



Law Council
OF AUSTRALIA

IP Australia's Public Consultation Papers

IP Australia

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Telephone +61 2 6246 3788 • *Fax* +61 2 6248 0639
Email mail@lawcouncil.asn.au
GPO Box 1989, Canberra ACT 2601, DX 5719 Canberra
19 Torrens St Braddon ACT 2612
Law Council of Australia Limited ABN 85 005 260 622
www.lawcouncil.asn.au

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About the Law Council of Australia

The Law Council of Australia exists to represent the legal profession at the national level, to speak on behalf of its Constituent Bodies on national issues, and to promote the administration of justice, access to justice and general improvement of the law.

The Law Council advises governments, courts and federal agencies on ways in which the law and the justice system can be improved for the benefit of the community. The Law Council also represents the Australian legal profession overseas, and maintains close relationships with legal professional bodies throughout the world.

The Law Council was established in 1933, and represents 16 Australian State and Territory law societies and bar associations and the Law Firms Australia, which are known collectively as the Council's Constituent Bodies. The Law Council's Constituent Bodies are:

- Australian Capital Territory Bar Association
- Australian Capital Territory Law Society
- Bar Association of Queensland Inc
- Law Institute of Victoria
- Law Society of New South Wales
- Law Society of South Australia
- Law Society of Tasmania
- Law Society Northern Territory
- Law Society of Western Australia
- New South Wales Bar Association
- Northern Territory Bar Association
- Queensland Law Society
- South Australian Bar Association
- Tasmanian Bar
- Law Firms Australia
- The Victorian Bar Inc
- Western Australian Bar Association

Through this representation, the Law Council effectively acts on behalf of more than 60,000 lawyers across Australia.

The Law Council is governed by a board of 23 Directors – one from each of the constituent bodies and six elected Executive members. The Directors meet quarterly to set objectives, policy and priorities for the Law Council. Between the meetings of Directors, policies and governance responsibility for the Law Council is exercised by the elected Executive members, led by the President who normally serves a 12 month term. The Council's six Executive members are nominated and elected by the board of Directors.

Members of the 2017 Executive as at 1 January 2017 are:

- Ms Fiona McLeod SC, President
- Mr Morry Bailes, President-Elect
- Mr Arthur Moses SC, Treasurer
- Ms Pauline Wright, Executive Member
- Mr Konrad de Kerloy, Executive Member
- Mr Geoff Bowyer, Executive Member

The Secretariat serves the Law Council nationally and is based in Canberra.

Acknowledgement

The Law Council is grateful for the assistance of the Intellectual Property Committee of the Business Law Section of the Law Council of Australia and the Queensland Law Society for their contributions to the preparation of this submission.

Business Law Section

The Business Law Section was established in August 1980 by the Law Council of Australia with jurisdiction in all matters pertaining to business law. It is governed by a set of by-laws passed pursuant to the Constitution of the Law Council of Australia and is constituted as a Section of Law Council of Australia Limited.

The Business Law Section provides a forum through which lawyers and others interested in law affecting business can discuss current issues, debate and contribute to the process of law reform in Australia, and enhance their professional skills.

The Section has a current membership of more than 1,100 members. The Section has 15 specialist Committees, all of which are active across Australia.

Current Office Holders on the Business Law Section's Executive Committee are:

- Ms Teresa Dyson, Chair;
- Ms Rebecca Maslen-Stannage, Deputy Chair; and
- Mr Greg Rodgers, Treasurer.

Intellectual Property Committee

The Intellectual Property Committee is one of the fifteen specialist committees and one working party established within the Business Law Section to offer technical advice on different areas of law affecting business. Each of these Committees approach issues of law reform and practice from a different perspective, which reflects their respective primary focus.

Queensland Law Society

The Queensland Law Society is the peak professional body for the State's legal practitioners. We represent and promote nearly 12,000 legal professionals, increase community understanding of the law, help protect the rights of individuals and advise the community about the many benefits solicitors can provide. The Queensland Law Society also assists the public by advising government on improvements to laws affecting Queenslanders and working to improve their access to the law.

Introduction

1. The Law Council welcomes the opportunity to provide this submission to Intellectual Property (IP) Australia's consultation process in relation to the implementation of the Government's response to the Productivity Commission's (PC) 2016 report on Australia's IP arrangements. IP Australia has issued five papers (**Consultation Papers**) upon which it has sought input.
2. As the administrator of intellectual property rights and legislation relating to patents, trade marks, designs and plant breeder's rights, IP Australia is uniquely positioned to consider and contribute to any debate on innovation by virtue of its experience in these areas. Its role as adviser to the Government on IP issues has been heightened following the dissolution of the former Advisory Council on Intellectual Property (**ACIP**).
3. This document encompasses two separate submissions in response to many of those issues identified within Consultation Papers. These submissions have been prepared by the Intellectual Property Committee (**IPC**) of the Business Law Section of the Law Council of Australia, and the Queensland Law Society (**QLS**).
4. Submissions provided by the IPC can be found at Part A of this document, and have been prepared in response to the following matters raised in Consultation Papers 2, 3 and 4 respectively:
 - Introduction of an objects clause into the *Patents Act 1990*;
 - Crown use of patents and designs; and
 - Compulsory licensing of patents.
5. Submissions provided by the QLS can be found at Part B of this document, and have been prepared in response to the following matters raised in Consultation Papers 3 and 4 respectively:
 - Crown use of patents and designs; and
 - Compulsory licensing of patents.
6. Whilst the IPC and QLS generally agree on those issues that are commonly addressed in their respective submissions, these bodies have adopted different approaches in responding to the Consultation Papers and at times have provided contributions offering distinct insights with differences occurring in certain instances.



Part A: Submission by the Intellectual Property Committee

Introduction of an objects clause into the Patents Act (Paper 2)

Introduction

7. The Intellectual Property Committee (**IPC**) of the Business Law Section of the Law Council of Australia is grateful for the opportunity to present a submission to IP Australia's Public Consultation in relation to the introducing an objects clause into the *Patents Act 1990* (**Consultation Paper 2**).
8. Consultation Paper 2 follows publication of the PC Final Inquiry Report; Intellectual Property Arrangements, No. 78, 23 September 2016 (**Final Report**), and the Australian Government Response to the PC Inquiry into Intellectual Property Arrangements dated August 2017 (**Government Response**).
9. Recommendation 7.1 of the Final Report recommended the incorporation of an objects clause into the *Patents Act 1990* (**the Patents Act**), which should describe the purpose of the legislation as enhancing the wellbeing of Australians by promoting technological innovation and the transfer and dissemination of technology. The recommendation stated that in so doing, the patent system should balance over time the interests of producers, owners and users of technology. The Government Response supported Recommendation 7.1 and noted that the Government would give further consideration to the exact wording of the objects clause.
10. Consultation Paper 2 presents two options for the wording of the proposed objects clause and requests submissions as to preference for one of the two options and submissions as to disagreement with the wording of the options.
11. The IPC has in recent times made a number of submissions addressing the proposed inclusion of an objects clause in the Patents Act and proposed wording for any such clause. The IPC remains of the view outlined in these previous submissions that an objects clause is unnecessary and undesirable. However, if such a clause is to be introduced, the IPC supports the inclusion of an objects clause in similar terms to that of the New Zealand Patents Act 2013.

Inclusion of an objects clause

12. As a general principle the IPC considers that operative clauses of the Patents Act should be drafted clearly and that it should not be necessary, nor it is generally desirable, to rely on objects clauses to direct the construction of the provisions. The proper construction should be apparent on the face of the relevant provisions. Where any particular provision is considered ambiguous or as currently drafted does not further the principles on which the Patents Act is based, the IPC considers that a targeted amendment should be made to that particular provision. For example, the PC has suggested that an objects clause would help clarify the context for compulsory licensing. Concurrent with this consultation, IP Australia is conducting a consultation in relation to amendments to compulsory licensing which can address these concerns. ACIP's previous recommendation that an objects clause would assist with the test for patentable subject matter has now been dealt with by way of the setting out of various

factors to be considered in this context by the High Court in *D'Arcy v Myriad Genetics* (2015) 325 ALR 100.

13. Rather than underpinning a cohesive patent system, the inclusion of an objects clause will undoubtedly increase uncertainty, by providing scope for all aspects of patent law, including the grounds for patent invalidity, to become subject to subjective interpretation as to the impact of the objects clause on the interpretation of relevant provisions. This is not in accordance with the overarching principle of efficiency which the PC wished to implement. Patent litigation costs will inevitably increase with the prospect of wide-ranging evidence on economic and social factors which may be relevant to the interpretation of provisions governing infringement and validity of patents. Similarly, more appeals from decisions of the Patents Office can be expected insofar as the objects clause is relied upon in a decision as to whether a patent should be granted.
14. The PC suggests that there may be some “short-term uncertainty” but considers that the benefits from introducing an objects clause would exceed the costs. The IPC considers that the uncertainty is unlikely to exist only in the short-term and does not see that any benefit will be achieved.

Options presented for objects clause

15. The Consultation Paper presents two options for the wording of an objects clause. Option A is that proposed by the PC in the Final Report. Option B is proposed by IP Australia as an alternative to address certain possible issues which might arise with Option A. In particular, Option B replaces “the wellbeing of Australians” with “the wellbeing of society” in response to the concern raised that Option A may not be consistent with the obligations under Article 3.1 of TRIPS and Article 17.1(6) of AUSFTA to accord treatment to nationals of other relevant states no less favourable than that accorded to Australian nationals. Option B refers to the balancing of the interests of the public along with the other stakeholders referred to.
16. As between Option A and Option B, the IPC considers that Option B does overcome potential issues previously raised with respect to Australia’s international obligations as outlined above. With regard to the addition of the reference to the public interest, the IPC considers that the public interest indeed encompasses a balancing of the interests of producers, owners and users of technology, but has no objection to the inclusion of reference to the public interest.
17. However, the IPC remains opposed to several aspects of the wording of both Options A and B which it considers will promote the uncertainty and complexity discussed above.
18. The concept of enhancing the “wellbeing of society/Australians” would appear to potentially require a value judgment as to the ‘social value’ of the invention in question. As the IPC has previously submitted; such a notion is prone to different interpretations by different community sectors, may depend on the manner in which an invention is exploited, and may change over the life of a patent. It will be particularly difficult for the Commissioner of Patents to determine whether a particular invention is likely to enhance the wellbeing of society/Australians at the time of deciding whether or not to grant a patent, when the invention may not have even yet been commercialised. Further, the technical requirements of the Patents Act with respect to the validity of a patent do not lend themselves to being interpreted by notions of social value.
19. Both Options A and B also maintain language referring to the promotion of the ‘transfer and dissemination of technology’. The IPC also considers this phrase problematic. On

one hand, the grant of a patent forms a strong basis for the dissemination of technology as the *quid pro quo* for the grant of the monopoly awarded under a patent. Such technology might otherwise remain forever secret, protected as confidential information. On the other hand, it may be argued that refusal to grant a patent (or invalidation of an existing patent) promotes the dissemination of technology. It is entirely unclear how such notions are intended to affect the interpretation of operative provisions of the Patents Act.

Alternative wording for objects clause

20. In light of the above difficulties, the IPC considers that the Purposes provision of the recently enacted New Zealand Patents Act 2013 provides a more appropriate basis for an objects clause for the Patents Act.

21. Section 3 of the New Zealand Patents Act 2013 (the purposes provision) states:

Purposes

The purposes of this Act are to—

- (a) provide an efficient and effective patent system that—*
 - (i) promotes innovation and economic growth while providing an appropriate balance between the interests of inventors and patent owners and the interests of society as a whole; and*
 - (ii) complies with New Zealand’s international obligations; and*
- (b) ensure that a patent is granted for an invention only in appropriate circumstances by—*
 - (i) establishing appropriate criteria for the granting of a patent; and*
 - (ii) providing for procedures that allow the validity of a patent to be tested; and*
- (c) provide greater certainty for patent owners and the users of patented inventions that patents will be valid after they are granted; and*
- (d) address Māori concerns relating to the granting of patents for inventions derived from indigenous plants and animals or from Māori traditional knowledge; and*
- (e) ensure that New Zealand’s patent legislation takes account of developments in the patent systems of other countries; and*
- (f) regulate the provision of patent attorney services by giving effect to the joint registration regime with Australia.*

22. The Explanatory Note to the New Zealand Patents Bill when introduced included the statement that:

The Patents Bill will replace the Patents Act 1953 and will update New Zealand’s patent regime to ensure that it continues to provide an appropriate balance between providing adequate incentives for innovation and technology transfer while ensuring that the interests of the public and the interests of Māori in their traditional knowledge and indigenous plants and animals are protected.

23. It is clear that the stated purpose of the New Zealand Patents Bill to “*provide an appropriate balance between providing adequate incentives for innovation and technology transfer while ensuring that the interests of the public ... are protected*” are mirrored by the concerns of the PC in its Final Report. The IPC therefore considers

that the purposes provision of New Zealand Patents Act 2013 provides a useful basis for an objects clause for the Patents Act.

24. Moreover, the IPC considers that this provision provides a more complete description of the purposes of the Patents Act. It further considers that the language of this provision (with certain modifications as proposed below) is less likely to give rise to the uncertainty discussed above. Given recent further steps taken towards harmonisation of New Zealand and Australian patent law, it is further desirable that the patent legislation of each country be closely aligned where possible.
25. With amendment to replace references to “New Zealand” with “Australia” (and vice versa) and “Maori” with “Aboriginal and Torres Strait Islander”, the IPC considers the New Zealand purposes provision could form the basis for an objects clause as follows:

The purposes of the legislation are to—

- (a) provide an efficient and effective patent system that—*
 - (i) promotes innovation and economic growth while providing an appropriate balance between the interests of inventors and patent owners and the interests of society as a whole; and*
 - (ii) complies with Australia’s international obligations; and*
- (b) ensure that a patent is granted for an invention only in appropriate circumstances by—*
 - (i) establishing appropriate criteria for the granting of a patent; and*
 - (ii) providing for procedures that allow the validity of a patent to be tested; and*
- (c) provide greater certainty for patent owners and the users of patented inventions that patents will be valid after they are granted; and*
- (d) address Aboriginal and Torres Strait Islander concerns relating to the granting of patents for inventions derived from indigenous plants and animals or from Aboriginal and Torres Strait Islander traditional knowledge; and*
- (e) ensure that Australia’s patent legislation takes account of developments in the patent systems of other countries; and*
- (f) regulate the provision of patent attorney services by giving effect to the joint registration regime with New Zealand.*



Crown use of patents and designs (Paper 3)

Introduction

26. The IPC of the Business Law Section of the Law Council of Australia is grateful for the opportunity to present a submission in relation to IP Australia's Public Consultation: Crown Use of Patents and Designs (**Consultation Paper 3**).
27. The IPC has reviewed the different options listed in the Government's Crown use public consultation paper and responds as follows. Although the submission below deals specifically with Crown use in the context of the Patents Act the IPC makes the same submission with respect to the issue of Crown use of registered designs.

Preferred approach

28. The IPC agrees that Option 1 (public education and awareness) is not an appropriate option in view of problems with the present statutory scheme under Chapter 17 of the *Patents Act 1990* (Cth). These provisions require some amendment and, of the Options advanced in the paper (Options 2(a) –(d) and 3), the IPC supports the general thrust embodied in Option 2(c), with the following suggested modifications and/or clarifications.

Entities empowered to invoke Crown use

29. The IPC agrees with the proposal that, rather than providing a precise definition of what is meant by the "Crown", this should be defined as including "any entity which has the appropriate Ministerial approval". This will avoid the need to specify particular governmental entities entitled to invoke Crown use and will remove the present uncertainty inherent in the reference to "authority" of the Commonwealth or State in section 162. The IPC notes further:
- The present legislation refers only to the "Crown" by way of Chapter and section headings, while the sections themselves refer to the "Commonwealth" or a "State". For reasons of clarity and consistency, it would be preferable to use the terms "Commonwealth" and "State" in headings as well as in the provisions themselves, noting further that "State" is usefully defined in the Dictionary as including the Australian Capital Territory, the Northern Territory and Norfolk Island. No change in section 11 would be required here.
 - The expression "Appropriate Ministerial approval" will require interpretation – this point is taken up further below under the heading of "Accountability".
 - The consultation paper indicates that this Ministerial authority may extend to non-government entities, that is, private service providers. While the IPC does not oppose this, it does not believe generally that it should be possible for this authority to be given after the event, as is presently allowed under subsection 163(2). Prior Ministerial authority should be required here, as well as for governmental entities for which the Minister is responsible. (The IPC believes that this is implicit in the Consultation Paper proposals, although not explicitly stated).

Purposes for which Crown use may be invoked

30. The IPC agrees the “primary responsibility” test proposed in the Consultation Paper provides the necessary flexibility that is required as well as providing a more certain test for determining when the Crown use provisions may be deployed (“provision of a service that the Australian, State, and/or Territory Governments have the primary responsibility for providing or funding”).

Accountability requirements

31. As noted above, the IPC supports the proposal that any Commonwealth or State use should be with prior Ministerial approval, and that there should no longer be scope for retrospective approvals. The IPC also supports the proposal that the relevant Minister for this purpose should be the Minister for Industry, Innovation and Science at the Commonwealth level, and the Attorney-General of the State or Territory in question, at the State level.

Transparency

32. The IPC supports the proposals under Option 2C for there to be a structured process, including the requirement to negotiate and to provide a statement of reasons prior to exploitation.

Remuneration

33. In general, the IPC supports the recommendation that the standard here should be “just and reasonable taking into consideration the circumstances of the case”. This enables broader public interest concerns to be taken into account as well as those of the patentee, noting here the standard embodied in article 31(h) of the TRIPS Agreement that “the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization.” However, in the case of Commonwealth ministers and authorities, the addition of the term “reasonable” may be inconsistent with requirement under section 51(xxxi) of the Commonwealth Constitution that any acquisition of property by the Commonwealth should be on “just terms” alone. This limitation does not necessarily apply at the State level.
34. The IPC also notes the observations in the Consultation Paper that recourse to the courts will be a rare event, if parties on both sides negotiate honestly and fairly. However, where this does occur, a useful step would be to amend the Federal Court rules to provide for compulsory mediation before any court hearing occurs.

International considerations

35. As noted above, the proposed standard of remuneration appears to be consistent with Australia’s international obligations in cases where foreign patentees are concerned. While the requirement for non-commercial public use does not apply generally for all compulsory uses contemplated by article 31 of the TRIPS Agreement, the IPC reaffirms its 2013 submission in favour of including this requirement expressly in any proposed legislation. As this is also the stated view of the Government (Consultation Paper, page 13), there can be no harm in having this included in the legislation.
36. The IPC also supports the proposal that there should be Ministerial guidelines as to the factors to be taken into account in providing authority to entities, whether governmental or private, that are seeking to use the provisions of Chapter 17. In this

regard, the requirement of “non- commercial public use” will underline that this should be the governing consideration to be taken into account.

Other questions raised in the Consultation Paper

37. As to question 2 (“pros and “cons” and unintended consequences), the IPC has nothing to add to what has been said above, and likewise for question 3 (other options).
38. As for question 4 (scope for waiver of Ministerial approval), the IPC does not believe that there should be any provision for this. If there is proper Ministerial supervision and accountability, it is to be assumed that approval will be readily forthcoming in any public emergency that arises where use of a patent or design is required.



Compulsory licensing of patents (Paper 4)

Introduction

39. The IPC of the Business Law Section of the Law Council of Australia is grateful for the opportunity to present this submission in relation to IP Australia's Public Consultation: Compulsory Licensing of Patents (**Consultation Paper 4**).
40. The IPC supports Option 1 which would involve IP Australia conducting a public education and awareness campaign regarding Australia's compulsory patent licensing laws.
41. The IPC does not consider that there is any deficiency in the current law that needs to be remedied by legislative change of the kind proposed in Options 2 and 3. The IPC considers that these options would instead create significant and undesirable uncertainty in the law, and may negatively impact patentees' proprietary rights and the incentive to innovate which lies at the heart of the patent system. The IPC therefore supports retaining the existing legislative framework.
42. To the extent that legislative change is considered desirable, the IPC prefers Option 3 over Option 2, but considers that in either case some guidance should be given in the legislation as to the factors to be considered by the Federal Court in assessing the "public interest". The IPC also considers that should such a test be implemented, in order to properly balance the interests of all stakeholders, a compulsory licence ought only be granted where it is shown that there is a "substantial" public interest in doing so (as the PC proposed).

Question CL1.1: The IPC's preferred approach

Option 1: Public education and awareness

43. The IPC considers that there is merit in a public education campaign being conducted by IP Australia to ensure that there is general awareness of the availability of compulsory patent licences, the means by which such licences are sought, and the factors which are relevant to their grant. For that reason, the IPC supports Option 1 and comments further on this option below.

Options 2 & 3: Implementation of the PC's recommendations in full or in part

44. The IPC does not consider that there is any deficiency in the current law that needs to be remedied by legislative change as proposed in Options 2 and 3.
45. The patent system is designed to encourage reward and innovation by granting exclusivity over inventions for a limited period, in exchange for the public disclosure of those inventions via the filing of a patent specification. It is, in effect, a system designed to promote long-term public benefits (increased innovation and sharing of knowledge) in exchange for a relatively short-term cost to the public (the conferral of exclusive rights on the patentee). Those exclusive rights are proprietary in nature and carry with them (as is the case for other proprietary rights) the right to exclude others. Specifically, section 13 of the Patents Act confers on a patentee the exclusive right to exploit its patented inventions and to authorise others to do so.

46. Of course, the exclusive rights of the patentee are not absolute. The TRIPS Agreement provides that Members may permit the use of patented inventions in limited circumstances.¹
47. Currently, the Patents Act provides for the grant of a compulsory licence in circumstances where the:
- a) reasonable requirements of the public are not being met (section 133(2)(a)); or
 - b) patentee has contravened, or is contravening, Part IV of the *Competition and Consumer Act 2010* (Cth) (**CCA**) (section 133(2)(b)).
48. Option 2 and 3 are directed at altering the first of these two grounds. Currently, the first ground requires the applicant to satisfy each of the following conditions:
- a) the applicant has tried for a reasonable period, but without success, to obtain a licence on reasonable terms and conditions;
 - b) the reasonable requirements of the public with respect to the patented invention are not being met; and
 - c) the patentee has not provided a satisfactory reason for failing to exploit the patent.
49. It is appropriate that the exclusive rights of the patentee be fettered only in limited circumstances. The IPC considers that these conditions appropriately balance the rights of the patentee and the rights of the public. If there is unmet public demand for an invention, it is appropriate that an interested person can apply to the Federal Court for a compulsory licence in the above circumstances (subject, of course, to the provisions for the patentee to be compensated under section 133(5)). It is noted that section 133(2)(a) is broadly similar to the equivalent provision in the United Kingdom.²
50. The PC Report instead recommended that the existing "reasonable requirements of the public" test be replaced with a new "public interest" test. However, there is no evidence of any deficiency in the current law that needs to be remedied by the introduction of such a broad test. As the PC acknowledged, the compulsory licensing provisions are "a rarely needed safeguard" because "[i]t is generally in the parties' interest to negotiate a voluntary agreement".³ In addition, in many cases where there might be what can loosely be described as a "public interest" in broader access to patented technology, the Crown use provisions may be applicable.
51. A broad compulsory licensing regime based on an ill-defined concept of "public interest" is undesirable as it would be the technological advances which are most deserving of protection which would be most likely to be subject to a compulsory licence. This would be a perverse result, and one with the potential to undermine the "bargain" inherent in the patent system – the granting of a period of exclusive rights in return for the disclosure of new and beneficial technology to the public. The IPC considers that the current "reasonable requirements of the public" test (together with the factors set out in section 135) better balances the patentee's proprietary rights (and the corresponding incentive to innovate) with the interests of the public (both in the immediate and longer-term).
52. The PC identified three "problems" with the current test:⁴

¹ TRIPS Agreement, Art. 31.

² *Patents Act 1977 (UK)* s. 48A.

³ PC, *Compulsory Licensing of Patents*, Inquiry Report No. 61, 2013 ("**PC Report**"), p 115.

⁴ PC Report, pp. 147-9.

- *A lack of clarity of purpose.* The PC Report stated that this is likely to undermine the effectiveness of the existing regime. However, the IPC considers that the purpose of the existing "reasonable requirements of the public" test is readily apparent from the requirements set out in section 133(2)(a) together with the relevant factors listed in section 135.
 - *Uncertainty of language.* The IPC disagrees that the current test creates significant uncertainty simply because it is not a test used elsewhere in Australian law. The IPC considers that the existing language (section 133(2)(a) together with the factors listed in section 135) is clear and well understood within the legal profession (although the IPC agrees that there is scope for a broader awareness raising campaign – see above). Additionally, as noted above, the current test is broadly like the equivalent provision in the United Kingdom which provides Australian courts with guidance as to a framework for decision making. The PC Report stated that the concept of "public interest" is well understood. However, if that concept were to be introduced into the Patents Act, it would need to be given some context - see further below.
 - *Protectionist language.* The PC Report stated that the language used in section 135 has a protectionist flavour. However, the IPC considers that the references to Australian trade or industry in the current provisions appropriately recognise that patent rights are geographically bound, and the role of trade or industry in bringing patented products to market for the benefit of the public. The IPC also considers that this language reflects that there can be more than one "public" with diverse (sometimes competing) interests (including a range of industry and commercial sectors, geographical regions, and populations).
53. In addition, the IPC notes that the introduction of a "public interest" test on its face appears to be contrary to the requirements of the Australia – United States Free Trade Agreement (**AUSFTA**). Under Article 17.9.7 of the AUSFTA, a patent may only be exploited without the authorisation of the patentee in one of two circumstances:
- following a finding of anti-competitive conduct; or
 - "in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency", by the Government or a third party authorised by the Government.
54. The first ground aligns with section 133(2)(b) of the Patents Act, and the second ground broadly aligns with the provisions for Crown use. Although there is some debate as to whether the current section 133(2)(a) complies with these two permitted exceptions (with the Australian Government's position being that the "reasonable requirements of the public" test comes broadly within the first AUSFTA exception⁵), a broader "public interest" ground would appear to go well beyond that which is permissible under the AUSFTA.
55. The PC Report does not identify any particular circumstances where a compulsory patent licence would be granted under a "public interest" test when it would not be granted under either section 133(2)(a) or section 133(2)(b) as they currently stand. Accordingly, the IPC does not consider that any case has been made to reform the current law. The proposed changes are likely to introduce considerable uncertainty without any corresponding benefit. As such, the IPC does not support Option 2 or Option 3.

⁵ PC Report, p. 156.

Question CL1.2: Pros and cons

56. For the reasons outlined below, the IPC does not favour moving the competition-tested ground for a compulsory licence to the CCA and also does not favour the repeal of section 136 of the Patents Act. As such, to the extent that legislative change is considered desirable, the IPC prefers Option 3 over Option 2. However, the IPC considers that clear guidance should be given as to how to assess the public interest, and further that it should be necessary to show that there is a "substantial" public interest in the grant of a compulsory licence.

Recommendation 6.1 – move competition test to the CCA

57. Section 133(2)(b) of the Patents Act empowers the Federal Court to grant a compulsory patent licence because the patentee has contravened, or is contravening, Part IV of the CCA. In its report, the PC recommended that this provision be moved into the CCA given that the CCA already contains provisions which could be utilised to the same effect.
58. Although a similar remedy may be available under the general remedy provisions of the CCA,⁶ the IPC considers that a provision having specific application in relation to patents is most sensibly contained within the Patents Act. In any event, as the Consultation Paper observes, there is no real evidence of any problem which would be overcome by moving this provision to the CCA.
59. As such, the IPC does not support Recommendation 6.1.

Recommendation 6.2 – public interest test

60. The IPC does not support Recommendation 6.2 for the reasons set out in response to Question CL1.1. Further, if a "public interest" test is introduced, the IPC considers that significant uncertainty will be introduced given the indeterminate nature of that concept, the inherent potential for conflict with the interests of the patentee, and the inevitable difficulty in balancing those competing interests. There are critical differences between the interests of the public in the short term (which might include a desire for immediate and widespread access to patented technology at a low price) against the interests of the public in the long run (which would consider the public interest in encouraging innovation by appropriately rewarding innovative activity).
61. If a "public interest" test is introduced, to minimise this uncertainty, the IPC considers that it will be critical to include within the amending legislation some meaningful guidance as to what is meant by "public interest" in this context, and as to how the Court should balance that public interest against the interests of the patentee. It would be highly undesirable for patentees and prospective licensees to have to await guidance from the Court on these matters. In a similar context, for example, section 44X of the CCA provides guidance to the ACCC as to the factors to be considered in deciding under the access provisions of Part IIIA of the CCA, and section 44ZZCA outlines the pricing principles which the ACCC must have regarded to in making a final determination regarding access. However, the considerations applicable in a compulsory patent licensing context would be different in important respects. For example, while section 44ZZCA refers to allowing "a return on investment commensurate with the regulatory and commercial risks involved", the guidance in relation to compulsory patent licences would need to ensure that the remuneration appropriately rewards the patentee's inventive activity. In this regard, it will be important to recognise that the costs of innovation include not only the costs

⁶ *NT Power Generation Pty Ltd v Power and Water Authority* (2004) 219 CLR 90.

associated with the pathway that led to the patented invention, but also the costs of related research activities which were unsuccessful.

62. Importantly, given the potential for a “public interest” test to be interpreted more broadly than the current “reasonable requirements of the public” test, the IPC considers that an appropriate qualifier – such as the “substantial” public interest proposed in the PC Report – will be critical to protect the legitimate proprietary interests of patentees and the long-term interests of the public. In circumstances where the arguments for and against a compulsory licence are finely balanced, the test should favour the patentee in order to discourage unwarranted, opportunistic or vexatious applications and encourage parties to negotiate voluntary licence agreements.

Recommendation 6.3 - repeal section 136 of the Patents Act

63. Section 136 provides that the Federal Court must not order a compulsory licence under section 133 of the Patents Act (or revoke a patent under section 134) in circumstances where such an order would be inconsistent with Australia's obligations under an international treaty.
64. As the Consultation Paper notes, this provision has been in place since the commencement of the Patents Act, and provisions to similar effect appeared in the *Patents Act 1903* (Cth) and the *Patents Act 1952* (Cth). It is unclear what problem is intended to be solved by the repeal of section 136. The IPC considers that section 136 serves the useful purpose of reminding litigants and the Federal Court of Australia's treaty obligations. In addition, the general language of the current provision provides flexibility to ensure compliance with both existing and future treaty obligations.
65. As such, the IPC does not support Recommendation 6.3.

Question CL1.3: Other options

66. One other option is to remove section 133(2)(a) from the Patents Act to ensure that Australia complies with its obligations under Article 17.9.7 of the AUSFTA. However, the IPC understands that the Government is satisfied that the law is currently compliant with these obligations.⁷
67. Alternatively, while the IPC does not accept that there is any lack of clarity of purpose and uncertainty of language in the current regime, to address this concern a list of non-exhaustive examples, or additional factors, might be included in section 135 to provide the public, patent users and the Court with further guidance as to the meaning and scope of the “reasonable requirements of the public” test.

Question CL1.4: Public education and awareness

68. The IPC considers that a general guide regarding Australia's compulsory licensing laws would be useful. The guide could helpfully address the availability of compulsory patent licences, how such licences are sought, and the factors which are relevant to their grant.

⁷ PC Report, p. 156.

Part B: Submission by the Queensland Law Society

Crown use of patents and designs (Paper 3)

Overview

69. The Queensland Law Society (**the Society**) is in agreement with IP Australia's proposed amendments to the Crown use provisions contained in Chapter 17 of the Patents Act.
70. In one area alone, the Society considers that the IP Australia proposed amendment should go further to provide guidance to the Court in the calculation of the just and reasonable remuneration.
71. The Society agrees that introducing a remuneration standard that is "just and reasonable taking into consideration the circumstances of the case" will improve transparency and introduce a degree of certainty to remuneration negotiations. However, based on common law and a preliminary indication in a case considering remuneration under Chapter 17 before the Federal Court in 2008, the legislation should expressly indicate that in calculating the remuneration where the patentee is exploiting the patent or taken steps to imminently exploit the patent, the assessment of the just and reasonable method for calculation should include the discretion of the court to utilise a lost profit approach rather than be bound to apply a royalty based approach.

Issues identified by IP Australia

72. This portion of the Society's submission relates to the proposed amendment of the Crown use provisions in the Patents Act⁸ which are the subject of paper 3 of the Consultation Paper. The "Questions for consultation" have been addressed in this submission as follows:
- (a) Questions CU1, CU2 and CU3 are addressed in accordance with the headings in the Consultation Paper as Issues 1, 2, 4 and 5.
 - (b) Question CU4 is addressed in response to Issue 3: Accountability in the application of Crown use provisions.
73. In the 2013 Bill there were a number of issues sought to be addressed including the method of calculation of the remuneration payable to the patent applicant/owner in circumstances where the Crown exercised its rights under Chapter 17 of the Patents Act.⁹
74. The IP consultation paper has identified a number of issues which have been confirmed through a number of inquiries into the "Crown use" provisions, predominantly as they relate to patents. The Society considers that the proposed

⁸ These are contained in Chapter 17 of the Patents Act.

⁹ The Explanatory Memorandum makes references to the right of the Crown to exploit 'patented inventions' under the Crown Use provisions. For example at p.9:

"The Crown Use provisions (sections 163-170 of the Act) allow governments to access patented inventions under specific circumstances."

It should be noted that the power under the Patents Act, is available before the invention is the subject of a granted patent and any time after the patent application is made: s 163 (which is not varied in this respect by the substitution of that provision in Item 5 of Schedule 1 of the 2013 Bill).

amendments to the Patents Act may equally apply in substance to Chapter 8 of the Designs Act 2003.

75. The Crown use provisions have been considered only in a few cases in Australia. One of the two cases which has been identified with this area in previous reviews by ACIP and the PC has been *Stack v Brisbane City Council*.¹⁰ The *Stack* case had more than thirty reported decisions spreading over its 14 year duration, between 1994 and 2008 when the matter was settled during the trial for the assessment of remuneration before Dowsett J of the Federal Court: *G.S. Technology Pty Limited v Brisbane City Council*, Federal Court of Australia proceeding No. QUD 268 of 2006 (the “remuneration application”).
76. Little is known about the remuneration application because during the trial the parties settled the matter on confidential terms. However, that was not before the primary judge Dowsett J made a preliminary observation on the method of calculating the remuneration under Chapter 17.
77. The *Stack* case is, for reasons which will be set out below, still instructional in this area particularly in relation to:
- (a) the notification (or rather failure to notify) by the instrumentality of the State to the patentee;
 - (b) the use of contractors appointed by such instrumentality to exploit the invention;
 - (c) and conduct litigation against the patentee; and
 - (d) the method of calculation of remuneration payable by the Crown.¹¹

Issue 1: Entities empowered to invoke Crown use

Problem

78. In *Stack v Brisbane City Council*, Brisbane City Council (**BCC**) relied on the Crown use provisions as a defence to a claim for patent infringement. The court held in that case that the BCC was an 'authority of a state' and also found that the primary focus to decide that question must be on government and the function of government. BCC was held to be an authority of the State by considering whether its functions were 'impressed with the stamp of Government' and whether BCC had been given the power to direct or control the affairs of others on behalf of the State or Commonwealth.¹²
79. The Court held that all of the BCC's functions and powers were State Government functions and powers, delegated to BCC by legislation. The powers were exercised in the interests of the community, and were used to direct and control the affairs of people within BCC's territorial boundaries. Therefore BCC's activities were 'impressed with the stamp of Government' to such an extent that BCC was properly an authority of the State.

¹⁰ *Stack v Brisbane City Council* (1995) 32 IPR 69 (“*Stack*”).

¹¹ A member of TIPS Dr Dimitrios Eliades, was junior counsel on behalf of the *Stack* parties from 2001 until the *Stack* claim settled in 2008 on confidential terms.

¹² *Stack* at 75; see Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, (the 2005 ACIP review) at p.20.

80. The question of what is an 'authority of the State' was examined in the case of *Stack*.¹³ The late Justice Cooper referred to two High Court decisions which considered the phrase 'authority of the State'.¹⁴ His Honour identified the following statements as compelling:¹⁵

*"The words "authority of a State" naturally mean a body which is given by the State the power to direct or control the affairs of others on behalf of the State — ie, for the purposes of and in the interests of the community or some section of it."*¹⁶

81. and further:

*"In our opinion, the focus is upon government, and the function of government. If the appellant is to succeed, it must be because the proper conclusion, based on the legislation, is that the COD is not engaged in the work of government, notwithstanding that it is created a statutory authority with a wide range of powers."*¹⁷

82. After considering the functions of the local authority, Cooper J determined that the BCC was an authority of the State:

*"The BCC is not a "third tier of government" provided for in the Federal Constitution. Rather, the BCC is a statutory body, established and ultimately controlled by State legislation. Its functions and powers are State governmental functions and powers, exercised in the interests of the community, which the State has delegated to it in legislation."*¹⁸

83. The Society notes the ACIP and PC reviews which considered that this test could be read widely enough to include employees, commissions, statutory authorities, statutory corporations and private corporations under contract to the Government.
84. The Society agrees that the test as set down in *Stack* is unsatisfactory by reason of its ability to be now interpreted to apply to an uncertain number of parties. The test focusses in part on whether the party is exploiting the patent in the interests of the community, which is imprecise and could equally include private corporations under contract to the Government. Such parties would also be persons who may be parties authorised in writing by the Commonwealth or a State to exploit the patent.¹⁹

IP Australia preferred option

85. IP Australia has indicated in the Consultation Paper that its preferred option is the option under 2(a) which is adopt the PC recommendations 7.1 and 7.2 in the 2013 Compulsory Licensing review save that the PC recommendation as to the terms for a remuneration is not accepted. The PC recommended that the standard of remuneration be on the same basis as compulsory licensing. IP Australia did not accept this method. IP Australia has indicated that it would accept the ACIP 2005 recommendation in this regard to the effect that remuneration which is "just and

¹³ *Stack v Brisbane City Council* (1995) 32 IPR 69.

¹⁴ *Committee of Direction of Fruit Marketing v Delegate of the Australian Postal Commission* (1980) 144 CLR 577 (COD) and *General Steel Industries Inc v Commissioner for Railways (NSW)* (1964) 112 CLR 125 (*General Steel*).

¹⁵ *Stack* 32 IPR 69 at 72.

¹⁶ COD per Gibbs J at 580-1.

¹⁷ COD per Mason and Wilson JJ (agreed in by Barwick CJ).

¹⁸ *Stack* 32 IPR 69 at 80

¹⁹ Section 163(1) of the Patents Act.

reasonable taking into consideration the circumstances of the case” be given to the IP owner where their invention is used under Crown use.²⁰

The Society’s position - Response to IP Australia’s question: CU1, CU2 and CU 3.

86. The Society supports IP Australia’s preferred option save that there is a situation which must be identified in the legislation so as to empower the Court to consider lost profit as a matter going to “just and reasonable” remuneration.
87. The further specificity is in line with the s. 57A of the *Patents Act 1977 (UK)* (the **UK 1977 Act**)²¹. This UK provision introduced in 1988, allows for a Court determining remuneration to also consider applying a lost profit component where the patentee is actually exploiting or preparing to exploit the patent. This is considered further in support of the Society’s recommendation.
88. The reason for this additional requirement is that the little common law on the subject in Australia has indicated that historically it will follow the UK common law model which is directed to compensation calculated by a license fee or royalty approach, principally on the basis that the Crown use is not an infringement.
89. The proposed amendments relating to the terms of the exploitation was described in the 2013 Bill as 'an amount of remuneration that is just and reasonable, having regard to the economic value of the exploitation of the invention.'²² Further, the exploitation as a general rule was to be on “reasonable terms”.²³
90. Although the Society commends IP Australia from moving away from the PC recommendation that compensation for Crown use be calculated in the manner compulsory licences are recommended to be calculated, both the Patents Act as it presently stands and the proposed amendments may not be sufficient to empower the Court from depart from applying a royalty or licence fee approach in cases where the patentee or its exclusive licensee may be already exploiting the invention.

Stack – the surviving remuneration application

91. The position in Australia appears to be that a licence fee approach to the method of calculation of remuneration payable the patentee or nominated person for Crown use is applicable.
92. There is no authority reported on the area, however in *Stack*, the patentee G.S. Technology Pty Limited (**GS Tech**) applied on 12 July 2006 for the Court’s determination as to the amount of remuneration payable under Chapter 17 of the Patents Act, in relation to water meter assemblies protected by new patents derived from the original patent application in the *Stack* litigation. This is the remuneration application.
93. The petty patent upon which the 30 or more reported decisions in *Stack* were made had been revoked. The revocation was based on lack of entitlement under s.138(3)(a) of the Patents Act. In particular it was revoked on the basis that it was granted to one of two inventors and as such had not been granted to the “first and true inventor”. The Full Court determined that it had to have been granted to both inventors, because one

²⁰ 2005 ACIP review at p.33.

²¹ *Patents Act 1977 (UK)* s 40.

²² The 2013 Bill: Schedule 1 Crown Use – item 9 - the repeal and substitution of s 165(2) of the Patents Act.

²³ The 2013 Bill: Schedule 1 Crown Use – item 5: see proposed subsection 163(2)(a).

of two inventors under s.15(1)(a) of the Patents Act anticipated a grant to all inventors.²⁴

94. The remuneration application filed in 2006 sought a determination by the Federal Court of the remuneration payable by the BCC to the patentee of a patent used by the BCC under Chapter 17 of the Patents Act. It was based on a divisional application capturing the technology similar to the revoked petty patent, the subject of the Federal Court determinations.
95. Stack was able to keep the technology of the petty patent alive in a divisional application and this time nominated both inventors as the parties to whom the patent should be granted, thereby not offending the decision of the Full Court and s.138(3)(a) of the Patents Act.
96. On the second day of the hearing of the remuneration application, the BCC applied orally to abandon the trial and sought directions for its rescheduling. During the submissions in that regard there were some preliminary exchanges with Justice Dowsett and Stack's Senior Counsel regarding the basis upon which the patentee sought remuneration.
97. Senior Counsel for the Stack interests, Mr Angelo Vasta QC, submitted that the basis of remuneration should be a lost profit approach because the patentee had supplied the BCC with the first tendered quantity of approximately 70,000 water meter assemblies and was in the process of exploiting the patent when the BCC awarded subsequent tenders to other contractors. Stack therefore claimed that they were exploiting the patent when the Crown invoked Chapter 17.
98. The BCC however, submitted that the only basis upon which the patentee was entitled to remuneration under Chapter 17 was a licence fee approach and referred Dowsett J to an authority of the United Kingdom, *Patchett's Patent*.²⁵
99. The BCC took the position that as there was no legislative direction, then *Patchett* should be accepted. The BCC referred to the UK position where in 1988 the UK parliament specifically legislated, as set out below, to direct the Court where a patentee was exploiting the patent to apply a lost profit approach.
100. *Patchett's Patent* was authority for the proposition that a licence fee approach was the only approach available in Crown use cases because Crown use was not an infringement. His Honour, who had not at that stage of the remuneration application proceeding had the opportunity to consider *Patchett's Patent* or any other relevant case carefully, said:

"...if after I've had an opportunity to consider the cases, when I've been referred to them, if I consider that Mr Vasta²⁶ has pitched his case too high, I will let him know exactly what I think as I have on many other occasions where that has happened but I don't think I can do it just at the moment and if I make it clear that, as it seems to me, the claim is inconsistent with the authorities and if for some reason people are not amenable to that suggestion, well we can reconsider the matter".²⁷ (Emphasis added)

²⁴ *Davies Shephard Pty Ltd and Others v Stack and Others* (No Q243 of 1999) - (2001) 51 IPR 513.

²⁵ (1967) R.P.C. 237.

²⁶ Senior Counsel for the applicant/patentee.

²⁷ Transcript of proceedings 9 April 2008 in the remuneration application: P-31 lines 24 – 30.

101. Stack submitted that where a patentee is actually exploiting the invention (or about to exploit the invention), profit is lost and a licence fee or royalty basis for calculation of the remuneration under the Crown use provisions is neither reasonable nor equitable.
102. The Patents Act provides that at any time after a patent application has been made, where the Commonwealth or a State (or a person authorised in writing by the Commonwealth or a State) exploits the invention concerned for the services of the Commonwealth or the State, the exploitation is not an infringement.²⁸
103. The terms for the exploitation of the invention (including the remuneration payable) are such terms as are agreed between the relevant authority and the patentee or, in the absence of agreement, as are determined by a prescribed court on the application of either party.²⁹
104. In relation to patents, the provision will apply to the nominated person where the Crown exercises its rights under Chapter 17 in respect of a pending patent application.³⁰
105. Relevantly, the Patents Act does not provide any assistance to the Court in relation to how such remuneration might be calculated. The Patents Act directs that the Court may when fixing the terms take into account any compensation that a person interested in the invention or the patent has received, directly or indirectly, for the invention (or design) from the relevant authority.³¹
106. Without limiting the Court's power to determine the remuneration payable in the absence of agreement between the parties, the 2013 Bill proposed that the Court must determine an amount of remuneration that is "just and reasonable, having regard to the economic value of the exploitation of the invention."³²
107. The Society supports IP Australia's position that provisions which provide general guidance on how compensation is to be determined is preferred PROVIDED THAT it is made clear that in the provisions that the Courts are not constrained only by applying a licence fee approach but may apply a lost profit approach at their discretion in the circumstances where the patentee is exploiting or about to exploit the invention.

The UK decision of Patchett

108. In Patchett, Patchett, while employed by Sterling, invented a novel machine gun which he and his employer patented as co-patentees. An agreement between the parties provided that Patchett would receive a royalty of 2½% on any guns manufactured by Sterling, and that he would receive 40% of any sums realised by Sterling by the grant of licences.
109. Guns according to the patent were manufactured by the Crown in Royal Ordnance factories between 1956 and 1964. In 1956 Patchett brought a motion against the Crown for the determination of his rights to compensation for Crown use of the invention. Subsequently in 1962 Sterling decided to bring a similar motion. Sterling claimed that they were entitled to additional compensation for loss of the

²⁸ Patents Act s 163; Equivalent 'non-infringement' provisions appear in the *Designs Act* s 100.

²⁹ Patents Act s 165(2).

³⁰ *Ibid.*

³¹ Patents Act s 165(4).

³² The 2013 Bill: Schedule 1 Crown Use – item 9: see proposed subsection 165(2).

manufacturing profit, which they could have reaped if guns made by the Crown in Royal Ordnance factories had been made by them.³³

110. At first instance, the trial judge accepted the contention that a patentee who was also a manufacturer and whose plant and manufacturing equipment had stood unused while his invention was exploited by the Crown might be able to claim additional compensation, but found on the facts that Sterling had failed to establish that they had the necessary manufacturing capacity at the relevant time.
111. The Court of Appeal noted also that the trial judge had also found inter alia the appropriate royalty would be 5%. Patchett accepted the sum awarded to him by the Court and was paid by the Crown, and was not represented at the appeal.
112. On appeal by Sterling the Court of Appeal comprising Lord Justices Wilmer, Diplock and Winn considered that on the true construction of section 46 and the associated provisions of Crown use, a patentee was entitled only to compensation for Crown use of his invention, and therefore, whether he was a manufacturer or had idle manufacturing capacity was irrelevant.
113. The reasoning of the Court of Appeal was based substantially on the unique position of the Crown. The Court reasoned that a loss of expectation claim could be made where the claim was made against an infringer. However the Crown, the Court said, was not an infringer – more so it had a right to the invention if it chose to exercise that right through the Crown use provisions.
114. Relevantly, Willmer LJ said at p.246:

*“I can deal briefly with the contention that Sterling are entitled to compensation for loss of the chance to manufacture these guns in their own factory, which I regard as wholly untenable. I do not accept the learned judge's view that a patentee's manufacturing interest is in any way relevant to the question what remuneration he should receive in respect of Crown user of his patent. The great mass of evidence which the learned judge heard with regard to Sterling's manufacturing capacity, I would regard as wholly irrelevant. A patentee who is to be remunerated under section 46 of the Act for the use of his invention may or may not be a manufacturer. But the section, as I read it, is concerned only with his rights as patentee, and not at all with his status as a manufacturer. It confers a right to remuneration for Crown user of the patent, but there is nothing in it to suggest that there is any right to compensation for loss of manufacture. **Such a claim can well be put forward where there has been an infringement. But an infringement of patent is an actionable wrong, whereas user of a patent by the Crown is a matter of right specifically conferred by statute. Indeed the patentee's monopoly right is always subject to the Crown's right of user. The position of the Crown is much more analogous to that of a licensee, the difference being that whereas a licensee's right is normally acquired by agreement with the patentee, that of the Crown is conferred by statute.** (Emphasis added)*

115. Lord Diplock approached the question from the perspective of the true nature of patent rights. They were not positive rights to exploit – an inventor already had that right.

³³ The claim was made under Patents Act 1949, s. 46.

They were negative rights in the sense that the patentee could prevent others from exploiting the invention.³⁴ His Honour said at p.251:

"The rights of a patentee although controlled by the provisions of the Act have their origin in the royal grant of a monopoly contained in the patent and made under the prerogative powers of the Crown preserved by section 6 of the Statute of Monopolies (21 Jac. 1 cap. 3). The right conferred upon the patentee is a right to prevent other persons from using his invention; but at common law he had no right to prevent the Crown from doing so. His Honour made reference to the non-infringing nature of the exercise of the Crown use rights in these terms:

"The sum payable by the Government department is not compensation for an infringement by the Crown of the patentee's monopoly rights, for no infringement is involved. It is erroneous to regard a patentee as having an exclusive right to manufacture or permit the manufacture of the patented invention, for that is a right which is shared by the Crown."

116. Lord Justice Winn also took the view that the patentee's monopoly was subject to the rights of the Crown. His Honour said at p.257:

"I have no doubt that the terms of remuneration or reward are to be assessed without having regard to any rights other than those comprised in the conditional monopoly granted to the patentee by his letters patent, i.e. a monopoly subject to the statutory rights of the Crown; it is quite irrelevant to the determination which the court is called upon to make whether or not a patentee has himself embarked upon manufacture from which he is deriving and is anxious to continue to derive profit in the capacity of manufacturer."

117. Winn LJ made the observation that parliament had left the determination of proper remuneration to the discretion of the Court:

"Whatever justification there may occasionally be in other contexts for complaining that courts sometimes exercise a type of "palm tree justice", it is clear that in this instance Parliament has enacted that the decision be left to the instinctive discretion of the court."

118. In discussing the provision as to the amount of compensation under the UK 1977 Act³⁵ payable to employees for their inventions, a leading commentary states that patentee's position as manufacturer is not to be taken into account and that the

³⁴ This approach to the fundamental negative nature of intellectual property rights the subject of the statutory regimes in Australia, was recently affirmed in the decision of French CJ in the plain paper tobacco packaging case *JT International SA v Commonwealth of Australia* [2012] HCA 43 (French CJ, Gummow, Hayne, Heydon, Crennan, Kiefel and Bell JJ, 5 October 2012) (*JT International*). Relevantly, French CJ said at [36]:

It is a common feature of the statutory rights asserted in these proceedings that they are negative in character. As Laddie, Prescott and Vitoria observed:

"Intellectual property is ... a purely negative right, and this concept is very important. Thus, if someone owns the copyright in a film he can stop others from showing it in public but it does not in the least follow that he has the positive right to show it himself."

³⁵ *Patents Act 1977* (UK) s 40.

patentee is only entitled to remuneration as patentee or inventor, not to remuneration as manufacturer.³⁶

119. Notwithstanding *Patchett*, the UK Government recognised the need to pay proper and adequate compensation to inventors or their successors in title in cases where the Crown exercised its right to subsume the invention for its use where the patentee or its exclusive licensee were exploiting the patent or had taken real steps to exploit the patent.
120. Accordingly, the UK 1977 Act, was amended in 1988 to add a provision, s 57A, which required that in the case of the exercise of the Crown use provisions, the remuneration was to be the loss of profit as a result of not being awarded the contract.³⁷
121. The Society proposes that IP Australia consider adopting in the Patents Act an amendment such as that adopted in the United Kingdom, whereby in circumstances where the patentee is exploiting by itself or its exclusive licensee the patent or has taken steps to exploit the invention, the remuneration shall in that case, be on the basis of loss of profit.
122. In the alternative, a note should be added to the amendment to indicate parliamentary intention is that where the patentee or its exclusive licensee were exploiting the patent or had taken real steps to exploit the patent, the appropriate method of calculation which may be utilised is a lost profit method.
123. The Society suggests that only s.57A(1) to s.57A(4) UK 1977 Act are relevant for consideration.
124. Section 57A(1) of the UK 1977 Act relevantly provides states:

“Where use is made of an invention for the services of the Crown, the government department concerned shall pay –

(a) to the proprietor of the patent, or

(b) if there is an exclusive licence in force in respect of the patent, to the exclusive licensee,

compensation for any loss resulting from his not being awarded a contract to supply the patented product or, as the case may be, to perform the patented process or supply a thing made by means of the patented process.”

125. The Society suggests that a limitation was imposed to avoid situations where a patentee could not hope to supply the product or perform the process to order and yet seek compensation based on lost profit. In this regard the following provision was inserted:

“57A(2) Compensation is payable only to the extent that such a contract could have been fulfilled from his existing manufacturing or other capacity; but is

³⁶ Terrell 17-163 Allen & Hanburys Ltd's (Salbutamol) Patent [1987] R.P.C. 327 at 378, CA; following Patchett's Patent [1967] R.P.C. 237, CA, a case in respect of compensation for Crown user. See also Shiley Inc's Patent [1988] R.P.C. 97: <http://www.westlaw.co.uk/wpcontent/uploads/2013/01/Terrell-on-the-Law-of-Patents-17e-text.pdf>

³⁷ Section 57A was inserted by the Copyright, Designs and Patents Act 1988 (c.48, SIF 67A), s. 295, Sch. 5 para. 16(1)(4).

*payable notwithstanding the existence of circumstances rendering him ineligible for the award of such a contract.*³⁸

126. This type of consideration is not unknown to Australian Courts. The infringement exemption under s.119 of the Patents Act requires the Court to consider whether the party relying upon it had taken definite steps to exploit the product.
127. Similar considerations would apply to a patentee or their exclusive licensee who would seek to rely on a lost profit approach for calculation of loss rather than a licensee fee approach.
128. The Society submits that it was clearly UK parliament's intention to encourage innovation and investment in research and development by crystallising the formerly undefined measure of remuneration and specifically stipulating that in certain cases loss of manufacturing profit was the appropriate measure.³⁹

The Society's Recommendation

129. QLS recommends:

- (a) IP Australia's preferred option 2(a) with the ACIP 2005 extension in 2 (c) be implemented.
- (b) That Chapter 17 of the Patents Act be amended further by the inclusion of a provision which does not mandate a particular formula, but rather provides guidance to the Court, to the effect that in a case where the patentee claims a calculation of remuneration by use of a lost profit approach by reason of the exploitation or imminent exploitation of the patent, then the Court may consider the lost profit approach and not be bound to determine the remuneration on a royalty or licence fee basis.
- (c) The amendments would be in similar terms to s 57A(1) to s 57A(4) of the UK 1977 Act. IP Australia may however consider it more appropriate to indicate in the legislation that this may be a matter to be considered in the determination of a 'just and reasonable' remuneration.
- (d) The Society would still consider that an indication in the legislation to that effect is more preferable to the current position and to the position of the proposed amendment without specific reference to the ability to apply a lost profit method in appropriate cases.

Issue 2: The purposes for which Crown use may be invoked

Problem

130. Associated with the problem of identifying who may invoke the Crown use provisions, is the issue of the purpose by which the Chapter 17 provisions may be invoked.

³⁸ Those cases were limited to situations where the proprietor of the patent was in a position "to supply the Crown from his existing capacity": Hansard Parliamentary Debates House of commons 25 July 1988, p87.

³⁹ Ibid.

IP Australia preferred option

131. IP Australia considers that it is a benefit from the adoption of option 2(a) with the 2(c) variation, that the Crown use provisions can be invoked for the provision of a service that the Australian, State, and/or Territory Governments have the primary responsibility for providing or funding.
132. IP Australia considers that this will provide greater certainty around when Crown use can be utilised.

The Society's comment

133. QLS supports this proposed course. This proposal would narrow and identify with greater clarity whether the use was a Crown use by reference to funding rather than community purpose, which as has been seen may be problematic.

Issue 3: Accountability in the application of Crown use provisions

Problem

134. As stated, the BCC relied upon the Crown use provisions in defence of an infringement action.
135. The Stack interests commenced an interlocutory application proceeding in 1994 seeking injunctive relief against the BCC granting sub-contractors the right to manufacture and supply water meter manifolds in accordance with the patent.
136. The Stack application was defeated in part by reason of the BCC giving an undertaking to keep accounting records of the number of water meters supplied by its appointed third party contractors.
137. In fact, after fourteen years of giving that undertaking to the Court to keep an account of the water meters using the claimed invention, the BCC finally gave Stack a statement in 2008 in the remuneration application as to the exact number of water meters claimed to be the subject of the patent which had been installed.
138. The use under Chapter 17 by the BCC in *Stack* highlighted that Crown use can be a completely one sided affair. The BCC did not at any time other than when required to do so in the remuneration application, provide information to the patentee as to the exploitation of the patented product.
139. This highlighted the fact that if the patentee wanted information as to the use by the Crown and the Crown was unwilling to provide that information, the patentee would have to undertake the expense of a discrete application by methods such as an application under Rule 7.23 of the *Federal Court Rules* 2011 for preliminary discovery from a respondent before starting a proceeding.⁴⁰

⁴⁰ Formerly Order 15A rules 6 & 7 under the *Federal Court Rules* 1979.

IP Australia preferred option

140. IP Australia proposes to implement a process of ministerial oversight which it considers will ensure that Crown use is only invoked in appropriate circumstances. The requirement IP Australia considers will:
- (a) ensure that only the appropriate entities are able to represent the Crown;
 - (b) enhance the Government's ability to meet the needs of the public in the rare cases where Crown use is invoked; and
 - (c) provide greater certainty to IP owners that the provisions will be used appropriately.⁴¹
141. The appropriate Minister who will have responsibility for providing approval for Crown use on behalf of the Commonwealth is currently the Minister for Industry, Innovation and Science but will be relevantly, the Minister responsible for administering the Patents Act and Designs Act and at the State level, will be the Attorney-General of the State or Territory.⁴²
142. IP Australia considers that the Ministerial oversight procedure will build upon requirements that already exist. For example, the Government must already inform the IP owner that the invention has been exploited as soon as is practicable.⁴³
143. The Consultation Paper sets out certain courses the patentee may take if the party seeking to invoke the Crown use provisions fails to provide information. Relevantly the paper states:
- (a) administrative review legislation provides that the government can be directed to provide reasons for Crown use;⁴⁴
 - (b) the IP owner can already apply to the Federal Court for assistance in resolving a dispute over remuneration.⁴⁵
 - (c) IP owners may apply to the Federal Court to order a government to cease Crown use on the basis that the exploitation of the invention or design is not necessary for the proper provision of services of the Commonwealth or the State, and where it is fair and reasonable to do so.⁴⁶

The Society's comment – response to IP Australia's question CU4

144. The Society is aware through a member of the QLS Technology and Intellectual Property Law Committee who was involved in the Stack case, that in Stack the only notification the BCC gave was the names of the contractors it selected to exploit the water meter technology. The basis of that notification was to seek to extend the protection of Chapter 17 to these entities. Although IP Australia refers to the mechanisms already in the Patents Act s 165(2) and the Designs Act s 98, as a matter of practicality such an application can and in fact was in Stack met with cross claims as to validity.

⁴¹ IP Australia Consultation Papers, August 2017 p.34.

⁴² Ibid.

⁴³ Consultation Paper p.34.

⁴⁴ *Administrative Decisions (Judicial Review) Act 1977* (Cth), s.13.

⁴⁵ *Patents Act 1990* (Cth), s.165(2), *Designs Act 2003* (Cth), s. 98.

⁴⁶ *Patents Act 1990* (Cth), s.165A, *Designs Act 2003* (Cth), s. 102.

145. It is for this reason that the Society supports the proposal by IP Australia for Ministerial scrutiny as this provides an intermediate step before an application to Court which has the ability to become a hearing of proportions similar to a patent infringement action where validity is in issue.

Issue 4: Transparency in the process of invoking Crown use

Problem

146. The Consultation Paper notes that Section 164 of the Patents Act and s 97 of the Designs Act provide that an IP owner must be notified as soon as is practicable after exploitation of the patent or design by the Crown has occurred.

147. IP Australia noted the following findings/observations of the 2005 ACIP review:

- (a) stakeholders had given anecdotal evidence that the provisions had been used as a lever during negotiations.
- (b) the disproportionate bargaining power between the Crown and the IP owner may result in unfair terms for the IP owner.⁴⁷
- (c) an IP owner needed information concerning the exploitation as soon as possible to minimise any commercial losses, and to ensure other business decisions can be made with certainty.⁴⁸
- (d) the Crown should seek to be open and transparent in its dealings with rights holders and only in exceptional circumstances should the Crown seek to use a patent or design and address issues of consent and remuneration later.⁴⁹

148. IP Australia noted that the PC supported this view, considering that the increased transparency and certainty would better protect the IP owner's rights.⁵⁰ IP Australia also identified that the PC also noted that the lack of any prior consent was inconsistent with the compulsory licensing provisions of the Patents Act, which required that an applicant seeking a compulsory licence must have tried for a reasonable period, without success, to obtain authorisation to work the invention on reasonable terms and conditions.⁵¹

IP Australia preference

149. IP Australia considers that a structured process, which includes:

- (a) the requirement to negotiate and to provide a statement of reasons prior to exploitation, will provide greater transparency to rights holders; and
- (b) a prior negotiation requirement, will reduce uncertainty and acknowledges the rights of the IP owner.⁵²

⁴⁷ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.33.

⁴⁸ *Ibid.*, p.17.

⁴⁹ *Ibid.*

⁵⁰ IP Australia Consultation Paper p.29 referring to the PC, *Compulsory Licensing of Patents*, 2013, p.178.

⁵¹ *Patents Act 1990* (Cth), s.133(2)(a)(i).

⁵² IP Australia Consultation Paper p.35.

150. IP Australia notes that these steps would be able to be waived in the case of an emergency, allowing the government to act quickly if required and identifies the Minister would necessarily be empowered to deem what constitutes an emergency in the circumstances.⁵³
151. IP Australia noted the views of the 2005 ACIP review and the PC in that a structured process would not hinder the exercise of the rarely used Crown use provisions, but that the process was consistent with the duty of the Crown to ensure where it is appropriating an intellectual property right, that it acts responsibly and transparently.⁵⁴

The Society's comment

152. The Society supports any steps which provide stakeholders with information regarding the exploitation under the Crown use provisions of the invention set out in their patent or patent application.
153. The prior negotiation requirement will be a device which should bring the Crown to the table. If it cannot exploit the patent, save in emergency situations, without notifying and engaging with the rights holder, then the Society considers that this will direct the Crown to the negotiating table. It therefore follows that the Society supports this proposed course by IP Australia.

Issue 5: Remuneration

Problem

154. IP Australia considers that introducing a remuneration standard that is “just and reasonable taking into consideration the circumstances of the case” will improve transparency and introduce a degree of certainty to remuneration negotiations.⁵⁵
155. ACIP believed that these terms encapsulate a balance of both an objective test with the term “reasonable” and a subjective test with the term “just”. It will provide broad guidance for the court in determining the appropriate level of compensation, while retaining the flexibility to deal with a variety of situations.

IP Australia preference

156. IP Australia considers that introducing a remuneration standard that is “just and reasonable taking into consideration the circumstances of the case” will improve transparency and introduce a degree of certainty to remuneration negotiations.⁵⁶

The Society's comment

157. The Society supports IP Australia’s view that introducing the “just and reasonable” amendment does improve on the current position to give a greater degree of certainty to remuneration negotiations.
158. The Society however considers in the light of the preliminary view of Justice Dowsett in the remuneration application, that it is necessary to specifically provide in the amendments, that in circumstances when the Crown use provisions are invoked when

⁵³ Ibid.

⁵⁴ IP Australia Consultation Paper p.35.

⁵⁵ Ibid.

⁵⁶ Ibid.

the patent is being exploited by the patentee, the Court may, in achieving a just and reasonable remuneration, take into consideration “the circumstances of the case” and may apply a lost profit basis to calculate the remuneration.

159. The IP Australia Consultation Paper refers to the Society’s submission to the 2013 Bill. It does so in these terms:

“During consultation on the 2013 Bill, the Queensland Law Society submitted that the proposed amendment to the remuneration provisions did not provide enough guidance. As an alternative, they suggested implementing a formula for calculating remuneration. However, introducing a formula would introduce complexity, and would reduce the flexibility of the provisions to deal with diverse circumstances. Accordingly, IP Australia submits that provisions which provide general guidance on how compensation is to be determined is preferred.”⁵⁷

160. The Society did not with its submission in 2013 nor does it now propose a single method for the calculation of the remuneration under the Crown use provisions. It did then and does by this submission say that amendments should take into account that in the specific case of a patent being exploited or about to be exploited by a patentee, the royalty approach is not a fair or “just” basis to calculate remuneration.

161. The Society considers the steps to that conclusion are as follows:

- (a) there is an absence in the current Crown use provisions of any guidance as to how remuneration might be calculated by the Court;
- (b) there is limited case law in this area, however Dowsett J, a senior judge of the Federal Court, made a preliminary observation in the remuneration application, which was receptive to the BCC submission that the calculation of the remuneration must be done using a licence fee or royalty method.
- (c) as in the case of *Stack* where the patentee fulfilled the first order for approximately 70,000 water meters for the BCC, it is inequitable and results in far less remuneration, if a royalty approach is adopted.
- (d) The Government should therefore make provision in its amendments to the Crown use provisions to enable the Court in circumstances where the patentee (or its exclusive licensee):
 - i. are exploiting the patent as in the example of *Stack*; or
 - ii. have taken definite not fanciful steps to exploit the patent,to be able to calculate the remuneration on a basis other than a royalty basis, namely on a lost profit basis, because in those circumstances it is “just and reasonable taking into consideration the circumstances of the case” to do so.

162. The Society considers it preferable to build this into a provision. However, if IP Australia considers this too much of a change, then the Society recommends a note to the amendments be included, clarifying that the Court may apply a lost profit approach in achieving what is just and reasonable remuneration in the circumstances.

⁵⁷ Ibid.

Issue 6: International obligations

Problem

163. During consultation on the 2013 Bill, IP Australia noted that there were stakeholders who had raised concerns that the proposed amendment could be inconsistent with AUSFTA. An example was given by reference to the Law Council of Australia (LCA) submission that considered the terms proposed Crown use amendments might be inconsistent with terms of the Australia United States Free Trade Agreement (AUSFTA) for example Article 17.9.7 of AUSFTA which prohibited the use of the subject matter of a patent without authorisation of the rights holder save in limited circumstances.⁵⁸

IP Australia preference

164. IP Australia says that any implementation of Option 2(c) would be done consistently with Australia's international obligations. IP Australia further considers that Government use is, by its nature, typically public non-commercial use.⁵⁹

The Society's comment

165. The Society supports the IP Australia proposal for a Ministerial guidance document. The Society understands the concern of IP Australia that the introduction of the requirement that the amendments incorporate a limitation to restrict Crown use to public non-commercial use would be more restrictive than necessary.⁶⁰

166. The Society does note the example in the *Stack* litigation where BCC's use might be considered to be a public non-commercial. However, the manufacture of the water meters by the BCC was carried out by BCC's preferred suppliers, who were private companies and very much the competitors of the patentee.

167. In such a circumstance, the patentee would be empowered to prevent the unauthorised use by the Crown's contractors taking into account Article 17.9.7 of the AUSFTA.

⁵⁸ IP Australia Consultation Paper p.29.

⁵⁹ *Ibid*, p.35.

⁶⁰ *Ibid*, p.36.

Compulsory licensing of patents (Paper 4)

Overview

168. The IP Australia Consultation Paper addresses compulsory licensing in two parts – firstly, the compulsory licensing of patents and secondly, compulsory licensing for dependent patent owners.⁶¹

169. Although a compulsory licence has not been granted in Australia, there have been examples in other jurisdictions, although they are few in number.⁶²

The overall existing regime

170. The compulsory licensing scheme for patents is intended as a safeguard, providing use of a patent without the authorisation of the owner and is necessary to address exceptional circumstances where the best interests of the community are not served.⁶³

171. The TRIPS Agreement provides the impetus for the inclusion of a compulsory licensing scheme within domestic legislation (Article 31) and is addressed in AUSFTA.⁶⁴

172. A creature of statute, the compulsory licensing scheme sits within the Patents Act and interacts with the CCA insofar as providing a remedy for restrictive trade practices.⁶⁵

173. A compulsory licence may be granted where:

- (a) the applicant has unsuccessfully sought reasonable terms and conditions for authorisation;
- (b) the “reasonable requirements of the public” are not met; and
- (c) there is no satisfactory reason for failure to exploit the patent.⁶⁶

174. Further to this, a compulsory licence for a dependent patent may be granted where the dependent patented invention involves an important technical advance of considerable economic significance on the original invention.⁶⁷

175. In addition the patentee of the original invention must:

- (a) grant a licence that allows the applicant to work the original invention so far as necessary to work the patented invention; and
- (b) be granted, if they require, a cross-licence on reasonable term.⁶⁸

⁶¹ “Patent dependency” refers to circumstances in which a patented invention (the dependent patent) cannot be worked without exploiting an earlier patented invention (the original patent): see IP Australia Consultation Paper p.44.

⁶² IP consultation paper 4 p.37 referring to the PC, Inquiry Report, *Compulsory Licensing of Patents*, 2013 p.77.

⁶³ *Ibid.*

⁶⁴ IP consultation paper 4 p.40.

⁶⁵ Part IV CCA; s.133 (2)(b) Patents Act.

⁶⁶ Section 133(2)(a) of the Patents Act.

⁶⁷ Section 133(3B)(a) referred to in the IP consultation paper 4 p.44.

⁶⁸ Section 133(3B)(b) of the Patents Act also referred to in the IP consultation paper 4 p.44.

Compulsory Licensing of Patents – Problems

176. IP Australia referred to four (4) recommendations of the PC as follows:

- (a) Remove the competition test from the Patents Act and add it to the CCA (PC Recommendation 6.1). The PC findings leading to the recommendation were that:
 - i. Part IV of the CCA created a second mechanism – i.e. a duplication - by which a court could order a compulsory licence; and
 - ii. questions of who can apply, which section prevailed, timeframe and remuneration were unresolved and created an environment of uncertainty.⁶⁹
- (b) Replace the reasonable requirements of the public test with a general public interest test (PC Recommendation 6.2). The PC found that the terminology of the ‘reasonable requirements’ test created uncertainty.⁷⁰ This term was not used elsewhere in Australian legislation or case law (unlike ‘public interest’) and the construction of the test conflated the interests of the broader public with that of individual industries.⁷¹
- (c) Repeal s.136 of the Patents Act, which prevents the Court from making an order for a compulsory licence that is inconsistent with an international treaty (Recommendation 6.3). The PC found that the need for domestic courts to interpret international agreements in order to comply with s.136 Patents Act, “An order must not be made under s.133 or s.134 that is inconsistent with a treaty between the Commonwealth and a foreign country”, created uncertainty.
- (d) Provide a plain English guide on compulsory licensing, jointly developed by IP Australia and the Australian Competition and Consumer Commission (Recommendation 10.1).

177. IP Australia ultimately considered that:

- (a) a combination of public education and awareness campaigning that included a plain English guide on compulsory licensing formulated with the Australian Competition and Consumer Commission; together with
- (b) a refined implementation of PC recommendation 6.2 only, would be adopted.

178. It followed that IP Australia did not accept the PC’s recommendations 6.1 and 6.3.

IP Australia’s preference

179. In relation to PC’s recommendation 6.1, IP Australia:

- (a) does not agree that this matter raises an issue. IP Australia has noted that the relationship between provisions in the Patents Act and CCA was acknowledged at the time of implementation – it was an attempt to ‘bridge the

⁶⁹ IP consultation paper 4 p.40-41.

⁷⁰ The ‘reasonable requirement’ test is contained in s.133(2)(a)(ii) of the Patents Act.

⁷¹ IP consultation paper 4 p.41-42.

gap' created by the exclusion of intellectual property use from the operation of Part IIIA, regulating access to services.⁷²

- (b) considers that there is a difference in the operation between the relevant sections. The CCA allows the court scope to grant a compulsory licence, however the Patents Act allows a compulsory licence to be directly applied for.⁷³
- (c) considers that an unintended consequence of moving the competition test into the CCA may be to reduce the Court's powers.⁷⁴

The Society's comment

- 180. The Society supports IP Australia's position that although there may be some overlap in relation to the relief which might be given, it does not create an issue requiring removal of the competition test from the Patents Act.
- 181. In addition to the reasons given by IP Australia, the Society considers that the consideration of the granting of a compulsory licence may in practice involve related issues under the Patents Act.
- 182. For example, it is not uncommon for parties interested in particular IP rights such as trade marks, to apply for the removal of rights not being used. It is not inconceivable that in a case where an applicant for revocation of the patent, that party might in appropriate circumstances apply in the alternative for the grant of a compulsory licence.
- 183. The interphase between revocation and the grant of a compulsory license exists already in the Patents Act.⁷⁵

IP Australia's preference

- 184. In relation to PC's recommendation 6.2, IP Australia:
 - (a) agreed with the PC that the reasonable requirements of the public test in s 135(1) of the Patents Act should be replaced with a new public interest test and also agreed that references to the protection of trade and industry should be removed from s 135 Patents Act.⁷⁶
 - (b) agreed with the terms of licence where parties could not agree – 'consistent with the public interest' with regard to the rights of the patentee and the public.
 - (c) did not agree that the 'substantial' public interest threshold should be adopted. IP Australia considers that this term would raise the current threshold and increase uncertainty as interpretation of 'substantial' varies widely.⁷⁷
 - (d) IP Australia proposes that the current requirement that the court take into account the economic value of the licence, be retained. It considers that the availability of a compulsory licence should focus on whether Australian

⁷² IP consultation paper 4 p.40-41.

⁷³ IP consultation paper 4 p.41.

⁷⁴ Ibid.

⁷⁵ *Patents Act* s.134.

⁷⁶ IP consultation paper 4 p.41.

⁷⁷ IP consultation paper 4 p.42.

demand for a product or service is not being met and whether access to the patent is necessary in order to address this demand.⁷⁸

The Society's comment

185. The Society is in agreement with IP Australia's position in relation to the introduction of the PC proposed "substantial" public interest test. The term appears to introduce a higher standard than is necessary to maintain the balance between the IP rights holder and the public.
186. The matter may be broadly considered in the light of the often referred to 'balance' between the interests of the IP rights holder and the public. The grant of the patent providing a monopoly for a term in favour of the patentee is offset by the public disclosure in the patent. However, there are patents which by their very nature upset the balance because the public interest is not being served by the non-exploitation of the patent, regardless of the public disclosure the patentee made.
187. Such a test is consistent with the view taken by IP Australia that "a compulsory licence should focus on whether Australian demand for a product or service is not being met, and whether access to the patent is necessary in order to address this demand."⁷⁹

IP Australia's preference

188. In relation to PC's recommendation 6.3, IP Australia does not agree that s 136 Patents Act should be repealed. IP Australia considers that the provision provides certainty that international obligations will be met. In addition, variations have also been historically included in the Patents Act.
189. Further, IP Australia considered that there are many other examples of similar provisions in other legislative regimes.

The Society's comment

190. The Society agrees with the position taken by IP Australia.
191. In particular, the Society considers that the provision acts as a reminder for compliance with international agreements. For example, a person may apply to the Federal Court, after the end of the prescribed period, for an order requiring the patentee to grant the applicant a licence to work the patented invention.⁸⁰
192. In order to work the invention, the applicant may seek to make it a condition under s 133(3) that the subject matter of a patent be used and that the know-how behind the patent be disclosed by the patentee.
193. However, AUSFTA provides relevantly that a party to the agreement shall not permit the use of the subject matter of a patent without the authorisation of the right holder except inter alia in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency, provided that the party may not require the patent owner to provide undisclosed information or technical know-how related to a patented invention that has been authorised for use in accordance with Article 17.9(7).

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ *Patents Act* s.133.

Compulsory Licensing for Dependent Patent Owners - Problems

194. IP Australia referred to problems identified by the Institute of Patent and Trade Marks Attorneys (**IPTA**) and the Law Council of Australia with reference to the operation of s 133(3B) of the Patents Act.
195. In particular, IPTA and Law Council submitted that s 133(3B) may create unintended and erroneous outcomes, as it should only be possible for the owner of a dependent patent to make an application for a compulsory licence rather than 'an applicant' as now provided.⁸¹
196. As the section currently operates, third parties can also make an application and as a result, a situation could arise where the dependent patent owner could be obliged to licence their patent on reasonable terms to the original patent owner, despite not having brought an application for a compulsory licence over the original patent.
197. Further, the construction of the section would mean that a different test would be applied for a compulsory licence over the original patent than the dependent patent where a third party made the application.

IP Australia preference

198. IP Australia considers that s 133(3B) of the Patents Act be amended so as only to apply to dependent patent owners. This would mean third parties could no longer apply for compulsory licences over a dependent and original patent at the same time.
199. Notably, it was said that this provision has the effect that the original patent owner may require a cross licence on reasonable terms from the owner of the dependent patent, even where the applicant is a third party.⁸²

The Society's position

200. The Society indicates that it has considered the matters raised by IPTA and Law Council and agrees that there is an element of unreasonableness in requiring the owner of the dependent patent to compensate the owner of the original patent for the actions of a third party with the grant of a compulsory cross-licence.
201. It therefore agrees with the amendment limiting the application of s 133(3B) to dependant patent owners.
202. In doing so, the Society however notes its understanding that the reasonable terms and conditions referred to in s 133(2)(a)(i) may include reasonable terms and conditions relating to an application by the dependant owner for a cross-licence of the original patent.

⁸¹ IP consultation paper 4 p.44-45.

⁸² IP consultation paper 4 p.45.