

31 August 2018

IP Australia
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Dear Sir/Madam

Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2018

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (**IPC**) is pleased to make this submission in relation to the *Exposure Draft of the Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures Bill) 2018*. This submission also addresses the consultation questions issued in conjunction with that draft.

Schedule 1, Part 1 – Inventive step

The IPC has previously made written submissions addressing various matters raised by the Productivity Commission (**PC**) in relation to inventive step on 1 December 2015, 3 June 2016, 28 July 2016, 14 February 2017 and 4 December 2017.

As the IPC has previously submitted, the IPC does not consider that the proposed changes to the inventive step provisions of the *Patents Act 1990* (Cth) (**the Act**) are required.

The IPC has no comments on Items 1 – 7 of the draft Bill.

In relation to the draft Explanatory Memorandum (**EM**), the IPC has two concerns.

1. As the IPC has previously pointed out, the PC incorrectly characterised the ‘scintilla’ of invention as a threshold standard for an inventive step whereas the principle of a ‘scintilla of invention’ is intended to convey that the test for inventive step is binary – either it is present or it is not; it is not a question of degree or of how inventive and invention is. Despite IP Australia acknowledging this concern in its August 2017 public consultation paper *Amending the inventive step requirements for Australia patents*, the draft EM repeats the error made by the PC (p 11 and p 12) whereas, in the IPC’s submission, reference to it should be omitted.
2. The IPC considers that the draft EM (p 13) includes insufficient acknowledgement of the importance of the well-developed concept of common general knowledge as a backdrop to the inventive step standard. In our submission of 4 December 2017, we cautioned that this concept should not be lost in identifying the European standard as

the appropriate standard of inventiveness under Australian law; but this observation has not been addressed in the draft EM.

The IPC considers that the EM should refer to Aickin J's formulation of the test from *Wellcome Foundation Ltd v. VR Laboratories (Aust) Pty Ltd* (1981) 148 CLR 262:

"The test is whether the hypothetical addressee faced with the same problem would have taken as a matter of routine whatever steps might have led from the prior art to the invention, whether they be the steps of the inventor or not",

and the reformulated Cripps test adopted by the High Court in *Aktiebolaget Hassle v. Alphapharm [2002] HCA 59* as suitable tests not relevantly different from the approach endorsed in the European Patent Office (**EPO**) Guidelines for Examination.

Consultation questions

Question 1 - Item 2 – The amendment to subparagraph 7(2) (definition of inventive step) uses the terminology 'in comparison with' the prior art base instead of the previously proposed 'having regard to' the prior art base. This change was made for consistency with the rest of the Act, but differs from the wording used in the European Patent Convention. Are there any unforeseen consequences of using this wording?

The IPC does not consider that any unforeseen consequences would arise.

Schedule 1, Part 2 – Object of the Act

In its submission of 17 November 2017 to IP Australia's public consultation paper, the IPC identified that:

- (a) the Act should be drafted clearly and it should not be necessary, and nor is it generally desirable, to rely on an objects clause to direct construction of the provisions of the Act; and
- (b) inclusion of an objects clause would undoubtedly increase uncertainty and that it would not be limited to the "short-term uncertainty" that the PC acknowledged may arise but would persist whereas it was entirely unclear what benefit would be achieved.

The IPC maintains these views.

In relation to the proposed objects clause at Item 8 of the Bill, the IPC makes the following submissions.

1. **The words "and the transfer and dissemination of technology" should be deleted.** As mentioned in our submission of 17 November 2017, it is entirely unclear how these words are intended to affect the interpretation of operative provisions of the Act. It is to be noted that, on the one hand, the grant of a patent forms a strong basis for the dissemination of technology (through publication and commercialisation) whereas, on the other hand, it may be argued that refusing the grant of a patent likewise promotes dissemination of technology. Given this dichotomy, it is unclear what is intended by these words. The objects clause would be improved if they were to be deleted.

- 2 **The objects clause should include a reference to a purpose of the Act being to comply with Australia’s international obligations.** In the IPC’s submission, this would provide a more complete description of the purposes of the Act recognising that the Act implements Australia’s obligations under the Paris Convention, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, the Patent Cooperation Treaty, the Budapest Treaty and the Patent Law Treaty.

Consultation questions

Question 2 - Item 8 – Does the term ‘technological innovation’ restrict or narrow the concept of ‘innovation’ to suit certain industries only? Which industries? What subject matter that is currently patentable would not be considered ‘technological’?

As the consultation question points out, the TRIPS Agreement refers to ‘technological innovation’ (Article 7) and states that patents shall be available ‘in all fields of technology’ (Article 27).

The IPC does not consider that use of this term would restrict the concept of innovation.

Schedule 1, Part 3 – Innovation patents

The IPC makes no submission in relation to Schedule 1, Part 3.

Schedules 2 & 3 – Crown use

The IPC supports the proposed amendments to the section 3 definitions, the ‘primary purpose’ amendments introduced by new subsection 160A(4) and the provisions of new sections 163 and 163A.

The IPC notes that a likely practical problem with the proposed ‘general rule’ provisions in new subsection 163(2) is that in some circumstances it may not be apparent what (if any) patent rights may potentially apply to a proposed exploitation of an invention by a relevant authority, and consequently which party is to be approached for authorisation.

Remuneration - section 165

The IPC supports the proposed standard of remuneration as “just and reasonable having regard to the economic value of the exploitation”. This enables broader public interest concerns to be taken into account as well as those of the patentee and is consistent with 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.

The IPC supports the provision of a broad discretion to a prescribed court to take into account in determining remuneration “*any other matter the court considers relevant*”.

The IPC makes no submission in relation to the proposed transitional provisions.

Schedule 4 - Compulsory licences

No demonstrated need for introduction of a public interest test

The patent system is designed to encourage innovation by granting exclusivity over inventions for a limited period of time, 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 Act confers on a patentee the exclusive right to exploit a patented invention and to authorise others to do so.

Of course, the exclusive rights of the patentee are not absolute. The TRIPS Agreement provides that Members may permit the use of patented inventions by third parties subject to certain conditions.¹ More prescriptively, Article 17.9.7 of the Australia-United States Free Trade Agreement (**AUSFTA**) provides that 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.

The first ground aligns with paragraph 133(2)(b) of the Act, and the second ground broadly aligns with the provisions for Crown use. Although there is some debate as to whether paragraph 133(2)(a) in its current form 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 exception²), the IPC notes that a broader "public interest" ground of the kind proposed would appear to go well beyond that which is permissible under the AUSFTA.

For the reasons set out in the IPC's response to IP Australia's consultation paper in November 2017, the IPC does not support replacing the "reasonable requirements of the public" test for the grant of a compulsory licence with a "public interest" test. However, the IPC makes the following submission recognising that a decision has been made to proceed with this change.

Items 1-3, 6-8, 10, 11

The IPC supports these changes.

Item 4 - Grant of compulsory licence

One of the preconditions for the grant of a compulsory licence in proposed subsection 133(3) is that "demand in Australia for the original invention is not being met on reasonable terms" [paragraph 133(3)(a)]. This would appear to encompass various scenarios short of a total failure to exploit the patented invention – e.g. where the patentee is supplying a patented product in Australia but not at a level sufficient to meet demand. However,

¹ TRIPS Agreement, Art. 31.

² Productivity Commission 2013, Compulsory Licensing of Patents, Inquiry Report No. 61, p. 156.

proposed s133(3)(d) then lists as an additional precondition that "the patentee has given no satisfactory reason for failing to exploit the patent".

The IPC considers that these two preconditions should be in alignment – that is, either paragraph (a) should be amended to read "the patentee has failed to exploit the original invention in Australia" or paragraph (d) should be amended to read "the patentee has given no satisfactory reason for the failure to meet demand for the original invention on reasonable terms". The IPC expects that the latter would be more consistent with the intent behind the proposed changes.

In addition, the IPC notes that the PC recommended that the new public interest test be enlivened where there is a substantial public interest in granting a compulsory licence³. In a borderline case, the rights of patentees should be protected in order to minimise the extent to which the compulsory licensing regime adversely affects the incentive to innovate which lies at the heart of the patent system. As such, the IPC recommends that, in paragraph (e), the words "it is in the public interest to provide" be replaced with the words "there is a substantial public interest in providing". The IPC considers that this would better balance the interests of all stakeholders. In particular, 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 the parties to negotiate voluntary licence agreements.

The IPC remains concerned that it will be extremely difficult for the Court to balance the competing interests listed in proposed paragraph 133(3)(e). The IPC certainly agrees that it is critical that the interests of the patentee be taken into account, as subparagraph (e)(ii) proposes. However, there will be significant uncertainty for parties as to how the competing interests will be balanced in a particular case. This highlights the difficulties of a "public interest" test: even leaving to one side the rights of the patentee, there is a distinction 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) and the interests of the public in the long run (which would take into account the public interest in encouraging innovation by appropriately rewarding innovative activity). This potential for uncertainty is a further reason why the IPC considers that the inclusion of "substantial" as a qualifier to "public interest" is important.

The IPC is also concerned about the uncertainty which would be created by proposed paragraph 133(3C)(a). Proposed subsection 133(3C) regulates the nature of the compulsory licensing order which can be made by the Court. In considering the public interest under proposed paragraph 133(3)(e), the Court is (appropriately) required to undertake a balancing exercise. Proposed paragraph 133(3C)(a) suggests that these countervailing factors are disregarded when it comes to setting of the terms and conditions on which the licence is granted. In addition, the vagueness of this wording is likely to be productive of significant uncertainty. The IPC suggests that proposed subsection 133(3C) be reworded as follows:

3(C) An order may direct that a licence is to be granted on any other terms which the Court considers appropriate, having regard to:

(i) the benefits to the public from meeting the demand for the original invention;

³Productivity Commission 2013, Compulsory Licensing of Patents, Inquiry Report No. 61, pp. 14, 24.

(ii) *the commercial costs and benefits to the patentee and the applicant from providing authorisation to exploit the original invention;*

(iii) *any other matters the court considers relevant, including matters relating to greater competition and any impact on innovation.*

Item 5 – Remuneration

The IPC has several concerns about proposed paragraph 133(5)(b), which regulates the manner in which the remuneration for the compulsory licence will be set in default of agreement.

First, the IPC considers that the prefatory words ("if paragraph (a) does not apply") should be replaced by "if the patentee and the applicant are unable to agree on an amount within 60 days of the order being made (or such other period as may be specified by the Federal Court)". This would allow the Court to make an order granting a compulsory licence but giving the parties a clear window of time in which to negotiate the remuneration for that licence, in full the knowledge that the Court has decided to grant such a licence and in the light of any other terms and conditions which the Court may have imposed (or have indicated might be imposed in the absence of agreement).

Second, the IPC considers that the words "in the case of an order granted under paragraph 133(2)(b) –" should be added at the start of subparagraph (ii). The IPC does not consider that the objective of discouraging contraventions of Australia's competition laws is, or should be, a relevant factor in relation to the setting of remuneration in respect of an order made under proposed paragraph 133(2)(a).

Third, the IPC is concerned that subparagraph (iv) does not provide sufficient guidance to the Court as to the nature of the "public interest" which is to be taken into account in setting remuneration. The IPC considers that there should be alignment with the conditions for the grant of a compulsory licence set out in proposed subsection 133(3). Specifically, the IPC considers that subparagraph (iv) should refer back to the precondition in proposed paragraph 133(3)(a). As such, the IPC recommends that the existing subparagraph (iv) should be replaced with the words "the objective of ensuring that demand in Australia for the original invention can be met on reasonable terms".

The IPC also recommends that a fifth factor be introduced as subparagraph (v): "the objective of ensuring that innovation is encouraged and appropriately rewarded". While subparagraph (iii) refers to enabling the patentee to obtain an appropriate return on investment, it is not clear that this would adequately recognise the need to encourage inventive activity, which is the objective that lies at the heart of the patent system. Specifically, it will be important to give due recognition to the fact that the costs of innovation include not only the costs associated with the pathway that led to the patented invention, but also the costs of related research activities which were unsuccessful.

Item 9 - Revocation of patent

The IPC considers that the revocation of a patent is an extreme remedy. While the IPC acknowledges that there is already such a power under section 134, its exercise is limited to circumstances where the patentee is failing to exploit the patent and has not provided a satisfactory reason for doing so (leaving to one side the situation where there has been anti-competitive conduct, as that scenario is unaffected by the proposed amendments). In other words, at present the patentee can explain the situation (and must be failing to exploit the patent at all - see above). For example, it may be that the patentee is a research

organisation which does not have the wherewithal to finance commercialisation activities and might not have been able to agree to terms with a commercialisation partner - or the patentee may be an individual or company without the financial resources to exploit the invention on a sufficient scale to meet demand. The Court is not given any guidance as to how the "public interest" is to be assessed in this context - and, in any event, it is not clear that such a punitive measure is warranted.

The IPC's preferred position is that subparagraph 134(2)(a)(i) be repealed and not replaced, given the wider scope of the "public interest" ground for a compulsory licensing. Alternatively, the IPC proposes that the words "and the patentee has given no satisfactory reason for the failure to meet demand for the original invention on reasonable terms" be added at the end of proposed subparagraph 134(2)(a)(i).

Consultation questions

Question 3 – Item 3 – Are the factors listed in para 133(5)(b) relevant to a dependent patent licence?

The IPC considers that (with the exception of subparagraph (b)(ii) and subject to the changes suggested above) the factors listed in proposed paragraph 133(5)(b) are relevant to a dependent patent licence.

Question 4 – Item 7 – Is it appropriate that this would allow a cross-licence to be revoked under s133(6)?

The power to revoke is a discretionary one and the IPC considers that it is appropriate that the Court has a power to revoke a cross-licence in appropriate circumstances.

Question 5 – Item 11 – Are there any unforeseen consequences?

The IPC considers that the application provisions are appropriate.

Schedule 5 – Seals

The IPC makes no submission in relation to Schedule 5.

Schedule 6 – Specifications

The IPC makes no submission in relation to Schedule 6.

Schedule 7 – Protection of information

The IPC makes no submission in relation to Schedule 7.

Should you require further information in the first instance please contact John Collins Chair of the IPC (jcollins@claytonutz.com or 02 9353 4119).

Yours faithfully

A handwritten signature in black ink, appearing to read 'RMS', written in a cursive style.

Rebecca Maslen-Stannage
Chair, Business Law Section