies and were at least sufficient to prompt Lord Scarman to consider that the review of the law which he understood was then being undertaken should lead to legislation to bring the law back within what his Lordship regarded as the limits intended by Parliament. Secondly Tompkins J referred to the British White Paper entitled "Intellectual Property and Innovation" which indicates that the spare parts exception, at least in its present form, will prove to be short lived.

The case concerned an application to vary an interlocutory order and so the matter may receive more detailed treatment in the future.

It is submitted that the decision of Tompkins J is entirely appropriate for New Zealand copyright law. With regard to competition policy however, it does indicate that the submission made by British Leyland in the House of Lords that competition legislation is the only means to enforce competition policy, is the correct approach for New Zealand, at least as far as copyright is concerned.

British Leyland[284] and Mono Pumps[285] were both considered by Smellie J in Dennison Manufacturing Co. & Another v Alfred Holt & Co. Ltd. & Others.[286] That case concerned labelling tags or attachments in respect of which Dennison claimed copyright. The tags were used for attaching price labels to clothing. They were applied by means of a mechanical applicator, similar to a gun. Counsel for the Second and Third Defendants argued that the Plaintiffs were attempting to obtain a monopoly in a functional manufactured product which was not susceptible of patent or registered design protection, relying on the exception to copyright protection recognised in British Leyland.[287] It was argued that the Plaintiffs sought to assert:[288]

> "a much wider monopoly than did British Leyland because it monopolises the market for supply of tags, not just for its own guns but for those of its competitors as well.... In the British Leyland case the purchaser could at least use his car until it needed repair and if he found the prices charged by British Leyland or its licensees unattractive

> purchase rival make from a more tolerant manufacturer. Here the purchaser of a Dennision gun or a competitor's gun cannot even begin to use his gun without buying tags from Dennison at whatever price in the context of a monopoly it chooses to charge."

Smellie J held that the factual situation giving rise to the spare parts exception in the British Leyland[289] case was clearly distinguishable. The evidence was that the Plaintiffs did not sell their guns, rather they provided them free to potential customers. The only protection the Plaintiffs sought was in relation to their attachments and they raised no objection to those attachments being applied with guns manufactured by other parties. Smellie J held that there was no sense in which the Plaintiffs, once having sold the attachments, sought to curtail by way of copyright or otherwise the purchaser's use of them.[290]

Referring to Mono Pumps[291], Smellie J found himself in "entire agreement with the conclusion reached by Tompkins J[292] ".

The British Leyland[293] decision has been considered in Australia in Warman International & Ors. v Envirotech Australia Pty. Ltd. & Ors.[294] In that case Wilcox J said that the result achieved in British Leyland[295] "may fairly be described as remarkable". Without deciding whether to follow the House of Lords, Wilcox J referred to the fact that the Australian Parliament had dealt with the inter-relationship between the Copyright Act 1968 (Cth.) and the Designs Act 1906 (Cth.) as recently as 1981, intimating that the judicial intervention of their Lordships may not be applied in Australia.[296]

C. Re Coca-Cola Co's Applications

British Leyland v Armstrong Patents[297] was not the only case during 1986 in which the House of Lords stood firm against monopolisation. In Re Coca-Cola Co's Applications[298] their Lordships refused to allow an appeal against the decision of the Registrar of Trade Marks to register the distinctively shaped Coca-Cola bottle as a trade mark under the Trade Marks Act 1938 (U.K.).

Lord Templeman, with whom their Lordships agreed, commenced his speech:[299]

> "My Lords, this is another attempt to expand the boundaries of intellectual property and to convert a protective law into a source of monopoly. The attempt to use the Copyright Act 1956 for this purpose failed recently in British Leyland Motor Corp Ltd v Armstrong Patents Co Ltd [1986] 1 All ER 850, [1986] 2 WLR 400. The present attempt is based on the Trade Marks Act 1938."

According to Lord Templeman Coca-Cola claimed "that during and since the period of protection for the Coca-Cola bottle under the 1907 [Patents and Designs]

Act the Coca-Cola Co. has been entitled to a monopoly in the Coca-Cola bottle as a trade mark".[300]

The writer has already submitted that trade marks confer no market monopoly. Indeed Lord Templeman only referred to a product monopoly, in the Coca-Cola bottle, and yet the disdain demonstrated at Coca-Cola's attempt gives the impression that a market monopoly would have eventuated from the registration of the trade mark:[301]

> "It is not sufficient for the Coca-Cola bottle to be distinctive. The Coca-Cola Co. must succeed in the startling proposition that the bottle is a trade mark. If so, then any other container or any article of a distinctive shape is capable of being a trade mark. This raises the spectre of a total and perpetual monopoly in containers and articles achieved by means of the 1938 Act. Once the container or article has become associated with the manufacturer and distinctiveness has been established, with or without the help of the monopolies created by the Patents Act, the Registered Designs Act or the Copyright Act, the perpetual trade mark monopoly in the container or article can be achieved. In my opinion the 1938 Act was not intended to confer on the manufacturer of a container or on the manufacturer of an article a statutory monopoly on the ground that the manufacturer has in the eyes of the public established a connection between the shape of the container or article and the manufactuer. A rival manufacturer must be free to sell any container or article of similar shape provided the container or article is labelled or packaged in a manner which avoids confusion as to the origin of the goods in the container or the origin of the article."

Lord Templeman referred to the case of Re James's Trade Mark, James v Soulby[302] where the Plaintiffs sold black lead in the form of a dome. Their products were impressed with the representation of a dome and their labels carried a picture of a black dome. They were allowed to register the representation of a black dome as their trade mark. They were not entitled to register the article itself. Lindley LJ said:[303]

> "Of course the plaintiffs' in this case have no monopoly in black lead of this shape. Anybody may make black lead of this shape provided he does not mark it as the plaintiffs mark theirs, and provided he does not pass it off as the plaintiffs' black lead. There is no monopoly in the shape, and I cannot help thinking that that has not been sufficiently kept in mind."

Their Lordships also agreed that Smith Kline and French Laboratories Ltd. v Stirling Winthrop Group Ltd.[304] was distinguishable. In that case the Plaintiffs were allowed to register distinctive colour combinations as trade marks for drugs sold in pellet form in capsules. Lord Diplock there rejected the argument that a mark could not cover the whole of the visible surface of the goods to which it was applied.[305]

Lord Templeman was of the view that the Smith Kline[306] case only related to the colour of goods and had no application to the goods themselves or to a container for goods. His Lordship said: "A colour combination may tend to an undesirable monopoly in colours but does not create an undesirable monopoly in goods or containers."[307]

Lord Diplock in the Smith Kline case, however, in no way confined his reasoning to colour only.[308] A mark may be incorporated into the structure of goods, so long as it can be seen on visual examination. His Lordship's reasoning seems based on the ground that the mark must be "capable of indicating a connection in the course of trade between the goods and the proprietor of the mark."[309] The colour combinations were seen as more relevant to the distinctiveness of the mark, than to whether there was a trade mark at all. And in Coca-Cola it was assumed without being decided that a Coca-Cola bottle was distinctive.[310]

Turning to the Trade Marks Rules 1938 (U.K.) Lord Diplock observed that R.28 authorises the Registrar to accept a specimen or copy of the trade mark instead of a representation by way of a drawing or other pictorial representation of the mark. His Lordship said:[311]

> "In the case of a trade mark which is intended to be used on the actual goods in respect of which it is to be registered, I see nothing in these rules to require a trade mark to be two-dimensional only or to exclude from registration a mark which covers the whole of the visible surface of the goods."

Further on Lord Diplock stated:[312]

> "Trade marks in their origin were marks that were applied to goods by their maker so that a buyer by visual examination of the goods could tell who made them. Makers' marks on silver and gold plate afford some of the earliest examples. With the growth of advertising, representations of trade marks have become widely used in advertisements so as to familiarise buyers with the mark, but the

> application of trade marks to the actual goods or to the packages containing them still constitutes their basic function. The mark may be applied by the maker to whatever visible part of the goods he chooses as suitable. If he habitually places it in a particular position on the goods, its distinctiveness in fact as indicating that the goods are of his manufacture may be associated with the position in which it appears on the goods and in the case of markings of a kind which are not intrinsically uncommon their distinctiveness as a trade mark may depend on the position in which the markings appear on the goods; as, for example, bands of colour or a raised moulded pattern round the neck of a bottle containing the manufacturer's product." (My emphasis).

Also his Lordship referred to Re James's Trade Mark,[313] explaining that the passage of Lindley LJ later cited by Lord Templeman was delivered in the context of clearing up the erroneous view apparently taken by Pearson J at the hearing that the effect of the registration of a trade mark in the shape of a dome would be to make it an infringement of that trade mark for anyone other than its proprietor to make blocks of black lead of that shape. This led Lord Diplock to conclude:[314]

> "*James's* case does not, in my view throw any light on the question involved in the instant appeal; but even if Lindley LJ's apothegm were treated as being of general application the 'thing marked' in the instant case is the pharmaceutical substance in pellet form within capsules and the 'mark' is the colour applied to one half of the capsule and the various colours applied to the individual pellets within the capsule."

It is submitted that Re Coca Cola Co's Applications[315] can be seen more as another policy decision based on competition policy grounds than a reasoned approach to the law of trade marks. The case is most helpful as being reflective of Lord Templeman's, and it seems the present House of Lord's, desire to restrict intellectual property rights within narrow limits.

D. Passing-Off

1. The Weighing Process

In the Cadbury-Schweppes[316] case Lord Scarman, after outlining the test for passing-off, said:[317]

> "But competition must remain free; and competition is safeguarded by the necessity for the plaintiff to prove that he has built up an 'intangible property right' in the advertised descriptions of his product, or, in other words, that he has succeeded by such methods in giving his product a distinctive character accepted by the market. A defendant, however, does no wrong by entering a market created by another and there competing with its creator. A line may be difficult to draw; but, unless it is drawn, competition will be stifled."

Further on his Lordship said:[318]

> "In reaching his conclusion of fact that the respondent had 'sufficiently' distinguished its product from 'Solo', the Judge had not only to conduct an elaborate and detailed analysis of the evidence, which he certainly did, but to bear in mind the necessity in this branch of the law of the balance to be maintained between the protection of a plaintiff's investment in his product and the protection of free competition. It is only if a plaintiff can establish that a defendant has invaded his 'intangible property right' in his product by misappropriating descriptions which have become recognised by the market as distinctive of the product that the law will permit competition to be restricted. Any other approach would encourage a

> monopoly. The new, small man would increasingly find his entry into an existing market obstructed by the large traders already well known as operating in it."

2. Justification in Passing-Off

Another example of the flexibility of the courts enabling the prevention of the use of intellectual property actions where the effect would be anti-competitive occurs in the cause of action in passing-off.

In Erven Warnink[319] Lord Diplock stated that in an action for passing-off which satisfied each of the common law's requisite elements, the action may still fail if there was also:[320]

> "present in the case some exceptional feature which justifies, on grounds of public policy, withholding from a person who has sufferred injury in consequence of the deception practised on prospective customers or consumers of his product a remedy in law against the deceiver".

Lord Diplock went on to refer to the development of law to take account of modern business practices and ethics. This may suggest that a pro-competition emphasis may be brought to bear in the area of the torts relating to fair trading.

E. Other Possible Constraints on Anti-competitive Use of Intellectual Property Rights.

Quite apart from the restrictive trade practices provisions of the Commerce Act 1986, the courts may, in some circumstances, limit abusive use of intellectual property rights.

In the case of covenants and agreements in restraint of trade, the courts will scrutinize them for reasonableness.

In Michael A'Court Taylor v Rotowax Trading Ltd.[321] Somers J, delivering the judgment of the Court of Appeal, stated:[322]

> "It is well understood that the common law principles of freedom of contract must on occasion give way to policy considerations. One of the latter is freedom of trade. A bare covenant not to compete with another in his business or trade is unenforceable: see e.g. Vancouver Malt and Sake Brewing Co. v Vancouver Breweries Ltd. [1934] A.C. 186. It is otherwise if the covenantee has some interest or property which he is entitled to protect".

A covenant in restraint of trade, so long as it is no wider than is necessary, may be exacted to protect trade secrets (confidential information). However if it is too broad, or of too great a duration or geographical effect, it will be void - subject only to being saved in modified form under the Illegal

Contracts Act 1970.[323]

A defendant may be relieved of the obligation of confidence and so have a defence to an action for breach, if the disclosure complained of is held to be justified in the public interest. Such may be the case when to maintain the confidence would be to conceal iniquity.[324]

This defence has been upheld in proceedings for disclosure of information tending to establish a breach of the trade practices legislation in Australia.[325]

The public interest defence has been extended to save publication of copyright material where disclosure was justified.[326] However the defence does not appear to have been extended beyond situations involving publication of material involving "crimes, frauds and misdeeds".

There is no authority for a general public interest defence justifying breach of statutory intellectual property rights on grounds such as lack of competition or excessive pricing.

Murphy J in the High Court of Australia in International Parcel Express Co. v Time Life International[327] suggested that conduct involving breach of s.46(1) of the Trade Practices Act 1974 (similar to s.36(1) of the Commerce Act 1986) should be negated before relief for infringement of copyright is given. He referred to "public equities" to be protected.

Reference is made elsewhere to the defence of justification in passing off. Similarly Casey J has said in a passing off case:[328]

> "It would follow that if Mutual's counterclaim for passing-off had been for the protection of a genuine business interest in the name, there could be no objection to an injunction. But for the reasons set out above, I am satisfied that it was a simple blocking operation, and the case can be fitted into that category of "unclean hands" mentioned by Spry where the plaintiff is attempting to abuse the process of the Court. It would be wrong to assist this scheme to stifle legitimate competition by granting relief intended for the protection of a genuine New Zealand business goodwill, and I would refuse the issue of an injunction against the Respondents. I emphasise that this quite exceptional refusal of a remedy - otherwise justified on the case made to the trial judge - is dictated by the equally exceptional circumstances giving rise to this litigation".

The refusal of equitable remedies such as injunction, and an account of profit is a means by which the courts can, in appropriate cases, register disapproval of a successful plaintiff's conduct.[329]

It is submitted however, that in the case of the exercise of statutory rights, denial of remedies for infringement on public interest grounds would occur only where unlawfulness is involved. Any different view would involve grafting on to the right a limitation the legislature did not choose to impose when creating the right.

For this reason the courts cannot be expected to proscribe the exercise of statutory intellectual property rights on anti-competitive grounds unless there is involved a breach of the provisions of the Commerce Act 1986 or some other statutory provision.

IV THE COMMERCE ACT 1986

A. Section 45

Section 45 of the Commerce Act 1986 provides exceptions in relation to certain intellectual property rights from the restrictive trade practices provisions in Part II of the Act. Section 45 itself does not apply in respect of practices caught under ss.36-38. Section 36 restricts the use of a dominant position in a market, and has its own intellectual property exception.[330] Sections 37 and 38 deal with resale price maintenance.

Section 45 is as follows:

> "**Exceptions in relation to copyright, patents, plant varieties, registered designs, and trade marks** - (1) Nothing in this Part of this Act, except sections 36, 37 and 38 of this Act applies -
>
> (a) To the entering into of a contract or arrangement or arriving at an understanding in so far as it contains a provision relating to the use, licence, or assignment of rights under or existing by virtue of any copyright, patent, protected plant variety, registered design, or trade mark; or
>
> (b) To any act done to give effect to a provision of a contract, arrangement or understanding referred to in paragraph (a) of this subsection.
>
> (2) For the purposes of subsection (1) of this section, a provision relates to the use, licence, or assignment of any rights under or existing by virtue of any copyright, patent, protected plant variety, registered design, or trade mark if -
>
> (a) It controls the nature, extent, territory or period of the exercise of those rights or the

type, quality, or quantity of goods or services to which those rights relate; or

(b) It imposes restrictions for the purpose of protecting the interest of the owner, seller, or licensor in a technically satisfactory exploitation of those rights; or

(c) It consists of an obligation on the part of the licensee or a party to the contract to exchange experience, or to grant licences for improvements in, or applied uses of, an invention, design, or plant variety, in so far as the obligation is identical to an obligation of another party who is an owner or seller or licensor of those rights; or

(d) It consists of an obligation affecting competition in a market outside New Zealand, which obligation does not remain in force beyond the expiration of those rights.

This section is modelled on sections 20 and 21 of the Gesetz gegen Wettbewerbsbeschränkungen 1957 (West Germany) - Law Against Restraints on Competition (hereinafter "GWB").[331] Although Eagles regards this as "less than fair to the Germans".[332]

The Australian Trade Practices Act 1974 also makes specific, but different, reference to dealings involving the transfer and exercise of intellectual property rights in s.51(3).

It appears a matter that will have to be addressed early when this provision comes before the High Court is the relationship between the two subsections of s.45. Subsection (2) seems to merely define the circumstances in which a provision "relates to the use, licence, or assignment of any rights under or existing by virtue of" the intellectual property rights referred to. It is clear subsection (2) effectively deems certain types of provisions to so relate, and those come within the protection afforded by s.45(1). Eagles even has doubt as to this construction since he regards all the paragraphs in subsection (2) with the exception of (d) as clearly coming within subsection (1) anyway, thus making a deeming provision superfluous.[333] He then questions whether subsection (2) may be "a means of extending the scope of the protected rights themselves rather than a way of expanding the class of protected dealings in these rights".[334] But, as Eagles admits, each paragraph, except paragraph (a), tends rather to be aimed at narrowing the rights rather than extending them. It is submitted that the legislature could not have intended, in the context of an exemption in a competition statute, to extend the scope of protection beyond that available before the Act was passed. The section leaves unanswered whether subsection (2) operates as an exhaustive list of such provisions, or whether it is merely illustrative. The writer regards s.45 as incapable of the construction that the matters in s.45(2) are merely illustrative. Although "for the purposes" is not as indicative of exclusivity as "if and only if", it seems unthinkable that Parliament could, in allowing a particular specific exception to an otherwise all-embracing piece of legislation, leave open the extent of that exception by providing only an illustrative list.

In the definition provisions of the Act the phrase "for the

335

purposes of" is used in a clearly exhaustive context. The fact that the phrase is used in a definition section should not affect its meaning, since s.45(2) is in effect a definition section itself, in the writer's view. Further, the matters referred to in s.45(2) do seem to exhaustively cover those aspects of provisions relating to the use, licence, or assignment of intellectual property rights which could be worthy of exception from the restrictive trade practices code. No other interpretation fits comfortably with the repeated examples in the Commerce Act 1986 limiting the scope of exemptions. Section 45(1) applies to "the entering into a contract or arrangement or arriving at an understanding in so far as it contains a provision" of the type in issue. Thus should the contract, arrangement, or understanding contain other provisions which, or should those same provisions otherwise, breach Part II, then s.45 is not of assistance. Another example is in s.36(2), which in effect provides an exception to s.36(1). A person does not use a dominant position for one of the specified purposes "by reason only" of enforcing an intellectual property right.

Thus it is submitted s.45(2) does provide an exhaustive list of those provisions which are protected under s.45(1)(a). That is those acts of entering into a contract or arrangement, or arriving at an understanding in so far as they contain such a provision, or of giving effect to such a provision, are protected.

Such a construction does leave the question: why is s.45(1) required at all? It seems the answer to this lies only in the complexity required to draft s.45 in a single subsection since, as noted above, the acts which would contravene Part II are protected, not the provision itself.

Many of the terms used in s.45 are defined elsewhere in the Act.[336]

1. "Relating To"

As we have seen, to be protected under s.45 the provision must relate to the use, licence, or assignment of the intellectual property right. The degree of closeness required in this relationship or connection is not altogether clear. Section 20 of the GWB excludes all restrictions on licensees or assignees that "go beyond the scope" of the right. Section 45 seems intentionally broader than that.

The Trade Practices Act 1974 (Aust.) contains a similar exception for intellectual property rights, though there are important differences which make the wholesale application of Australian case law in this area fraught with difficulties. Although s.51 of the Trade Practices Act 1974 only protects conditions of licences and assignments of intellectual property rights, and not also provisions relating to the "use" of those rights, such a condition is protected "to the extent that the condition relates to" (my emphasis) the subject matter of certain intellectual property rights[337]. Thus there is this similarity with s.45 enabling us to turn to the single Australian case on the provision for assistance. In that case, Transfield Pty Ltd. v Arlo International Ltd.,[338] Arlo was entitled to certain rights as licensee of a patent for a process for the manufacture and erection of electricity pylons. Arlo granted Transfield an exclusive sub-licence throughout Australia which contained a "best endeavours clause", that is a clause compelling the (sub-)licensee to, at all times during the period of the licence, "use its best endeavours in and towards the design fabrication installation and selling" of the patented article throughout the licensed territory and "to energetically promote and develop the greatest possible market" for that patented article.

Transfield later tendered successfully for the construction of an electricity transmission line using poles of its own design. Arlo brought an action claiming breach of the best endeavours clause. Meares J held that Transfield did breach the clause and awarded damages. On appeal the Court of Appeal Division of the Supreme Court of New South Wales in the judgment of the Court delievered by Reynolds JA refused to allow the appeal. The appellant's appeal to the High Court of Australia was limited to defences based on s.112(1) of the Patents Act 1952 and s.45 of[339] the Trade Practices Act 1974. This second defence was that s.45 rendered unenforceable as against a corporation a provision of a contract which had the purpose, or had, or was likely to have had, the effect of substantially lessening competition.

The appeal was dismissed by the majority of the High Court of Australia. On the question of whether s.45 applied Mason J, obiter, referred to the meaning of the term "relates". The appellant had submitted that the clause did not only relate to matters coming within s.51(3)(a)(iii), but also to matters going beyond the terms of that sub-paragraph, that is relating to not using any other pylons.

Mason J said:[340]

> "This submission in part reflects an interpretation of [the best endeavours clause] which I have rejected and in part attributes to the word "relates" a meaning which is too narrow, thereby giving sec. 51(3) an overly restrictive operation.
>
> In bridging the different policies of the *Patents Act* and the *Trade Practices Act*, sec. 51(3) recognises that a patentee is justly entitled to impose conditions on the granting of a licence or assignment of a patent in order to protect the patentee's legal monopoly. Even under American Anti-Trust Law, where there is no equivalent exception to sec.51(3), the patentee is entitled to exercise some measure of control over the licensee consistent with the scope of the patent monopoly, though there has been some controversy as to the scope of permissible control: see Donald & Heydon, *Trade Practices Law*, vol.1(1978), pp.117, 118; Ward S Bowman, Jr., *Patent and Antitrust Law* (1973), ch 7 & ch 8; P.Areeda, *Antitrust Analysis* 1974), 2nd ed., pp.448 ff. Section 51(3) determines the scope of restrictions the patentee may properly impose on the use of the patent. Conditions which seek to gain advantages collateral to the patent are not covered by sec.51(3). Section 8(4) of the *Restrictive Trade Practices Act*, 1956 (U.K.) contained a clause in similar terms to sec.51(3)(a)(iii) (see W.M.C.Gummow, (1976), 7 Syd. L. Rev. 339 at p.357)" (My emphasis).

Mason J was of the view that s.51(3) would provide a defence to a case of contravention of s.45(2) arising out of the presence of the best endeavours clause in the agreement.

Wilson J was of the view, obiter, that the clause fell squarely within s.51(3).[341] The other Judges, including the dissentient, Murphy J, did not address the point.

Although the High Court of Australia did not subject s.51(3) of the Trade Practices Act 1974 to a detailed and rigorous examination, it nevertheless appears to have rejected a narrow and legalistic approach to s.51(3) and recognised the conflict between trade practices and patents legislation. In addresssing that conflict Mason, J. concluded that the monopoly granted under the Patents Act 1952 (Aust.) must be given effect to and that the Trade Practices Act 1974 (Aust.), at least in the circumstances of the case before the Court, would come into operation only if there was an attempt made to extend the patent monopoly into collateral fields as opposed to operating to narrow the monopoly granted under the patents legislation itself.[342]

The Australian Industrial Property Advisory Committee has recommended that s. 51(3), in so far as it relates to inventions covered by patents and patent applications, should be repealed.[343] Though outside its terms of reference, the Committee said similar arguments may well apply to conduct related to registered trade marks and designs, and to copyright.[344]

Stone has said that the "relating to" test could be reframed as a "but for" test: "would the act forbidden by the clause in question infringe the parent right if the licence did not exist".[345] This would have its advantages and disadvantages, as Eagles has pointed out.[346] It would be easier to operate than a test based on degrees of relatedness. But it would not answer all potential questions satisfactorily. Such a "but for" test could not cope with positive requirements or covenants on licensees or purchasers. An example is the best endeavours clause in the Transfield case.[347]

The requirement that the provision relate to the use, licence, or assignment must, it is submitted, be an objective rather than subjective test. There is no hint of subjectivity in the plain meaning of s.45. The provisions referred to in s.45(2)(a), (c), and (d) are all described by reference to their content rather than their purpose. A subjective construction would be contrary to the scheme of the Act, which is concerned with results. Sections 27 and 28 refer to "purpose, or ... effect". Section 30 deems certain conduct to come within that phrase and in sections 29 and 36 certain purposes are caught without there necessarily being any actual effect. Paragraph (b) specifically refers to purpose but in respect of the provision, rather than of a person in the sense of a motive.

2. Purpose - Section 45(2)(b).

Section 45(2)(b) as we have seen refers to restrictions imposed "for the purpose of protecting the interest of the owner, seller, or licensor in a technically satisfactory exploitation of those rights". Section 2(5)(a) provides:

> "A provision of a contract, arrangement or understanding, or a covenant shall be deemed to have had, or to have, a particular purpose if -
>
> (i) the provision was or is included in the contract, arrangement or understanding, or the covenant was or is required to be given, for that purpose or purposes that included or include that purpose; and
>
> (ii) that purpose was or is a substantial purpose".

Thus an owner, seller, or licensor in order to get the protection of s.45(2)(b) must show that the provision imposed a certain restriction for the substantial purpose of protecting his interest in a technically satisfactory exploitation of the intellectual property right. That there was another purpose, whether anti-competitive or not, which may also have been substantial, will not prevent s.45(2)(b) from saving the provision. Just as a substantial anti-competitive purpose is enough to catch a provision under the restrictive trade practices code itself, so too is a substantial purpose in accordance with s.45(2)(b) sufficient, even if other anti-competitive purposes are present.

It is submitted that "purpose" ought to be given the same meaning throughout the Act. In C.I.R. v Haenga[345] "purpose", as used in the income tax legislation, was held to mean goal or objective, rather than immediate intention. A purpose need not be achieved, for it to exist is sufficient.

That is not to say that "purpose" must be determined in the same way in different provisions of the Act. In Auckland Regional Authority v Mutual Rental Cars (Auckland Airport) Ltd. & Others[349] Barker J held that s.2(5)(a) provides for an objective test, citing Dandy Power Equipment Pty. Ltd. v Mercury Marine Pty. Ltd.[350] In that case Smithers J relied on tax cases in which the subjective purpose, motive or intention of a taxpayer was held to be irrelevant in interpretating tax evasion legislation which was concerned with the character of acts done and with transactions, and concluded that the equivalent provision of s.2(5) in the Australian Act should be interpreted objectively. Barker J held that "purpose" must be interpreted objectively under ss.27 and 29.[351]

This seems, with respect, entirely correct with regard to the purpose of a "provision". This may be contrasted with s.36 where the relevant purpose is that of a person.[352] It is submitted that "purpose" in s.45(2)(b) ought to be determined objectively, in the same way that s.27 has been interpreted.

3. Restrictions on the Right-Holder

Section 45(1) seems to extend to protect obligations the right-holder imposes upon himself, as well as those placed on others.

While, of course, a right-holder cannot infringe his own intellectual property right he may grant a licensee such rights as a veto over new licences,[353] a say in the selection,[354] removal,[355] or replacement of fellow licensees.

Eagles formed the view that either the "but for" test could not usefully be applied to such clauses or that all such clauses fail the "but for" test.[356] This latter view was taken by Stone.[357] If it were correct, as Eagles points out, each of the above clauses would be outside s.45 as would an agreement between licensor and licensees that a prospective licensee be charged a disproportionately high royalty because of its market dominance.[358] It is submitted that such results are entirely appropriate.

These clauses may well not breach s.27 anyway, since they could potentially be pro-competitive in certain instances. Eagles thought so if such a clause was the only way in which a small innovative but under-capitalised licensor could attract licensees.[359]

4. The Section 45 Protection Afforded to Each Intellectual Property Right.

Section 45 on its face might be taken to apply only to the statutory intellectual property rights: copyright, patents, protected plant varieties, registered designs, and trade marks. That only statutory intellectual property rights are protected by s.45 is supported by the fact that "trade secrets", which appeared in this clause of the Commerce Bill,[360] was omitted before the Bill was enacted.

The rationale may be that it was only proper to create exemptions for those rights Parliament has seen fit to enshrine in legislation. However, it is naive to think the other rights are any less real, nor in some cases, any less certain or ascertainable. Also s. 7(2), which leaves unaffected the law relating to breaches of confidence, is inconsistent with such a view. It does not seem that the requirement of registration is determinative of whether each right is included, for copyright vests automatically. Copyright was not protected by the equivalent provision in the GWB. The German provision protects only patents, registered designs, and seed varieties, so it not only omits all unregistered rights such as copyright, unregistered designs and trade marks, but also registered trade marks.[361] Copyright is exempted, however, by virtue of S.102a.

The drafting in s. 45(1), and the differences between s.45(1) and (2), mean that there are particular ambiguities in respect of the following areas .

(a) Unregistered Designs

Section 45(1) only protects registered designs. A design that is never registered, or no longer registered, may still be protected under the law of copyright, and so would be protected under s.45(1) under that limb.

However, a problem arises under s.45(2)(c) which protects provisions obliging a licensee or contractual party "to exchange experience, or to grant licences for improvements in, or applied uses of, <u>an invention, design, or plant variety</u>" (my emphasis), to the extent that there is a mutual obligation in existence required of another party who is an owner, seller, or licensor of those intellectual property rights. It is not clear whether s. 45(2)(c) also applies only to registered designs.

As Eagles has pointed out there is no mention of registration in s.45(2)(c).[362] Whilst the term "those rights" refers back to the list in the part of s.45(2) before paragraph (a), Eagles is of the view that it merely identifies potential licensors, and does not expand the permissible subject matter of the obligation. This, it is submitted, must be correct. The reference to "those rights" does not in any way refer back to the "invention, design, or plant variety" in s.45(2)(c), but to the list of intellectual property rights in the first part of s.45(2).

Eagles then stated:[363]

> "It might therefore be said that the exemption of technology exchanges supplementing the parent right makes sense only in so far [as] such exchanges concern patented inventions or protected plant varieties if only because it is necessary to identify precisely <u>what</u> it is which is being improved or for which a new use has been found".

Eagles is of the view that there are two alternative constructions that may be placed on s.45(2)(c).[364] The first is that the provision encompasses only registered inventions, designs and plant varieties, and excludes all other copyright articles (designs or otherwise). The second is that it refers to both registered and unregistered inventions, designs or plant varieties but excludes all copyright works other than designs. In the latter case "design" would bear its ordinary meaning rather than that provided in the Designs Act 1953 and may include shapes dictated solely by function.[365]

With respect, the second alternative would be a nonsense. Of the three terms "invention", referring to patents, and "plant variety" could only possibly refer to rights registered and (perhaps) the subject of pending applications. It cannot be said that each term includes unregistered matter, for which the law provides no protection. For this reason the immediate context does not assist the construction of the word "design". Whether that includes unregistered designs protected by the copyright law is a more difficult question.

In s.45(1)(a) and the introductory words of s.45(2) reference is made to registered design, whereas in s.45(2)(c) only "design" is mentioned. There are arguments both ways as to the effect of such drafting. On the one hand, "design" as opposed to "registered design" may be intended to include unregistered designs as well. On the other hand occurring as it does in paragraph (c) of a subsection which has already referred to "registered design" in that part before each of the paragraphs, "design" may merely be an abbreviation of "registered design".

Even though s.45(2) is an explanatory (rather than a true deeming) provision, and so could well expand the extent of s.45(1), such a clear inconsistency with the wording of s.45(1) must not have been contemplated. In the context of an exception to the restrictive trade practices code, such a construction would require very clear drafting, and in the face of such an inconsistency, it is submitted, the only course is to limit s.45(2)(c) to registered designs. That interpretation fits with the earlier observation that s.45 is limited to those intellectual property rights enshrined in statute.

(b) Copyright

It is necessary next to consider whether some of those unregistered designs may be still protected as copyright, or more generally, whether s.45(2)(c) applies to copyright at all. "Copyright" is not included in the provision. There is no particular reference to the subject matter of copyright, usually referred to as a "work".

At first sight it appears copyright may have been excluded since it is not registrable and since design only refers to registered designs, both on the grounds of precision. However, neither unregistered design or copyright are necessarily any less precise than registered designs. Eagles gives the example of a computer programme - which is capable of giving rise to exactly the type of mutual exchange of information that s.45(2)(c) is aimed at protecting, and yet though it may be the subject of copyright, it could not be a design.[366]

It perhaps was thought that obligations to exchange experience, or to grant licences for improvements in, or applied uses of, inventions would not be applicable to copyright. However, that it not so, especially now that copyright can protect three-dimensional industrial designs by virtue of antecedent drawings and also models.[367]

There seems to be no good reason why copyright works are not included within s.45(2)(c). Clearly they were not intended to be encompassed within "invention".

(c) Unregistered Trade Marks

We have seen that s.45 applies, inter alia, to " ... registered design or trade mark".[368] It is not clear whether "trade mark" means registered trade mark only or includes unregistered marks enforced by the common law action of passing off. Section 45(1)(a) includes a comma between "registered design, or trade mark", unlike s.36(2), which lists the same statutory intellectual property rights. The distinction, if not a drafting oversight in respect of s.36(2), could mean that "registered" is to qualify "trade mark" as well as "design" only in s.36(2) and not in s.45(1).

This would mean that unregistered marks are within the exception. However, it is a rule of statutory interpretation that punctuation should be ignored: Inland Revenue Commissioners v Hinchy.[369] But in some cases punctuation has influenced construction: Committee of Fruit Marketing v Collins;[370] Ryde Municipal Council v Macquarie University.[371] It may be argued that as trade marks whether registered or not do not create true monopolies, the intention of the legislator may have been to protect common law marks as well as statutory registered marks. This is especially so since service marks are not yet registerable in New Zealand.[372] Eagles, referring to this punctuation distinction between s.45(1)(a) and 45(2) on the one hand, and s.36(2) on the other, made the point that if a conscious distinction was intended, "it is difficult to see on what policy grounds it was being made".[373]

Eagles referred to the fact that now some unregistered marks may be enforced under the Fair Trading Act 1986,[374] in particular s.9 which provides that it is unlawful to engage in "conduct that is misleading or deceptive or is likely to mislead or deceive".[375] The Australian equivalent, s.52 of the Trade Practices Act 1974 has been used with considerable effect in this area.

Section 9 proscribes conduct far beyond passing off, and so, even assuming s.45 does protect unregistered trade marks, to the extent that s.9 goes beyond the scope of trade marks, for example into the area of misleading conduct outside the realm of goodwill, s.45 will provide no protection to anti-competitive attempts to licence or assign. However, it is difficult to see the relevance of s.9 of the Fair Trading Act 1986 to s.45. It is submitted that it does not really add anything to consider the Fair Trading Act 1986 when considering whether unregistered trade marks fall within s.45. Section 9 cannot be said to provide a statutory protection for such marks in the same sense as other intellectual property rights are conferred by statute.

Eagles also stated that:[376]

> "s.45 also appears to envisage that the mark may be transferable in itself. The interest protected by a passing off action cannot as a matter of law be assigned separately from the business they are designed to protect (and the right to bring proceedings under the Fair Trading Act is not assignable at all). Section 45 has created for its own purposes a mutant right unknown to the general law and differing in important respects [from] its statutory cousin."

It is not correct to state that the interest protected by a passing off action cannot be transferred separately from the business in which it is used. A registered proprietor of a trade mark can assign unregistered marks along with registered marks although an unregistered mark cannot be assigned separately.

(d) Trade Secrets, Breach of Confidence, and Know-How.

Section 45 clearly does not expressly protect contracts, arrangements or understandings containing anti-competitive provisions relating to the use, licence, or assignment of those matters that have become known as trade secrets, confidential information, or know-how. As we have seen trade secrets were specifically included in clause 45 of the Commerce Bill, but were omitted during the passage of the legislation through the House. This omission was justified since contracts, arrangements, or understandings granting rights in trade secrets or know-how cannot be anti-competitive as their very essence is secrecy - thus to enter into a contract, arrangement, or understanding granting rights in respect of the information (which must involve disclosure) enhances competition.

These intellectual property rights are relevant for consideration here since restrictions on the use may be incorporated in licences or assignments of those intellectual property rights which are expressly protected by s.45.

Section 45 protects provisions "relating to the use, licence, or assignment of rights <u>under or existing by virtue of</u>" (my emphasis) certain intellectual property rights . It may be argued that this includes the "know-how" which we have seen surrounds many intellectual property rights.

5. Existence

Particular problems arise since s.45 only applies where the intellectual property right itself actually exists. An exception occurs in s. 45(2)(c), where the term "invention" is used so that it might include a pending application, which may be a state of affairs that lasts for years.

It is not always clear, as litigation often shows, whether particular intellectual property is in fact validly protected. Hence a person, believing he is the owner of material which is protected, may enter into a contract for the exclusive licence of the right with a person who also believes the right to exist. If subsequently it is found that the right does not exist or is invalid, not only can the licensee avoid the contract, but the licensor would not be able to rely on s.45 and hence would be subject to the respective trade practices provisions.

6. Application of Section 45

It is, of course, evident that merely because a provision is outside the exception in s.45 does not mean that it is objectionable or unenforceable. It means only that it is then examinable against the provisions of Part II, particularly ss.27-30.

Applying the provisions of s.45 to particular provisions in licence agreements will be no simple task. Take for example a provision in a licence requiring the licensee to purchase raw material from the licensor. In some cases this might be essential to preserve the integrity of the licensed product by ensuring that the licensor's manufacturing specifications and quality controls are complied with. In other cases the materials will be quite standard and the requirement will be imposed to tie the licensee in a manner which may well be anti-competitive.

Similarly a provision not to purchase materials from, or employ the services of, designated suppliers may be motivated by quality considerations or by anti-competitive intent.

In cases of doubt it can be expected that the protection of the exceptions will be denied, leaving the effects of the provisions to be evaluated in competition terms.

B. Section 36(2)

As we have seen the s.45 exemption does not apply to s.36 at all.[377] Instead s.36(2) has its own specific exception in respect of intellectual property rights.

Under s.36 there are thus two questions that must be answered in order to determine whether conduct in relation to intellectual property rights is unlawful. Firstly does the conduct breach s.36(1) at all, and secondly, if so, does the s.36(2) exception save it. In particular factual situations, it will be easier to address the latter question first, since if it is answered positively, the first, and complicated, question may be ignored.

1. Introduction - Abusing a Dominant Position in a Market

Section 36 is aimed at preventing dominant firms using their power for the purpose of preventing or eliminating competition. It is thus concerned with monopolistic conduct, that is unilateral anti-competitive conduct.[378]

The stated purpose of the Commerce Act 1986 is especially important with respect to s.36 because those most affected by conduct coming within the provision will be the traders who are prevented from competing. The way s.36 is framed tends to focus attention on the interests of such traders.[379] The section refers to dominant firms using their power to affect some other person, rather than affecting competition per se. Further, individuals are given a right of action to recover damages for loss suffered and a trader bringing such an action will be seen as the person visibly harmed rather than the general public.

A tendency to give too much weight to the interests of the individual trader affected should be avoided. It is inconsistent with the economic objects of the Act, that is whether competition is affected and the impact in the market and hence on the consumer.[380] The private right of action is included in the Act to facilitate enforcement, it should not result in an inference that s.36 is intended to protect the interests of individual traders bringing the action merely from strongly competitive behaviour by larger firms in the market.[381]

With competition as a goal, the Courts must ensure that legitimate pro-competitive conduct is not penalised even if that conduct is hard and does damage smaller competitors.[382]

The lack of clear criteria in s.36 increases uncertainty as to what conduct it prohibits. This may cause firms, in endeavouring to comply with the law, to avoid such hard competitive practices. To the extent that this is so, competition is lessened rather than promoted. It is to be hoped that the courts will ensure that their decisions do not increase this effect but rather reduce it thereby reassuring firms that pro-competitive conduct is in fact not prohibited.

A "person" includes an "association of persons",[383] but to come within s.36 that association must be a supplier or an acquirer of goods or services.[384]

2. A Dominant Position in a Market

For a firm to contravene s.36 it must have "a dominant position in a market".[385] The section only applies where a firm is not subject to effective competition.[386] "Dominant position in a market" is defined in s.3(8). This definition largely originates from E.E.C. law.[387] It provides that a supplier or an acquirer of goods or services, either alone or together with an interconnected body corporate,[388] who is in a position to exercise a dominant influence over the production, acquisition, supply or price of goods or services in a market has a dominant position in that market. To determine whether that person is in such a position, regards shall be had to the market share, technical knowledge, access to materials or capital that the person has,[389] and the extent of constraints on that person by the conduct of competitors, potential competitors, suppliers or acquirers in that market. This position is targeted since it is that control which gives the firm the freedom to depart from the efficient pricing, output and costing decisions that would be forced upon it in a competitive market.

Consistent with the wording of the statutory provisions, the Commerce Commission has adopted a test in respect of dominance which encapsulates both structural and behavioural aspects. In News Limited/INL the Commerce Commission stated:[390]

> "A person can be considered to have a dominant influence in a market when that person is able to make significant business decisions, particularly, those relating to price and supply, without regard to the competitors, suppliers and customers of that person".

Section 36 has been addressed for the first time in a final proceeding by Barker J in Auckland Regional Authority v Mutual Rental Cars (Auckland Airport) Ltd., Tasman Rental Cars Ltd., and Dominion Budget Rent A Car (1984) Ltd.[391] That case concerned the warring rental car operators and the A.R.A. which operates Auckland International Airport. The A.R.A. had in 1982 granted licences to the first and Second Defendants (Avis and Hertz respectively) to provide and operate rental car services at the airport. There were collateral contractual commitments made by the A.R.A. to limit the number of car rental concessions at the airport to two during the currency of each licence.

Budget had commenced proceedings against the A.R.A. in 1984 alleging a conspiracy between the A.R.A. and Avis and Hertz, seeking to prevent licence extensions which were available to Avis and Hertz in 1985. These licences and collateral contracts had been effectively upheld, although Budget had obtained leave to appeal to the Privy Council.[392]

With the coming into force of the Commerce Act 1986 Budget suddenly had a much stronger case. The A.R.A. was in an invidious position, with Budget alleging it was contravening the new Commerce Act 1986, and Avis and Hertz ready to bring proceedings for breach of contract if the A.R.A. repudiated the agreement. So the A.R.A. commenced proceedings seeking declarations as to its legal position in light of the Commerce Act 1986, particularly in respect of the collateral contracts with Avis and Hertz limiting the number of concessions to two, and whether it was now entitled, or indeed obliged, to consider a request for a licence by Budget notwithstanding those collateral contracts.

Budget claimed that by virtue of ss.27 and 29 of the Commerce Act 1986 A.R.A. was free to negotiate with Budget concerning, and grant to it, of a licence to operate as a rental car operator at the airport. Budget also claimed that A.R.A. as airport administrator was in a dominant position in terms of s.36 and was thus prohibited from using that position to prevent competitive activity in the car rental market at the airport or any other relevant market.

After deciding that this was an appropriate case to grant declarations and dealing with certain preliminary evidential matters, Barker J went on to consider the substantive matters in issue. Although the case did not concern intellectual property rights, the s.36 issue is of importance as it demonstrates an approach which may be equally applicable to intellectual property right licensing.

Budget contended A.R.A. was in a dominant position in both the market of concessions for rental car operators at Auckland Airport and the market for rental car services at the airport, and that A.R.A. was using that position for the purpose of restricting entry of other persons, such as Budget, into the latter market or any other market.

Barker J stated that "in view of the definition of 'dominant position' under s.3(8), it is difficult to see how A.R.A. is other than in a dominant position in both markets".[393]

It must not be assumed that every licensor or intellectual property holder will be in a dominant position in a market for the licensing of the right. As in every case falling for determination under the Commerce Act 1986 dealing with dominance, it must be ascertained whether the allegedly dominant firm has effective competition in the relevant market as properly delineated, taking into consideration, inter alia, the matters expressed in s.3(8)(a) - (c). However the evidence in this case was such that it could well be said that the A.R.A. was in a dominant position.

Barker J said "the fact that there is only one supplier merely means that there is a monopoly. See Donald and Heydon, Trade

Practices Law (1978), Vol. 1 94-5. As Dr Bollard said in his affidavit, there are no substitutes available".[394]

(a) Use of a Dominant Position

To breach s.36 a person in a dominant position in a market must "use" that position.[395] The Trade Practices Act 1974 (Aust.) refers to "take advantage of".[396] This difference in wording should not result in legitimate conduct being prohibited under s.36.[397] It must be the dominant position that is used, not merely cost efficiencies.

The Federal Court of Australia has dealt at the interlocutory stage with a monopolisation case involving intellectual property. In Warman International & Others v Envirotech Australia Pty. Ltd. & Others[398] several companies had been associated with the design, manufacture and supply of "Warman" slurry pumps enjoying in the region of ninety percent of the Australian slurry pump market. These companies had almost the same market share in respect of the spare parts for the pumps.

Mr Symonds, the second respondent, had been employed by one of the applicant companies as a sales engineer. He had access to certain information relating to the manufacture of pump parts which was of considerable value to competitors desiring to reproduce Warman pumps and parts. Envirotech, the first respondent, conducted a business which included the supply through another company of replacement parts to suit Warman pumps . Symonds was a director of that company. There was evidence that he used manuals and drawings of Warman pumps and parts for the purposes of that company. The applicants were granted an Anton Piller order and seized specified documents in the respondents' possession. The applicants sought interlocutory and final injunctions, inter alia, restraining Envirotech from engaging in misleading or deceptive conduct, contrary to s.52 of the Trade Practices Act 1974 (Aust.), by falsely representing that information contained in the manuals and other drawings were the property of, and confidential to, Envirotech.

The applicants also claimed that the respondents' conduct was an infringement of copyright and a breach of confidence.

As a defence the respondents alleged that the prosecution of such an action was precluded by s.46, arguing that the applicants, being a company having a substantial degree of power in a market, were taking advantage of that power by attempting, by these proceedings, to eliminate or substantially damage a competitor.

In granting the relief sought, the Federal Court held that there was a serious question to be tried as to the respondents' conduct in contravention of s.52. Wilcox J held that, at least to a limited extent, Envirotech had falsely represented to others, in the course of trade or commerce, that it was the owner of information originated by Warman, and to which Envirotech had no legal entitlement, and to which Warman was entitled to maintain a claim of confidentiality.[399]

In the same way s.9 of the Fair Trading Act 1986 may be used to restrain the use of confidential information.

In respect of the defence under s.46, Wilcox J referred to the "important limitation to the operation of s.46 imposed by the words 'shall take advantage of that power'". Wilcox J found that the obvious dominant role that Warman enjoyed in the slurry pump market might properly be described as "a substantial degree of power". The Judge then said:[400]

> "But in these proceedings it does not seek to take advantage of that power. Rather it seeks to take advantage of rights which it claims in respect of particular documents. Those rights depend upon the nature and source of the information in the documents. The rights, and Warman's position in this Court, would be exactly the same if it held only ten percent of the market; indeed even if it ceased altogether to manufacture pump parts."

Counsel for the respondents had relied on several United States decisions, in particular Kobe Inc. v Dempsey Pump Co.[401] Wilcox J noted that there is not in the Australian Act, as there is in the Sherman Act, a general prohibition upon monopolisation.[402] His Honour continued:[403]

> "Section 46 strikes only at the conduct it defines and that conduct is limited to the taking advantage of the market power of the relevant corporation. To exercise in good faith an extraneous legal right, though the effect may be to lessen, or even eliminate, competition, is to take

advantage of that right, not of market power."

The express inclusion of s.36(2) in the Commerce Act 1986 indicates the same approach in New Zealand as was taken by Wilcox J in Warman.[404]

In Berkey Photo, Inc v Eastman Kodak Co[405] the Second Circuit observed that a "large firm does not violate s.2 [of the Sherman Act] simply by reaping the competitive rewards attributable to its efficient size".[406] The Court did not regard such conduct as a "use" of monopoly power.

In the United States in respect of predatory pricing, the marginal cost test has been used to determine whether a firm is actually using its market power or merely its costs efficiencies. In North Eastern Telephone Co v American Telephone & Telegraph Co,[407] the Second Circuit cited Berkey Photo[408] and said:[409]

> "Adopting marginal cost as the proper test of predatory pricing is consistent with the pro-competitive thrust of the Sherman Act. When the price of a dominant firm's product equals the product's marginal costs, "only less efficient firms will suffer larger losses per unit of output; more efficient firms will be losing less or even operating profitably"[410]... marginal cost pricing thus fosters competition on the basis of relative efficiency. Establishing a pricing floor above marginal cost would encourage the utilization of productive resources and would provide a price "umbrella" under which less efficient firm could hide from the stresses and storms of competition."

The marginal cost test may also be used to imply a predatory purpose. If a firm's price is below marginal cost, then it may be said to be acting irrationally. Such conduct can only be explained by inferring that the firm had a predatory purpose.

(b) Purpose

The dominant position in a market must be used for one of the specified purposes in s.36(1)(a) - (c). The purpose can apply to that or any other market.[411] As we have seen "purpose" means goal or objective, rather than immediate intention.[412] It is a state of mind, and the state of affairs need not actually be achieved. Two provisions under former legislation repealed by the Commerce Act 1986 were similar to s.36 but refer to practices that had the "purpose" or were "likely to have the effect" of producing certain results.[413] This absence of "effect" in s.36 limits the purport of the section to the situation were the purpose can be ascertained.

Unlike "purpose" in sections like s.27 which deal with provisions of agreements, the purpose in s. 36 must be ascertained subjectively.[414] The purpose need only be one of the purposes a person had for using his or her dominant position, if it is a substantial purpose.[415]

3. The Enforcing of Intellectual Property Rights Exception

Section 36(2) provides:

"For the purposes of this section, a person does not use a dominant position in a market for any of the purposes specified in paragraphs (a) to (c) of sub- section (1) of this section by reason only that that person enforces or seeks to enforce any right under or existing by virtue of any copyright, patent, protected plant variety, registered design or trade mark."

Eagles has said "section 36(2) is wholly neutral in its effect. It defeats presumptions of vice but sets up no presumption of virtue in their place."[416]

Originally the draft Bill did not include s.36(2) in its enacted form. It was thought that it was unnecessary, since an action to enforce an intellectual property right was not taken with a purpose such as envisaged by clause 36 of the Bill, but rather with the purpose of protecting the right in question.[417] Out of an abundance of caution the specific exemption was added, originally placed in clause 45. To limit the exemption, the words "by reason only" were included. This emphasises that only the bare exercise of certain intellectual property rights that is not to constitute "use" of a dominant position.

This limitation means a distinction must be drawn between intellectual property actions brought for the purpose of protecting rights so as to be able to exploit them successfully, and actions brought with a purpose contained in s.36(1)(a) - (c). Such a distinction is not easy to draw. However the distinction was shown in Kobe Inc. v Dempsey Pump Co.[418] where, although one of Kobe's patents was infringed, the real purpose of the action was to further an existing monopoly and to eliminate Dempsey as a competitor.

Neale has said that the "line has to be drawn between impeding competitors only to the extent inherent in the patent grant and impeding them unnecessarily".[419]

This same line drawing process must, it is submitted, occur in respect of each intellectual property right. The United States approach has been to identify circumstances which indicate an harrassing purpose.[420] Due to the perceived inability of the courts in Australia to make this distinction, the legislature has now directed the courts to do this.[421]

Section 36(2) really operates as an evidentiary provision. By virtue of it, evidence of a proscribed purpose must be found other than merely in steps taken to enforce or attempt to enforce an intellectual property right. Eagles has argued that the provision may not even go this far:[422]

> "Section 36(2) may simply be interpreted to mean that no adverse inferences are to be drawn from the enforcement of individual clauses in an intellectual property licence. The reference to "any rights", it could be argued, does not prevent the overall tenor of an agreement from being used as evidence of an unlawful purpose. If that be the case, it would then be possible to draw adverse inferences from the emphasis given to particular clauses by licensors in their dealings with licensees (or even from their selective enforcement of the same)".

Section 36(2) applies only to enforcing or seeking to enforce intellectual property rights, whereas s.45 applies instead to the entering and giving effect to agreements. This is not so as to provide a "narrower" exception in respect of monopolisation, but rather to conform to the unilateral conduct caught by s.36(1). Section 36(2) ensures that the courts do not take the bare enforcing of intellectual property rights as evidence of use of a dominant position for a proscribed purpose.

As with s.45, s.36(2) only applies where the intellectual property right actually exists. This causes particular problems since s.36(2) applies only to enforcing or attempting to enforce intellectual property rights. It may mean that the new practice will be for defendants in intellectual property enforcement actions brought by plaintiffs with a dominant position to counterclaim a breach of s.36. The difficulty of applying intellectual property laws to particular fact situations often results in claims being brought with a reasonable belief of success and yet failing. In such cases s.36(2) does not apply leaving the court to take the attempted enforcement of the intellectual property right fully into account in determining whether the plaintiff had a purpose proscribed by s.36(1). The nature of some intellectual property rights means that such a purpose may well be inferred as will the failure of the enforcement claim itself.

(a) Unregistered Trade Marks

As we have seen there is in s.36(2) no comma between "registered design" and "trade mark". Eagles is of the view that unregistered trade marks are "unequivocally outside its protection".[423] It is submitted that it is not nearly so clear. Although the difference in punctuation does point to that conclusion, Lord Reid's warning as to its use as a tool of interpretation must be taken heed of.[424] Certainly there is no logical reason for the inclusion of one and exclusion of the other.

(b) Trade Secrets

These are clearly excluded from the ambit of s.36(2). Firms in a dominant position in a market who attempt to maintain that position by bringing an action for breach of confidence are likely to be caught in contravention of s.36. A predatory purpose is more likely to be inferred if the action fails but the general case will be as in the Warman[425] decision.

4. Conduct in Relation to Intellectual Property Caught by Section 36

There will be situations where an intellectual property right could confer a true market monopoly, and so by definition the owner or proprietor of that right will be in a dominant position in a market. The market will be defined as narrowly as the subject of the right. An obvious example is a patent which confers a market monopoly since no substitution is possible, for example since the patent represents a considerable technological break-through. The owner could argue that he is not in a dominant position since potential competition will "keep him honest". However such potential competition even if it is likely to materialise well before the end of the period of protection under the intellectual property statute, would usually, in this case of a patent conferring a true market monopoly, be insufficient to affect the economic decisions of the right-holder.

The scope of the provision is considerably broader. Where it can be said that there is a market for the licensing of a particular intellectual property right, a person who owns that right may be said to be in a dominant position in that market, since markets can be of services as well as goods. There is only likely to be a separate market for the licensing of the right where there are no substitutes available, as was the case in A.R.A. v Mutual Rental Cars,[426] which although not an intellectual property case, was concerned with licensing. There appears to be no discernable distinction between intellectual property licensing and other licensing and franchising.

Although coming within the ambit of s.36, such a person would not necessarily "use" that position for a proscribed purpose. So long as the licensor is only exploiting his rights reasonably, he should not contravene s.36.

Using a patent to coerce the sale of non patented articles violates the monopolisation provision of the Sherman Act.[427] In New Zealand it would not be saved by s.36(2) and in any event would breach s.66(1)(a) of the Patents Act 1953.

In the United States it has been held recently that obtaining a patent by fraud and then defending it groundlessly by bringing proceedings in a situation where the patent dominates the market constitutes monopolisation in contravention of the Sherman Act.[428]

However a dominant firm is not required to pre-disclose technology to a competitor,[429] and may make technological advances without helping manufacturers of peripheral equipment to adjust.[430]

Of particular relevance in intellectual property cases involving s.36 is a concept known as the "bottleneck facility". As Barker J said in A.R.A. v Mutual Rental Cars:[431]

> "this term describes a facility which is incapable of duplication and of circumvention and to which others must have access if they are to compete in a given market.
>
> The exclusion of others by means of the bottle neck facility is anti-competitive; it should be eliminated by providing for the admission of others to the joint venture if they meet reasonable objective criteria".

The concept originates from the United States. Barker J referred to two United States cases. In US v Terminal Railroad Association of St Louis[432] various railroad companies together bought up terminal facilities on the Mississippi River at St Louis effectively denying competing companies the only access across the river. In a case regarded as "the judicial birth of the 'bottle neck' monopoly theory"[433] the Supreme Court, in a opinion of the Court delivered by Mr. Justice Lurton, held the conduct to be monopolisation.

Barker J regarded Hecht v Pro-Football, Inc.[434] as illustrative of several American cases. In that case a group of promoters had sought in 1965 to obtain a professional football league franchise. They brought an action against the owners of a professional football team in a rival league claiming that a restrictive covenant in a lease between the District of Columbia Armory Board and that team in respect of the use of the Robert F. Kennedy Stadium in Washington D.C. was an unlawful restraint of trade preventing the use of the stadium by the plaintiffs. The restrictive covenant provided that:

> "at no time during the term of this lease agreement shall the stadium be let or rented to any professional football team other than the Washington Red Skins".

The plaintiffs contended that the stadium was the only one in the area that was suitable for professional football, and that the covenant prevented them from obtaining its use, which further prevented them from being able to submit an acceptable franchise application to the governing sporting body. This in effect prevented them from competing against other professional football teams.

The United States Court of Appeals, District of Columbia Circuit, in an opinion for the Court filed by Wilkey Circuit Judge, found that the relevant market was the business of professional football within the area of Metropolitan Washington D.C. This limited area was "the area which the alleged restraints affect[ed]": United States v Columbia Steel Co.[435] Wilkey Circuit Judge stated "the relevant geographic market is "the area of effective competition".[436] The area "in which the seller operates, and to which the purchaser can practicably turn for supplies".[437]

The reference to the area of effective competition must be taken as indicating the area bordered by the restraint in such a way as to prevent the entry of substitutable services. This seems to indicate that the finding that the facility is a bottleneck necessarily means that there is a separate market.

Wilkey, Circuit Judge held that the covenant could constitute an illegal restraint of trade in violation of ss.1,2, and 3 of the Sherman Act. The Court did recognise however that sharing of essential facilities is not required if impractical or if it would inhibit the occupant's ability to serve its customers adequately.

The Judge accepted the contention of Hecht as to the "bottleneck" monopoly principle. The passage Barker J quoted[438] from Hecht[439] was in part quoted by Wilkey, Circuit Judge originally from Neale, The Anti-Trust Laws of the United States.[440] Neale said:[441]

> "Where facilities cannot practicably be duplicated by would be competitors, those in possession of them must allow them to be shared on fair terms. It is illegal restraint of trade to foreclose the scarce facility."

Further Wilkey, Circuit Judge said:[442]

> "To be "essential" a facility need not be indispensable; It is sufficient if duplication of the facility would be economically infeasible and if denial of its use inflicts a severe handicap on potential market entrants. Necessarily this principle must be carefully limited: the antitrust laws do not require that an essential facility be shared if such sharing would be impractical or would inhibit the defendant's ability to serve its customers adequately.

Barker J adopted these passages in A.R.A. and found that:[443]

> "a gateway facility is likely to beget a separate and identifiable geographic market and that exclusion from that market by means of the gateway, prima facie indicates anti-competitive intention unless the exclusion can be explained by reference to reasonable constraints in the circumstances: an agreement to exclude others arbitrarily must be taken as having the purpose to monopolise."

Since A.R.A. did not advance any such constraints, Budget was held to succeed under s.36.

A better example of the "bottle neck" principle may, it is submitted, be found in Gamco, Inc. v Providence Fruit & Produce Building, Inc.[444] In that case the Plaintiff Gamco brought an action against the defendant as lessor of a building which had substantial advantages for local fruit and vegetable wholesalers, of which the Plaintiff was one. The advantage was due to the bulk consignments of fresh fruit and vegetables being received by street, for rail spurs of which the building tenants had exclusive use, and a yard. Retail buyers habitually congregated there and the shipping facilities were the best in the town.

Since 1929, when the building was erected, practically all fruit and vegetable dealers in the area at one time or another had held leases or stock in the Defendant corporation.

When the plaintiff was organised in 1946 as successor to another wholesale concern it was granted a one year lease of four units in the building. At the expiration of the life of the lease the Plaintiff was refused renewal. The Plaintiff was in impending financial difficulties and so the Defendant consistently declined to renew the lease. The Defendant grounded its refusal on a covenant in the original lease wherein the Plaintiff agreed not to "transfer or permit to be transferred any interest in the business" without written permission from the Board of the Defendant corporation. Two years later the Plaintiff was notified to quit. It failed to comply and the Defendant directors instituted suit for trespass and ejectment, succeeding in the Rhode Island Courts and again in the State Supreme Court.

On the issue of "essential facility", before the United States Court of Appeals First Circuit, the Defendants contended that a discriminatory policy in regard to the lessees in the building could never amount to monopolisation because other alternative selling sites were available. The Court rejected this argument stating that "a monopolized resource seldom lacks substitutes; alternatives will not excuse monopolization".[445] The Court found that to impose upon the plaintiff the additional expense of developing another site, attracting buyers and transhipping fruit and produce by road was clearly to extract a monopolist's advantage.[446]

Addressing the limitation on the principle, Clark, Circuit Judge stated:[447]

> "Admitedly the finite limitations of the building itself thrust monopoly power upon the defendants and they are not required to do the impossible in accepting indiscriminately all who would apply. Reasonable criteria of selection, therefore, such as lack of available space, financial unsoundness, or possibly low business or ethical standards, would not violate the standards of the Sherman Antitrust Act. But the latent monopolist must justify the exclusion of a competitor from a market which he controls. Where, as here, a business group understandably susceptible to the temptations of exploiting its natural advantage against competitors prohibits one previously acceptable from hawking his wares beside them any longer at the very moment of his affiliation with a potentially lower priced outsider, they may be called upon for a necessary explanation".

So it was held in Gamco[448] that the discriminatory exclusion of a party from warehousing facilities with specific market attributes in terms of buyer attraction and economical delivery facilities constituted monopolisation. In that case the defendant group was also a competitor of the trader refused access. This is the common factor in all of the United States "essential facility" cases except Hecht.[449]

Generally though a firm has the right to determine with whom it will deal.[450]

In Australia the Trade Practices Commission referred to the "bottleneck facility" in Bankcard Scheme: Interbank Agreement.[451]

The Federal Court of Australia has not yet dealt with the "bottleneck" principle. Two cases are worthy of consideration, since both involve facts that might be said to provide for an application of the "bottleneck facility", and yet the Court has treated them both as straight "refusal to supply" cases.

In Berndon Investments Pty. Ltd.v Fitzroy Island (S.A.) Pty. Ltd.[452] both parties ran cruises from Cairns to and from nearby islands around the Barrier Reef, in particular to Fitzroy Island. The respondent had constructed a jetty under licence on Crown land near its resort on Fitzroy Island. The use of the jetty was important to the business of conducting tours to the island and landing passengers there.

In 1983 the respondent wrote to the applicant varying the terms of the arrangement by which the applicant was entitled to use the jetty. The new terms were to include strict times within which the applicant's vessel could use the jetty, the payment of a jetty fee of $5 per passenger, the mandatory taking of lunch at the respondent's resort on the island, prohibiting passengers from bringing ashore Hire Gear, and "allowing" the applicant to sell tickets on behalf of the respondent for glass-bottom boat rides.

Not surprisingly the applicant did not accept the terms of the offer contained in this letter. The respondent accordingly refused to permit the applicant to disembark passengers from its vessel at the Fitzroy Island jetty. The applicant commenced proceedings alleging a contravention of s.46 of the Trade Practices Act 1974 (Aust.).

For the purpose of the interlocutory proceedings Fitzgerald J confined his analysis to the condition relating to the jetty fee. The Judge refused to accept that there was a market in respect of tours to Fizroy Island. Hence it was concluded that the respondent was not in a position substantially to control a market.

This case could be analysed as a refusal to supply an "essential facility", namely the jetty. In such a case the analysis would centre on whether or not there were substitutes available for the jetty.

In a recent Australian case, Williams & Another v Papersave Pty. Ltd.,[453] Papersave had a sixty percent share of the market for the collection and treatment of waste computer paper in the inner Sydney metropolitan area. A director of the respondent discovered that a former employee, Williams, was about to acquire a lease of certain premises for the purpose of establishing a business in competition with Papersave. The director approached the agent of the lessor with a view to obtaining the premises for Papersave.

Williams sought an injunction in the Federal Court restraining Papersave from securing the lease on the ground that by doing so the respondent was misusing its market power in contravention of s.46.

Sheppard J dismissed the application for although it was found that the respondent had a "substantial degree of power in the market",[454] it was not established that the respondent was taking advantage of its power in that market for any of the proscribed purposes.[455]

This case also might be seen as a refusal to supply, and in particular a refusal to supply or allow access to an "essential facility". Whether a factual situation gives rise to a "bottleneck" must be a matter of degree. It seems that the "bottleneck" cases may be seen really as one type of refusal to supply.[456]

Refusal to grant a patent licence - even when the patent gives rise to market power amounting to dominance - has not been held to be anti-competitive in the United States.[457] That would be consistent with the compulsory licence provisions of the New

Zealand Patents Act 1953.

Circumstances can be envisaged where it could be strongly asserted that a commercially significant patent amounted to an "essential facility". On the "essential facility" doctrine refusal to licence might constitute monopolisation.

Any inconsistency is avoided in New Zealand by the express exception in s.36(2). Refusal to licence would, in effect, be enforcement of the right.

The exception would not apply however if the market power or "essential facility" arose from conduct such as patent pooling. That would be saved neither by the United States cases nor by s.36(2).

C. Trade Secrets - Section 7(2)

Neither s.45 nor s.36(2) apply to trade secrets, although we have seen that some protection may be afforded under s.45. Section 7 provides:

> "**7. Law relating to restraint of trade and breaches of confidence not affected** - (1) Nothing in this Act limits or affects any rule of law relating to restraint of trade not inconsistent with any of the provisions of this Act.
>
> (2) Nothing in this Act limits or affects any rule of law relating to breaches of confidence.

> (3) No rule of law referred to in subsection (1) or subsection (2) of this section affects the interpretation of any of the provisions of this Act."

The whole provision needs to be examined in order to establish the effect of s.7(2). Subsection (2), unlike subsection (1), is not limited to rules of law consistent with the provisions of the Act. Also by virtue of subsection (3) the rules of law relating to breaches of confidence are not to affect the interpretation of the provisions of the Act.

It seems to have been intended that s.7(2) operate to exempt actions in respect of breach of confidence, including trade secrets, from the restrictive trade practices provisions.[458]

As we have seen, the Commerce Bill originally included trade secrets within the exemption in clause 45(1)(a), although this never applied to s.36. This would seem to indicate that the drafters' intent for s.7(2) differed from that expressed in the Departmental Paper.[459]

Although the omission of trade secrets from s.45 was justified,[460] unless s.7(2) operates as intended by the Department, its omission from s.36(2) is not justified. For then firms in a dominant position may be left in a difficult position in restraining misuse of confidential information.

An argument for not interpreting s.7(2) as operating as an exemption is that to do so means in effect that the Act grants a much wider exemption for breach of confidence actions than for the true intellectual property actions without apparent reason. However the very nature of breaches of confidence and proceedings to restrain them mean that competition issues are not involved. If in particular circumstances mis-use of a dominant position arises, it will be as a result of additional conduct beyond the action to restrain breach of confidence and so will be subject to the trade practices provisions regardless of s.7(2).

Eagles has said s.7(2) cannot be read this widely:[461]

> "Section 7(2) seeks only to preserve the right to protect the information itself from disclosure to persons other than the licensee. Conditions attached to the utilisation of the information by the licensee acquire whatever validity they have through contract and their business efficacy through economic muscle. They are not themselves protected or created by the substantive law of breach of confidence."

Further Eagles thinks it possible to distinguish between restrictions which simply spell out expressly obligations which equity imposes *sub silentio* and contractual expansion of these obligations.[462] An example might be seeking to restrict the use a licensee can make of published information beyond the limited protection offered under the "springboard doctrine".[463]

Whilst such a reading down of s.7(2) seems more consistent with the limited exemptions offered elsewhere in the Act, it certainly is contrary to the reasonably plain wording used and reinforced by the Departmental Paper.[464] It does at least seem that unless Parliament intended s.7(2) to have this broad effect, it would have been consistent to include trade secrets in s.36(2).

It can be borne in mind that the rules of law left unaffected due to s.7(2) include a public interest limitation.

D. Section 43.

Section 43(1) provides that the restrictive trade practices code in Part II of the Act does not apply to "any act, matter, or thing that is, or is of a kind, specifically authorised by any enactment or Order in Council".

The term "specifically authorised" and the meaning given to it by s.43(2) appear to be used as a direct result of judicial interpretation of the exception in the Commerce Act 1975 which used the words "expressly authorised".[465] In ABC Container Line NV v The NZ Wool Board[466] a statutory power in the Wool Industries Act 1977 enabling the Board to make contracts was held to amount to express authority to make a particular freight rate agreement containing a restrictive trade practice.

However there are other cases where the phrase was interpreted more narrowly. Section 19(4) of the Trade Practices Act 1958 also used the words "expressly authorised". In His Master's Voice (NZ) Ltd. & Others v Simmons & Another[467] Haslam J refused to accept that the Copyright Act 1913 "expressly authorised" an agreement or arrangement between wholesalers of gramophone records to fix prices.

In Miles & Carlaw Ltd. v Auckland Regional Authority[468] it was argued that the Examiner of Commercial Pracitices was trying to look at a trade practice "expressly authorised" by the Airport Authorities Act 1966 in giving the Regional Authority power to manage the airport and grant an exclusive licence to operate a duty-free goods shop at the airport. Casey, J. stated:[469]

> "I could not see then, and cannot see now, how general powers to manage an airport and grant licences amount to an *express* authority to engage in a trade practice within the meaning of the Act. The word "express" seems to import a particular reference to an actual trade practice under review and in my opinion it is not enough merely to show that the scope of activities authorised by the empowering statute may or may not include trade practices relevant to the Commerce Act. I do not believe that parliament intended to give such a statutory carte blanche."

Casey J distinguished the Stock Exchange Association of New Zealand v Commerce Commission,[470] where rules made by the stock exchange under the Sharebroker's Act 1908 forbidding its members to have branch offices were treated as part of the Act and "expressly authorised" the practice complained of, and followed HMV v Simmons.[471]

In A.R.A. v Mutual Rental Cars[472] Barker J referred briefly to s.43, giving it a very narrow interpretation. His Honour stated:[473]

"There is no enactment which specifically requires the granting of concessions for rental car booths, the Airport Authorities Act 1966 permits the granting of concessions for rental cars and a whole variety of other concessions" (my emphasis).

Section 43(2) effectively overrules the decision in ABC Container Line NV v The NZ Wool Board.[474] That subsection provides:

"For the purposes of subsection (1) of this section, and the enactment or Order in Council does not provide specific authority for an act, matter, or thing if it provides in general terms for that act, matter, or thing, notwithstanding that the act, matter, or thing requires or may be subject to approval or authorisation by a Minister of the Crown, statutory body or a person holding any particular office, or, in the case of a rule made or an act, matter, or thing done pursuant to any enactment, approval or authorisation by Order in Council."

Help as to the meaning of "specifically authorised" may be gleaned from the cases on s.51(1)(a) of the Trade Practices Act 1974 (Aust). The Australian counterpart uses the phrase "specifically authorized or approved". In Re Kur ring-gai Co-operative Building Society[475] New South Wales legislation required building societies to have the capacity under their Rules to nominate an insurer for mortgage related insurance. The Federal Court held that even where there is legislative authority empowering things to be done which may comprise a restrictice trade practice, that does not operate as an authorisation within s.51(1)(a) to things actually done which do comprise a restrictive trade practice, in that case the lending of money on terms that the borrower's insurance was placed with a nominated insuer.

Brennan J, referring to the ambit of s.51(1)(b), said:[476]

> "The boundaries of this Alsatia are to be chosen, in the first instance, by the laws of the relevant State. But the appropriate State legislation which exercies the exempting power must specifically authorize or approve the act or thing, that is, it must manifest a legislative intention that the act or thing, if done or existing, shall not be a link in the chain of proof of a liability, whether civil or criminal. To be sure, the laws of the State do not usually trouble to give legislative affirmation of the lawfulness of acts or things which are not otherwise proscribed, but a legislative assumption of the lawfulness of an act or thing is not tantamount to a specific authorization or approval of that act or thing. What is necessary is that the State law should exhibit a specific legislative intention to authorize or approve the act or thing, even though that act or thing would not - but for the provisions of the *Trade Practices Act* - be unlawful."

It is an "act, matter or thing" that must be specifically authorised.[477] In Ausfield Pty Ltd. v Leyland Motor Corporation of Australia Ltd.[478] it was held that in s.51(1)(a), which refers to "act or thing" the entering into of an agreement was not an "act".

Even if s.43(1) was given a more liberal interpretation, which it is submitted would be contrary to the intent of the legislature, the exemption would be inadequate to exempt actions for infringement of some intellectual property rights. The Patents Act 1953 has no section outlining infringement at all, the matter being dealt with under the common law.

V CONCLUSION

The competition implications of the separate intellectual property rights vary greatly. The commercial situations in which they are exploited encompass almost the whole field of trade. It is impossible for legislation to provide for all circumstances. What is important is to have a statutory base which will enable anti-competitive abuses of market power derived from intellectual property rights to be identified and dealt with.

On the other hand traders need reasonable certainty so they may know the type of arrangements they can and cannot make in the exploitation of their intellectual property rights.

In the European Community the problem is dealt with by the issue of Commission Regulations exempting certain types of provisions in intellectual property licences. These are necessary because of the very broad scope of the basic competition provisions in Articles 85 and 86 of the Rome Treaty.

Australia currently has statutory provisions embodying a somewhat similar approach to that taken in the Commerce Act 1986 in New Zealand. Section 51(3) of the Trade Practices Act 1974 (Aust.) is a difficult provision to follow but is designed to address the same issues as our s.45.

The recommendations of the Australian Industrial Property Advisory Committee[479] indicates a rather extreme position requiring all patent related conduct to be subject to the competition laws including those allowing for public benefit authorisations.

The New Zealand legislature in ss.36(2) and 45 has tried to provide for the reasonable exercise of intellectual property rights while leaving conduct going further than that for control by the trade practices provisions. This approach seems best designed to reconcile the requirement of flexibility to enable control of the ever-more sophisticated schemes of some traders to extract excessive profits and impede competition with that of interfering as little as possible with the commercial activities of traders in the exercise of their intellectual property rights the vast majority of which will have no serious anti-competitive implications.

Whether the particular provisions enacted in the Commerce Act 1986 have these effects will become apparent only over time.

The C.E.R. Agreement[480] requires efforts to harmonise trade practices and other commercial laws and the pace is quickening. At the interface the differences currently are rather in drafting than in substance. Adoption of the Australian IPAC recommendations would change that, and for New Zealand to conform would require abandonment of what appear to have been thoughtful efforts to strike the right balance.

FOOTNOTES

1 1986, No.5.

2 W. Pengilley, "Patents and Trade Practices - Competition Policies in Conflict?" (1977) 5 Aust. Bus. L. Rev. 172, 174.

3 Patents, Innovation and Competition in Australia; Report to Minister for Science & Technology, 29 August 1984, p.25-26.

4 Ricketson, The Law of Intellectual Property (Law Book Co. 1984) p.3.

5 From the French "propriété industrielle". See Stephen P. Ladas, Patents, Trademarks, and Related Rights, National and International Protection (Cambridge, Massachusetts, Harvard University Press, 1975) Vol.1 p.1.

6 This definition was required for the purpose of withdrawing by statute the privilege against self-incrimination in relation to certain civil proceedings in the context of Anton Piller orders.

7 1953, No. 64.

8 1953, No. 66.

9 1953, No. 65.

10 1962, No. 33.

11 1987, No. 5.

12 Contra Cadbury-Schweppes Pty. Ltd. v Pub Squash Co. Pty. Ltd. [1981] 1 All E.R. 213; Moorgate Tobacco Co. Ltd. v Philip Morris Ltd. and Anor (1984) 56 A.L.R. 193 (H.C.A.). There is in New Zealand a tort of unlawful interference with trade or business: Van Camp Chocolates Ltd v Aulsebrooks Ltd [1984] 1 N.Z.L.R. 354.

13 See Rt Hon Mr Justice Somers "Recent Developments in New Zealand Intellectual Property Law" published in "Intellectual Property Law in New Zealand and Australia" (Legal Research Foundation Inc. Seminar, 1985) p.211. See also World Intellectual Property Organisation (WIPO) Convention, Art. 2(viii) (Stockholm, 14 July 1967 to 13 January 1968); see W.R. Cornish, Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights, (London, Sweet & Maxwell, 1981), p.3.

14 "Competition policy seeks to influence industrial structure indirectly by maintaining or creating a framework within which the pursuit by independent firms of their private interests in accordance with market forces results in a desirable economic performance." Devine et al, An Introduction to Industrial Economics (3rd ed., Allen & Unwen, 1979) p.330; see Ahdar, "The Meaning of "Competition" and The Commerce Act 1986" (1986) O.U.L.R. Vol. 6, No.2 319.

15 Supra n. 1, long title.

16 P.G. McGonigal, "Patents and Competition Policy : Economic Implications", in "The Economic Implications of Patents in Australia", Patent Office, Canberra, 1981, 141, 142.

17 Ricketson, supra n. 4 p.1039.

18 Supra n. 15.

19 Supra n. 3 at p.23.

20 McCarthy, "Intellectual Property and Trade Practices Policy: Coexistence or Conflict? The American Experience", (1985) 13 Aust Bus. L. Rev. 198.

21 Idem.

22 Ricketson, supra n. 4 at p.1039; See also Cornish, supra n. 13 at p.19; R.G. Lipsey, An Introduction to Positive Economics, (5th Ed, London, Weidenfeld and Nicolson, 1979).

23 McCarthy, supra n. 20 p.199; see Austern, Umbras and Penumbras, "The Patent Grant and Anti-trust Policy" (1965) 33 Geo. Wash. L. Rev. 1015, 1019; Timberg, "Patents and Anti-trust: Different But Compatible" (1974) 2 A.P.L.A. Jour. 6; Oppenheim, "Patents and Anti-trust: Peaceful Coexistence?" (1955) 54 Mich. L. Rev.199.

24 Ibid. 198.

25 Australian Trade Practices Reporter (CCH Australia Ltd), para. 14-410.

26 Department of Trade & Industry, Britain, 1986.

27 Idem.

28 "The Patent Monopoly Term and Extensions Thereof"; Report to the Minister of Justice, 1 August 1983; "The Patent Monopoly Term and Extensions Thereof"; Report to the Minister of Justice, 9 September 1985.

29 Ibid. 28 (1985 Report): a majority view.

30 The Commissioner of Patents in New Zealand is also responsible for Trade Marks and Designs.

31 These words of Lincoln are engraved over the portals of the old Patent Office in Washington D.C., see McCarthy, supra n. 20 at p.200.

32 S.R. 1954/211.

33 S.21.

34 S.2(1).

35 Supra n. 2 at p.175.

36 Turner, "The Patent System and Competitive Policy" (1969) 44 N.Y.U.L. Rev. 450, 451; See also *Wellcome Foundation Ltd. v Commissioner of Patents* [1983] N.Z.L.R. 385 (CA).

37 Supra n. 20 at p.200.

38 Department of Trade & Industry, Discussion Paper on Intellectual Property Protection - A Business Perspective, June 1987, p.19.

39 Ibid. 3.

40 Idem.

41 Eg. Mccarthy, supra n. 20 at p.201. "But inventors have to eat too ...".

42 Idem.

43 Ibid. 203.

44 "Working Paper on Patent Law Revision", Prepared for the Department of Consumer & Corporate Affairs (Canada), June 1976. It should be noted that legislative developments in Canada have not implemented the recommendations in this report.

45 Ibid. 33.

46 Ibid. 37.

47 Supra n. 2 at p.200.

48 S.10; Information Paper, "The Granting of Patents", Patent Office, Lower Hutt, p.2.

49 Supra n. 2 at p.201.

50 Supra n. 44 at p.50 et seq.

51 Supra n. 2 at p.201.

52 1985, No. 134.

53 G. West-Walker, "Industrial Design Protection Through Copyright: An Outline of Recent New Zealand Developments"; (1987) 2 Patent World 44, 45.

54 Supra n. 20 at p.201.

55 A useful recent article on the transfer of technology is G. Cabanellas, "The Technology Transfer/Antitrust Nexus"; (1987) 2 Patent World 34.

56 W.S. Bowman, Patent and Anti-Trust Law, A Legal and Economic Appraisal, (Chicago, University of Chicago Press, 1973), at p.1.

57 I. Eagles, "Intellectual Property And The Commerce Act", Unpublished Paper at p.8.

58 Supra n. 2 at p.174.

59 Idem.

60 Ibid. 174-175.

61 Ibid. 176.

62 Idem.

63 226 U.S. 20, 49 (1912).

64 Supra n. 2 at p.177.

65 Lynch v Household Finance Corporation 405 U.S. 538 (1972).

66 Supra n. 2 at p.177-178.

67 Trade Marks Act 1953, s.2(1).

68 Idem.

69 (1930) 47 R.P.C. 28.

70 Annabel's Berkeley Square Ltd. v Schock [1972] R.P.C. 838 per Russell LJ: "But of course, when one gets down to brass tacks this [common field of activity] is simply a question which is involved in the ultimate decision whether there is

likely to be confusion". See McCarthy supra n. 20 at p.203.

71 Trade Marks Act 1953, s.14(1)(e).

72 S.14(2).

73 Ss.14 and 15.

74 S.22.

75 McCarthy supra n. 20 at pp. 203-204.

76 540 F.2d. 266 (1976) (7th Cir.).

77 2nd. Ed., 1984.

78 Ibid. S.2:1 B(1).

79 Supra n. 20 at p.204.

80 433 U.S. 350 (1977).

81 Eg. Blanchard v Hill (1742) 2 Atk. 484, 26 E.R. 692 ("Mogul" stamp on playing cards).

82 Eg. Wotherspoon v Currie (1872) L.R. 5 H.L. 508 (use of packaging for starch); Lever v Goodwin (1887) 36 Ch.D. 1 (Use of similar packaging for soap).

83 See eg. Erven Warnink BV v J Townend & Sons (Hull) Ltd. [1979] A.C. 731 at p.742C per Lord Diplock, p.755G per Lord Fraser (The "Advocaat" case). A recent confirmation of this proposition is Chelsea Man Menswear Ltd. v Chelsea Girl Ltd. [1987] RPC 189, 198 CA per Slade LJ. An earlier view was that the proprietary interest was the name, mark, or get-up: see eg. the reference in Spalding Bros. v Gammage Ltd. (1915) 32 R.P.C. 273, 284 (H.L.) per Lord Parker of Waddington.

84 Supra n. 12.

85 Ibid. 218.

86 The "Advocaat" case, supra n. 83 at p. 742D per Lord Diplock, pp. 755-756 per Lord Fraser; Klissers Farmhouse Bakeries Ltd. v Harvest Bakeries Ltd. [1985] 2 N.Z.L.R. 129 (HC & CA - interlocutory); and Klissers Farmhouse Bakeries Ltd. v Harvest Bakeries Ltd. (No. 2) [1985] 2 N.Z.L.R. 143, 146 per Davison CJ (CA decision reserved).

87 The Clock Ltd. v The Clock Horse Hotel Ltd. (1936) 53 R.P.C. 269, 275 per Romer LJ (C.A.).

88 _Reddaway v Banham_ [1896] A.C. 199, 204 per Lord Halsbury LC. See generally C.J. Bannon, Passing Off, Trade Deception, Trade Marks, (Sydney, Butterworths, 1985), Ch. 1.

89 S.5(2).

90 S.5(1) and 2(1).

91 S.11(1).

92 S.12.

93 The first was the Copyright Act 1709 known as the Statute of Anne. With the substantial codification by the Copyright Act 1911 it was necessary to repeal some twenty pieces of legislation spanning some 180 years of history.

94 _British Leyland Motor Corporation Ltd. & Another v Armstrong Patents Co. Ltd. & Another_ [1986] 1 A.C. 577; [1986] 1 All E.R. 850 at p. 619B, 856j per Lord Bridge of Harwich.

95 Common law copyright was abolished by s.31 of the 1911 Act.

96 Laddie, Prescott, and Vitoria, _The Modern Law of Copyright_ (London, Butterworths, 1980) p.1.

97 S.8.

98 S.7 and ss.13-15 respectively.

99 Infra p.65.

100 S.1(2).

101 S.3 and Schedule.

102 S.17(6).

103 S.10(2)(d) and (4)(a).

104 S.10(2)(d) and (4)(b).

105 S.10(2)(d) and (4)(c).

106 S.10(2)(d) and (5).

107 S.17(1)(a).

108 S.17(1)(b).

109 S.17(1)(c).

110 S.17(6).

111 S.18(a).

112 S.18(c).

113 S.18(b).

114 Supra p.14 et seq.

115 1 Rolle's Abridgement 374; quoted by Megarry J in Coco v Clark [1969] R.P.C. 41.

116 See Seager v Copydex [1967] 2 All E.R. 415 at p.417 per Lord Denning M.R.

117 AB Consolidated Ltd. v Europe Strength Food Co. Pty. Ltd. [1978] 2 N.Z.L.R. 515, 520 (CA); Saltman Engineering Co v Campbell Engineering Co. [1963] 3 All E.R. 413, (1948) 65 RPC 203; Seager v Copydex supra n. 116.

118 Working Paper, Breach of Confidence, London, HMSO 1974; Rpt. No. 110, Breach of Confidence, London, HMSO, 1981 - Cmnd 8388.

119 See eg. Dworkin, "Unfair Competition: Is the Common Law developing a new Tort?" [1979] E.I.P.R. 241; S. Ricketson "'Reaping Without Sowing': Unfair Competition and Intellectual Property Rights in Anglo-Australian" (1984) U.N.S.W.L.J. Special Issue 1.

120 "Protection of Trade Secrets", Report of Torts and General Law Reform Committee of New Zealand, December 1973, Conclusion para. 2.

121 [1969] 1 Q.B. 349.

122 Ibid. 361. See also DuPont Power Co. v Masland 244 U.S. 10,102 (1917) per Holmes J.

123 Fraser v Thames Television [1984] Q.B. 44, 66.

124 Idem.

125 [1979] 1 Ch. 227.

126 Ibid. 248E-G.

127 Idem.

128 [1985] 1 All ER 724.

129 See also Roger Bullivant Ltd. v Ellis [1987] FSR 172 (C.A.); Balston Limited & Another v Headline Filters Ltd. & Another [1987] FSR 330.

130 (1986) 1 N.Z.B.L.C. 99-046.

131 Supra n. 128.

132 Useful discussions on the law relating to the disclosure and use of confidential information may be found in Chitty on Contracts (25th Ed.) at para 3435; W.R. Cornish, Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights, supra n. 13 at pp.263 et seq.; Law of Employment, A. Szakats, (2nd Ed., Butterworths, Wellington, 1981) pp.247-253.

133 Supra n. 38 at pp. 19-20.

134 The contrary view was expressed in Catnic Components Ltd. v Hill & Smith Ltd. [1978] FSR 405 per Whitford J. This view has not been followed in New Zealand; see e.g. Wham-O Mfg. Co. v Lincoln Industries Ltd. [1981] 2 N.Z.L.R. 628.

135 A similar view was taken in respect of Arts. 85 & 86 of the Rome Treaty: Ladas, supra n. 5 at p. 755.

136 Supra n. 57 at p. 7.

137 See also McCarthy, supra n. 20 at p.199.

138 R v Galvin [1987] 2 All E.R. 851, 855d.

139 B.M. Hill & M.R. Jones, "New Rules on Competition: The Background and Implications of the Commerce Act 1986 [1986] N.Z.L.J. 190.

140 A.N.Z.C.E.R.T.A.(1983), cl.12.

141 Supra n. 3 at pp.24-25.

142 Supra n. 20 at p.200.

143 E.g. Top Performance Motors Pty. Ltd. v Ira Berk (Queensland) Pty. Ltd. (1975) 5 ALR 465. See also W. Pengilley, supra n. 2 at p.178; J. Land, "Monopolisation: Section 36 of the Commerce Act 1986" LL.M. Research Paper, Victoria University of Wellington, 1986, pp.149-153.

144 Supra n. 2 at p.178-179.

145 Ibid. 179.

146 As manifested in the market oriented Commerce Act 1986.

147 Supra n. 57 at p.13.

148 Department of Trade and Industry Discussion Paper, supra n. 38 at p.19.

149 Supra n. 94.

150 Ibid. 628A, 863d.

151 323 U.S. 386 (1944).

152 Ibid. 452.

153 Supra n. 57 at p.13.

154 Supra n. 38 at p.19.

155 Supra n. 20 at p.202. An Australian economist Norman coined the word "Monokat" as a substitute for "Monopolist", to describe the owner of an intellectual property right: N.R. Norman, "The Economics of Patents" Les Nouvelles, September 1983; 193, 195.

156 Bowman, supra n. 56 at p.46.

157 Unreported, High Court, Wellington Registry, 6/6/84, (A.6/86), Eichelbaum J.

158 See also R. Merkin, "Are UK Intellectual Property Rights Anti-Competitive?", (1987) 2 Patent World 16, 17.

159 Supra n. 38 at p.11.

160 Although Ricketson regards them as such; supra n. 4 at p.1039.

161 Supra n. 20 at p.205.

162 S.A. Diamond, "Trademarks and the Public Interest", Speech, October, 1980.

163 U.S. v E.I. Du Pont De Nemours and Co. 351 U.S. 377 (1956).

164 Re Coca-Cola Co's Applications [1986] 2 All E.R. 274.

165 Supra n. 94 at p.655H, 884a-b.

166 Ibid. 656C, 884d.

167 Copyright Act 1962, ss.7(3)(a) and 3(1).

168 Supra n. 94 at p.627E-H, 863a-c.

169 Ibid. 617A, 855d.

170 Supra p.44.

171 Supra n. 20 at p.206.

172 Supra n. 57 at pp.13-14. Eagles said "[t]he dual protection which New Zealand law confers upon industrial designs provides opportunities for anti-competitive exploitation undreamed of in the United States where there are separate registration systems for applied art ("copyright") and utilitarian design ("design patent")". The right-holder must elect in which system to register the object.

173 S.36(1). Section 3(8) refers to exercising "a dominant influence over" certain matters.

174 [1986] 1 C.M.L.R. 414.

175 Supra pp.12-14.

176 See Cornish, supra n. 13 at pp.250-257.

177 This provision stems from New Zealand's international obligations under Art. 5 of the Union for the Protection of Industrial Property (Paris Convention) 1883; see Ladas, supra n. 5 at p.527.

178 S.46(3)(a)-(e).

179 S.47(1)(d).

180 Hoffman-La Roche & Co. A.G.'s Patents [1973] R.P.C. 130, 137 (Q.B.D. per Ackner J).

181 S.50(1).

182 S.50(2).

183 This provision corresponds to s.57 of the Patents Act 1949 (U.K.), and s.43 of the Patents, Designs, and Trade Marks Act 1921-1922 (1921-1922, No. 18).

184 See International Salt Co., Inc. v United States 332 U.S. 392 (1947).

185 S.66(4).

186 S.66(3)(a) and (b).

187 S.66(5).

188 (1980) A.T.P.R. 40-166 (H.C.A.).

189 Ibid. 42,304.

190 Our s.66(1)(b).

191 Supra n. 188 at p.42,304.

192 Ibid. 42,305.

193 [1955] 1 W.L.R. 761.

194 Supra n. 3 at p.27.

195 These requirements are dealt with above; supra pp.23-26.

196 Smith Kline and French Laboratories Ltd. v Stirling Winthrop Group Ltd. [1975] 2 All E.R. 578.

197 S.9 of the Trade Marks Act 1938 (U.K.).

198 Supra n. 196 at p.585g-j.

199 Idem.

200 [1913] A.C. 624.

201 Ibid. 635.

202 Our s.14(3).

203 Supra n. 196 at p.586a.

204 S.37; see "Holly Hobbie" case, Re American Greeting Corp's Application [1984] 1 All E.R. 426.

205 S.35.

206 Pioneer Kabushiki Kaisha & Another v Registrar of Trade Marks (1977) 137 C.L.R. 670; (1977) 52 A.L.J.R. 79, per Aickin J.

207 S.22(6).

208 1986, No. 81; s.2.

209 S.22(11).

210 S.22(12).

211 S.21.

212 S.21(1).

213 S.21(2)(a) and (b).

214 S.21(3).

215 S.21(5).

216 Supra n. 94.

217 A. Shindler, "Derogation from Grant in Copyright Law" (1986) 49 M.L.R. 513.

218 Supra n. 94 at p.613H-614A, 853b.

219 Ibid. 625E, 861e-f.

220 Ibid. 626-627, 862-863.

221 Ibid. 641A-B, 872j-873a.

222 Ibid. 648D-E, 878e-f.

223 Ibid. 656E, 884e-f.

224 (1888) 38 Ch.D. 295.

225 Supra n. 94 at 641F, 873e-f.

226 Ibid. 641H 873g-h.

227 Supra n. 218.

228 Shindler, supra n. 217 at p.515.

229 [1939] 1 All E.R. 295.

230 [1927] 2 K.B. 123.

231 Supra n. 225.

232 Shindler, supra n. 217 at p.516, referring to the Sale of Goods Act 1979 (U.K.).

233 Supra n. 94 at 626C-D, 8626.

234 Supra n. 94 at p.641A, 873a per Lord Templeman; see also Cmnd 9437 (February 1985).

235 Supra n. 217 at p.517.

236 Idem; <u>British Leyland</u> supra n. 94 at p.627D, 862j.

237 Ibid. 628A, 863d.

238 Idem.

239 Ibid. 644B 875d per Lord Templeman.

240 Ibid. 644E-F, 875g.

241 Ibid. 644G-H, 815h.

242 Patents Act 1953, s.66.

243 Supra n. 94 at p.656E,884e.

244 Ibid. 644F, 875g-h.

245 Ibid. 644G, 875j.

246 LB (Plastics) Ltd. v Swish Products Ltd. [1979] R.P.C. 551 (H.L.).

247 Cf. Breuer v Wright [1982] 2 N.Z.L.R. 77.

248 Supra n. 217 at p.577.

249 Copyright Act 1962, s.22.

250 Supra n. 94 at p.656G, 884c-f.

251 Supra n. 217 at p.577.

252 Supra n. 94.

253 Supra n. 224 at p.313; see Shindler, supra n. 217, at p.517.

254 Ibid. 517-518.

255 Supra n. 94 at p.613C-D, 852g-h.

256 Ibid. 613H-614A, 8536 per Lord Scarman; 626G and 627G, 862e-f and 863c per Lord Bridge; 641F, 873f per Lord Templeman: "materially unfit for the purpose for which the grant was made", and 641H-642A, 873h-j.

257 A.M. Tettenborn "Copyright and Spare Parts: Judicial Legislation in a Good Cause" [1986] C.L.J. 216, 217-218.

258 [1984] F.S.R. 591.

259 Supra p.127 et seq.

260 [1971] 10 C.M.L.R. 631.

261 Intellectual Property and Innovation (Cmnd.9712).

262 Supra n. 94.

263 Idem.

264 (1986) 7 I.P.R. 25.

265 Supra n. 94.

266 Supra n. 264 at p.31 citing Bognuda v Upton & Shearer Ltd. [1972] N.Z.L.R. 741, 757 per Woodhouse J, and North Island Wholesale Groceries Ltd. v Hewin [1982] 2 N.Z.L.R. 176, 190 per Richardson J.

267 Idem.

268 Anywhere in the world, by making 50 reproductions.

269 S.6.

270 S.9.

271 Supra n. 264 at p.33.

272 [1982] 1 N.Z.L.R. 393, 409.

273 20 February 1984.

274 Supra n. 264 at p.33.

275 Supra n. 273.

276 Ibid. 33-34.

277 Supra n. 94.

280 Supra n. 264 at p.34.

281 The writer has been informed.

282 Supra n. 94.

283 Supra n. 264 at p.34.

284 Supra n. 94.

285 Supra n. 264.

286 Dennison Manufacturing Co. and Another v Alfred Holt & Co. Ltd. and Others, (unreported, High Court, Auckland Registry, 5 March 1987, (A.736/78), Smellie J).

287 Supra n. 94.

288 Supra n. 286 at pp.9-10.

289 Supra n. 94.

290 Supra n. 286 at p.10

291 Supra n. 264.

292 Supra n. 286 at p.10.

293 Supra n. 94.

294 (1986) A.T.P.R. 40-714.

295 Supra n. 94.

296 Supra n. 294 at p.47,825.

297 Supra n. 94.

298 Supra n. 164.

299 Ibid. 275e.

300 Ibid. 275h-j.

301 Ibid. 276.

302 (1886) 33 Ch.D. 392.

303 Ibid. 395.

304 Supra n. 196.

305 Ibid. 582e-g.

306 Supra n. 196.

307 Supra n. 164 at p.277c-d.

308 Supra n. 196 at p.582e; Trade Marks Act 1938 (U.K.), s.68(2).

309 Idem.

310 Supra n. 164 at p.276b.

311 Supra n. 196 at p.583a-b.

312 Ibid. 583d-f.

313 Supra n. 302.

314 Supra n. 196 at p.584h.

315 Supra n. 164.

316 Supra n. 12.

317 Ibid. 218.

318 Ibid. 223a-c.

319 Supra n. 83.

320 Ibid. 938.

321 Unreported, Court of Appeal, 25 March 1986, (C.A. 182/85).

322 Ibid. 4.

323 1970, No. 129; Herbert Morris Ltd. v Saxelby [1916] A.C. 688, 709.

324 Lion Laboratories Ltd. v Evans [1984] 3 W.L.R. 539.

325 Allied Mills Industries Pty. Ltd. v Trade Practices Commission (1981) 34 A.L.R. 105.

326 Beloff v Pressdram Ltd. [1973] 1 All E.R. 241, 259.

327 (1977) 15 A.L.R. 353, 373.

328 Dominion Budget Rent A Car Ltd. v Mutual Rental Cars (Auckland) Ltd. (unreported, Court of Appeal, 27 March 1987 (CA 70/83 and 194/84)), at pp.53-4.

329 In Columbia Pictures Ind. Inc. v Robinson [1986] 3 W.L.R. 542 Scott J held that it was illigitimate to obtain an Anton Piller order or a Mareva injunction with the intention of closing down the defendant's business, at least where that business was not wholly illegal. See "Abuse of Anton Piller Orders", [1987] C.L.J. 50, 51; see also the recently affirmed tort of abuse of procedure, [1986] C.L.J. 200.

330 s.36(2); see infra p.117.

331 Bundesgesetzblatt I, S. 1080, a useful analysis of the German Antitrust law, in English, may be found in Ladas, supra n. 5 at pp. 782 et seq.

332 Supra n. 57 at p.3, fn. 2.

333 Ibid. 27.

334 Idem.

335 Ss. 2(5), (7), (8) and 3(3),(5),(6),(7) and (8).

336 "Contract" is defined inclusively in s.2(6). "Provision is defined in s.2(1). Note. s.2(8) and (9) relating to when members of associations are regarded as having entered a contract or arrangement, or arrived at an understanding.

337 S.51(3).

338 Supra n. 188.

339 Our Patents Act 1953, s.66, see supra pp.55-58.

340 Supra n.188 at p.42,310.

341 Stephen J. in fact held that such a clause did not substantially lessen competition (p.42,307).

342 See also (1980) 8 Aust. Bus. L. Rev. 417, 419-422.

343 Supra n. 3 at pp.25-26.

344 Idem.

345 P.A.Stone, (1986) 8 E.I.P.R. 242, 243.

346 Supra n. 57 and p.30.

347 Supra n. 188.

348 [1986] 1 N.Z.L.R. 119, 125 per Richardson J; cf <u>Gibbons & Ors</u> v <u>A.M.I.E.U. & Ors</u> (1986) A.T.P.R. 40-170, 47,767.

349 Unreported, High Court, Auckland Registry, 31 July 1987, (CP.1373/86), Barker J.

350 (1982) 44 A.L.R. 173, 207 (Fed. Ct. of Aust.- General Division).

351 Supra n. 349 at pp. 37-38, 72; see also <u>Haenga</u>, supra n. 348 at p.126.

352 See Hill & Jones, <u>Competitive Trading in New Zealand</u>, (Wellington, Butterworths, 1986) p.54 para 27.8 and p.78 para 36.5.

353 <u>U.S.</u> v <u>Crown Zellerbach Corp</u>. 141 F. Supp 118 (1956).

354 <u>U.S.</u> v <u>Besser Manufacturing Co</u>. 96 F Supp. 304 (1951).

355 <u>Mannington Mills Ltd</u> v <u>Congoleum Industries Inc</u>. 610 F 2d 1059 (1979).

356 Supra n. 57 at p.32.

357 Supra n. 345.

358 Hennessey Industries Inc. v F.M.C. Corp. 779 F 2d 402 (1955); supra n. 57 at p.32-33.

359 Ibid. 33.

360 Clause 45(1)(a).

361 S.26(1).

362 Supra n.29 at p.34.

363 Ibid. 35.

364 Supra n. 57 at p.35.

365 S.2.

366 Supra n. 57 at p.35.

367 Copyright Amendment Act 1985.

368 S.45(1) and (2).

369 [1960] 2 W.L.R. 448, 455 per Lord Reid.

370 (1925) 36 C.L.R. 410.

371 (1978) 23 A.L.R. 41,44; c.f. Luby v Newcastle-Under-Lyme Corp. [1965] 1 Q.B. 214.

372 Trade Marks Amendment Act 1987.

373 Supra n. 57 at pp. 36-37.

374 1986, No. 121.

375 Supra n. 57 at p.37.

376 Ibid. 38.

377 S.45(1).

378 Unlike most of Part II which dels with anti-competitive conduct between two or more firms.

379 This concern has been justified in Australia; e.g. see McLean v Shell Chemical (Australia) Pty Ltd. (1984) A.T.P.R. 40-462.

380 See especially Ball Memorial Hospital, Inc. v Mutual Hospital Insurance, Inc. 784 F.2d. 1325, 1338 (1986) (7th Cir.).

381 Brunswick Corp. v Riegel Textile Corp. 752 F.2d. 261 (1984); [1985] 1 Trade Cases 66333, (7th Cir.).

382 Ball Memorial, supra n. 380 at p.1338.

383 S.2(1).

384 S.3(8).

385 S.36(1).

386 News Ltd./INL (1986) 6 N.Z.A.R. 47, 51.

387 New Zealand Parliamentary Debates, Vol 469, 1986; 674 (Hon. Dr Bill Sutton); Department of Trade and Industry, "Commerce Bill 1985: Misuse of Monopoly Power", (7 October 1985, Wellington), para 11; Department of Trade and Industry, "Commerce Bill 1985: A Background to the Bill and an Outline of its Provisions", (August 1985, Wellington), p 15. The test derives from Re Continental Can Co. Inc. [1972] C.M.L.R. D11, D27. [see also Budget]

388 S.2(7).

389 Or together with an interconnected body corporate.

390 Supra n. 386 at p.

391 Supra n. 349; see also Investment News Ltd. v Fourth Estate Ltd., unreported, High Court, Wellington Registry, 1986, (CP 448/86); Bond & Bond Ltd. v Fisher & Paykel Ltd. (1986) 6 N.Z.A.R. 278.

392 Budget Rent A Car Ltd. v A.R.A. (unreported, Court of Appeal, 4 October 1985, (CA 29/85).

393 Supra n. 349 at p.75.

394 Idem.

395 S.36(1).

396 S.46(1).

397 Hansard indicates that no difference was intended, (1986) 469 N.Z.P.D. 673, 674-675; (1986) 470 N.Z.P.D. 1180.

398 Supra n. 294.

399 Ibid. 47,820.

400 Ibid. 47,827.

401 198 F.2d. 416 (1962).

402 Supra n. 294 at p.47,827.

403 Idem. See also Top Performance Motors Pty. Ltd. v Ira Berk (Queensland) Pty. Ltd. (1975) A.T.P.R. 40-004 especially at p.17,115.

404 Supra n. 294.

405 603 F.2d. 263 (1979) (2nd Cir.).

406 Ibid. 276.

407 651 F.2d 76 (1981).

408 Supra n. 405.

409 Supra n. 407 at p.87.

410 Areeda & Turner, "Predatory Pricing and Related Practices under Section 2 of the Sherman Act", 88 Harv. L. Rev. 697, 711 (1975.

411 Where a purpose applies to a different market, it will often be a difference in functional market, e.g. Eastman Kodak v Southern Photo Materials Co. 273 U.S. 359 (1927). Tie-ins often occur in different geographical markets. The Victorian Egg Marketing Board case, supra n. 276, is an example of a different geographical market.

412 Supra n. 348.

413 Transport Act 1962; 1962, No. 135, s.142(3)(6); Air Services Licensaing Act 1983; 1983, No. 36, s.29(3)(6). Both sections were repealed by the Commerce Act 1986, s.110(1).

414 A.R.A., supra n. 349; Warman, supra n. 294 at p.47,827; Hill & Jones, supra n. 352.

415 S.2(5)(6).

416 Supra n. 57 at p.53.

417 U.S. v L.D. Caulk 126 F. Supp. 693, 708 (1954); see also Department of Trade and Industry "Commerce Bill: Intellectual Property Rights", (1985, Wellington), p 5.

418 Supra n. 401.

419 Neale, "The Anti-Trust Laws of the United States of America", (2nd ed., Cambridge University Press, Cambridge, 19709) p.321.

420 U.S. v Besser Manufacturing Co. 96 F. Supp. 304 (1951), affirmed 343 U.S. 444 (1952).

421 Trade Practices Act 1974, s.46(7).

422 Supra n. 57 at p.53.

423 Ibid. 55.

424 Supra p.112 at n. 369.

425 Supra n. 294.

426 Supra n. 349.

427 Morton Salt v Suppiger 314 U.S. 488 (1942).

428 Brunswick Corp. v Riegel Textile Corp. supra n. 381; see W. Pengilley, "Lowering the Monopoly Power Threshold: An Evaluation of the Australian Monopolization Amendments and their Likely Results" (1987) 11 Syd. L. Rev. 196, 200.

429 Berkey Photo v Eastman Kodak, supra n.405.

430 Cal Computer Products v Intern. Business Machines (1979) 1 Trade Cases 62713 (9th Cir.); Transmedia Computer Co. v IBM (1982) 3 Trade Cases 65668 (6th Cir.); see W. Pengilley supra n. 428 at p.204.

431 Supra n. 349 at p.76-77; see also M.S. Cohen, "The Antitrust Implications of Airline Deregulation", (1983) Antitrust Bulletin 131, 144; "Refusals To Deal By Vertically Integrated Monopolists", (1974) Harv. L.R. 1720, 1740.

432 224 U.S. 383 (1912).

433 Pengilley, supra n. 428 at p.203.

434 570 F.2d. 982 (1977).

435 334 U.S. 495, 520 (1948).

436 Tampa Elec. Co. v Nashville Col. Co. 365 U.S. 321, 328.

437 Ibid. 327.

438 Supra n. 349 at p.79.

439 Supra n. 434 at p.992.

440 2nd Ed., 1970.

441 Ibid. 67.

442 Supra n. 434 at p.992.

443 Supra n. 349 at p.79.

444 194 F.2d. 484 (1952) (1st Cir.).

445 Ibid. 487.

446 Idem.

447 Ibid. 487-488.

448 Supra n. 444.

449 Supra n. 434. A recent U.S. example of the "essential facility" doctrine is Olympia Equipment Leasing Co. v Western Union Telegraph Co. 797 F.2d. 370 (1986).

450 So long as the decision is made unilaterally: Interface Group v Gordon Publications Inc. (1983) 1 Trade Cases 65466 (D.C. Mass.).

451 (1979-80) A.T.P.R. (Com.) 52,169. See Ransom & Pengilley Restrictive Trade Practices: Judgments, Materials and Policy (1985).

452 (1983) A.T.P.R. 40-400.

453 (1987) A.T.P.R. 40-781.

454 S.46(1).

455 Supra n.453 at p.48,526.

456 See Baker, "Government Enforcement of Section Two", (1986) 61 Notre Dame Law Rev. 898, 919: where the author sets out the U.S. refusal to deal rule and the refusal to allow access to an "essential facility" rule, and concludes, "These two rules seem to be but two sides of the same coin".

457 SCM Corp. v Xerox Corp. 645 F.2d. 1195, 1204-1207 (1981) (2nd Cir.); followed in U.S. v Westinghouse Electric Corp. 648 F.2d. 642 (1981); see also Pengilley supra n. 428 at p.206.

458 Department of Trade and Industry "Commerce Bill: Intellectual Property Rights" (Wellington, 1985) p.6.

459 Idem.

460 Supra p.114.

461 Supra n. 57 at p.42.
462 Ibid. 43.

463 A person who has received information of a confidential nature should not reap where he has not sown and thereby obtain an unfair advantage over third parties who lack the benefit of that information altogether. The recipient should take special care to use only information which is in the public domain either by going to the public source to get it, or at least not being in a better position than if he had gone to the public source. It means that a person should not get a start over others by using the information which was received in confidence. Looked at from another angle it means that a person can only enforce a confidence after the information is in the public domain for such time as will ensure that the person with the confidential information does not get such a head start. The term seems to be that of Roxburgh J in Terrapin Ltd. v The Builders Supply Co. (Hayes) Ltd. [1967] R.P.C. 375, 392. See also Seager v Copydex (No.1) supra n. 116 at p.417 per Lord Denning M.R.; and Yates Circuit Foil v Electro Foils (1976) F.S.R. 345, 387, Ch.D. per Whitford J.

464 Supra n. 458.

465 S.22(7).

466 [1980] 1 N.Z.L.R. 372, 384.

467 [1960] N.Z.L.R. 25.

468 (1985) 5 N.Z.A.R. 314.

469 Ibid. 318.

470 [1980] N.Z.L.R. 663.

471 Supra n. 467.

472 Supra n. 349.

473 Ibid. 75.

474 Supra n. 466.

475 (1978) A.T.P.R. 40-094; applied in Petersville Sleigh Ltd v F.S.P.U.A. (1986) ATPR 40-683, 47,526-7.

476 Ibid. 17,934.

477 S.43(1).

478 (1977) ATPR 40-024; followed in TPC v Legion Cabs (Trdg) Co-op. Society Ltd. (1978) ATPR 40-092; see also WA Pines Pty Ltd v Bannerman (1980) ATPR 40-163, 42-285.

479 Supra n. 3.

480 Supra n. 140.