

**Submission to the Advisory Council on Intellectual  
Property in response to its Discussion Paper**

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**Review of Crown Use Provisions in Patents  
and Designs Legislation**

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**Intellectual Property Research Institute of Australia  
(IPRIA)**

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## 1. Preface

The Intellectual Property Research Institute of Australia (IPRIA) is a national centre for multi-disciplinary research on the law, economics and management of intellectual property. It is based at the University of Melbourne, and is a joint venture of the Faculty of Law, the Faculty of Economics and Commerce, and the Melbourne Business School.

IPRIA was established in 2002 as part of the Federal Government's Innovation Statement, *Backing Australia's Ability*. IPRIA's research focuses on ways to improve the protection, management and exploitation of intellectual property by business, research institutions and other users of the IP system, and on supporting high quality policy development by government in areas relating to intellectual property. It seeks to use the outcomes of its research to create and contribute to public debate on key issues relating to intellectual property.

Part of IPRIA's missions is to provide objective contributions to law reform efforts. On the issue of Crown use, IPRIA is unable provide empirical evidence on the economic and social consequences of current Crown use provisions in Australia and consequently, does not seek to advise ACIP on the approach to Crown use that Australia ought to adopt. However, an important part of any law reform process is the consideration of approaches taken to the same issue in comparative legal jurisdictions. For this reason, IPRIA has conducted a review of the law and, where possible, the practice relating to Government use of patented inventions in four foreign jurisdictions with comparable legal and political systems: the United Kingdom, New Zealand, Canada and the United States. This response to ACIP's Discussion Paper, *Review of Crown Use Provisions in Patents and Designs Legislation* comprises that review.

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## **2. Introduction**

ACIP has sought, through its Discussion Paper, submissions regarding Crown use provisions in patents and designs legislation. The Discussion Paper is primarily concerned with how to ensure that the Crown use provisions provide for an appropriate balance between the rights of patent owners and the needs of the Australian public and the Government. In particular, it is concerned with whether the Crown use provisions allow public entities to enjoy an inappropriate competitive advantage in commercial activities. The questions posed by ACIP in its Discussion Paper reflect these concerns.

IPRIA's submission takes the form of a review of Government use in comparable jurisdictions to Australia. It is hoped that this will provide a useful context against which to assess the current Australian Crown use provisions. Since the submission does not seek to advise ACIP on what Australian law regarding Government use is and should be, it does not answer directly the questions posed by ACIP in its Discussion Paper. Instead, it addresses related questions concerning other jurisdictions, designed to reflect the main concerns and questions raised in the Discussion Paper. IPRIA has reviewed law and practice relating to Government use of patented inventions. It has not considered Government use of protected designs.

The submission follows closely, though not exactly, the structure of ACIP's Discussion Paper, addressing issues relevant to key questions posed by ACIP under 5 major headings:

- 1) Definition of 'Government' and Entities that have access to Government use Provision;
- 2) Circumstances Enabling Government use of Patents and Designs
- 3) Government use and Re-Sale of Exploited Patents
- 4) Entitlements of the Patent Owner
- 5) Need for the Crown Use Provisions

## **3. Executive Summary**

The jurisdictions reviewed in this submission are the United Kingdom, New Zealand, Canada and the United States. All these jurisdictions contain some legislative provision for Government use of patented inventions. Both the United Kingdom and New Zealand have models of Government use similar to that in Australia. Canada's Government use provisions are narrower and those in the United States are significantly broader.

#### Entities with access to the Government use provisions

It appears from this survey that the Australian law regarding which entities have access to the Crown use provisions is not notably less certain than in other, comparable jurisdictions. It is worth noting, however, that in the United Kingdom, legislation setting up public or semi-public bodies often contain provisions expressly stating that the body is not to be considered the “Crown” for purposes of the Crown use provisions.

As in Australia, Government use in the United Kingdom, New Zealand and the United States does not require Ministerial approval. However, in Canada Government use is subject to authorisation, not by the Minister, but from the Commissioner of Patents.

#### Circumstances enabling Government use of patented inventions

As is the case in Australia, in none of the jurisdictions surveyed are there express limits on the circumstances under which patented inventions may be exploited, although further guidance is provided by means of non-exhaustive lists in the United Kingdom. Nor is there any general limit in the legislation or in the case law as to the type of patents permitted to be used for services of the Crown.

#### Sale of patented inventions under Government use provisions

In all jurisdictions surveyed in this submission, Government use includes sale of patented products to members of the public. However, in the United Kingdom, sale is only permitted in restricted circumstances and in New Zealand, sale to the public of patented inventions relating to integrated circuits is not permitted under the Crown use provisions.

In none of the comparable jurisdictions reviewed in this submission, is the government’s power to use patented inventions expressly restricted to non-commercial use of those inventions, except, in Canada in the case of semi-conductor technology.

#### Rights of the patent owner

All comparable jurisdictions surveyed have requirements to notify patent holders regarding Government use of their patents similar to those of Australia. In the United States, however, this requirement is not legislative, but regulatory and does not give rise to a cause of action against the government for failure to comply.

In all comparable jurisdictions surveyed, the Government is required to pay remuneration to patent holders for use of their patents. All jurisdictions reviewed here provide for disputes regarding remuneration or compensation payable for Government use of a patented invention to the courts. In none of the jurisdictions considered is there a tribunal or similar low-cost proceeding for addressing any challenge to the fact of, or terms of exploitation of a patented invention under the Crown use provisions. As in Australia, in all comparable jurisdictions that

are the subject of this review, except the United States, patent holders have recourse to the courts to dispute, not only the *terms of use*, but also the actual use of, or authorisation to use, their patents by the government.

#### Resort to Government use provisions in practice

Government use provisions in the United Kingdom, New Zealand and Canada, all of which have fairly similar Government use models to Australia, appear to be rarely exercised. Nonetheless, their main function in these jurisdictions appears to have been for military purposes, indicating that they do play an important role in situations of war or national defence. This conclusion is also supported by experience in the United States, where the majority of Government uses of patented inventions is for military purposes. The case of *Pfizer* in the United Kingdom and the ciprofloxacin case in Canada also indicate the usefulness of Government use provisions in providing access to medicines. Reference to Government use provisions in the international arena also reflect this significance.

#### Other reviews of Government use provisions

None of the comparable jurisdictions assessed in this submission appear to have reviewed their Government use provisions in recent years. In these jurisdictions, Government use of patented inventions does not appear to be controversial. Most notably, in none of the jurisdictions covered by this submission does the issue of unfair competitive advantage appear to have been raised.

## **4. Government use Models in Comparable Jurisdictions**

In this part, we provide a brief account of the jurisdictions reviewed and the essence of their Government use provisions.

The jurisdictions reviewed in this submission are the United Kingdom, New Zealand, Canada and the United States. They have been chosen because these jurisdictions most closely resemble Australia in their legal systems, legal histories and cultures. Significantly, all these jurisdictions contain some legislative provision for Government use of patented inventions.

Although they vary in their detail, both the United Kingdom, (through ss 55-59 of its *Patents Act 1977*) and New Zealand (through ss 55-58C of its *Patents Act 1953*) have models of Government use similar to that in Australia. Both allow the Government to use a patented invention for certain purposes, subject to notification and remuneration of patent holder (in most circumstances). Like Australia, they also allow the patent holder to dispute both the Government's exercise of the Government use provisions and/or the terms of exercise in a court of law.

Canada's Government use provisions are narrower than the other comparable jurisdictions. Canada's current Government use provisions are to be found in sections 19 - 19.2 of the *Patent Act 1985* (amended in 1994). These provisions were included in the *Patents Act* after Canada signed the *North American Free Trade Agreement*. They require the government to apply to the Commissioner for a compulsory license to use a patented invention, subject to an amount of compensation payable to the patent holder and determined by the Commissioner. Decisions made by the Commissioner are also subject to appeal to the Federal Court.

In the United States, Government use provisions are not to be found in the *Patents Act* (35 USC). Rather, section 1498(a) of Title 28 of the US Code, governing the 'Judiciary and Judicial Procedure', provides that whenever Government use of intellectual property occurs, the owner is entitled to compensation. Case law suggests that the theoretical basis for Section 1498(a) is the Government's 'eminent domain'- the Government's right, implicit in the Fifth Amendment, to acquire private property for public use, without the permission of the owner.

According to the leading commentary on United States patent law, *Chisum on Patents*,<sup>1</sup> the remedy of compensation conferred by section 1498(a) is exclusive in cases of Government use. Accordingly, section 1498(a) does not stipulate or limit in any way the purposes for which the Government may use patents. Nor does section 1498(a) provide for dispute of the government's exercise of its powers. It does not even require the patent holder to be notified of the Government's use of his or her patent. Section 1498(a) simply provides patent owners with the right to have a court determine the 'reasonable and entire' compensation that they are owed. Interpretation and/or limitation of the government's powers to use patents is left largely to case law.

## **5. Definition of 'Government and Entities that have Access to Government use Provisions**

ACIP has sought submissions regarding the breadth of the current definition of the 'Crown' under the Australian Crown use provisions, which, according to section 162 of the *Patents Act 1990* (Cth), includes an 'authority of the Commonwealth or a State', and according to case law, includes any body "impressed with the stamp of Government", such as city councils and state instrumentalities. ACIP has questioned whether the current definition of the Crown has been applied too broadly, especially in light of the current corporatisation of Government services. One option put forward by ACIP to remedy this concern has been to limit the

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<sup>1</sup> Donald S Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity and Infringement* (1978-1998)

application of Crown use provisions in some way, for example, by subjecting them to Ministerial approval.

ACIP has also raised the issue of whether the Crown use provisions may apply to too many entities, especially those that have “more commercial interests such as profits rather than the proper provision of Government services to the public.” It has queried whether the Crown use provisions could be applied to public entities that compete with privately owned operators, providing them with an inappropriate advantage over those private competitors. ACIP is, therefore, considering whether the availability of Crown use provisions should be expressly limited to certain organisations and/or functions of organisations, and if so, on what basis.

The purpose of this submission is not to advise on what basis access to Crown use provisions should be determined in Australia, but to assist ACIP in its determination of this issue by providing information on how other countries deal with, or fail to deal with, the concerns raised in the Discussion Paper. In light of ACIP’s questions, therefore, this section seeks to answer the following questions with regard to access to Government use provisions in comparable jurisdictions.

- 1) In comparable jurisdictions, how are the bodies or entities that have access to legislative provisions defined? Are there any express limitations on what persons or bodies may exercise Government use?
- 2) In any of the jurisdictions, is Government use permitted only after Ministerial approval?

#### *5.1 Scope of the Crown Use provisions: which entities may make use of patented inventions under the laws regarding Crown use?*

In Australia, the Crown use provisions are available to an ‘authority’ of the Commonwealth or of the State. This definition has been interpreted by case law to include any body whose functions are “impressed with the stamp of government”, including city councils. Case law, therefore, provides an ambiguous definition that would appear to broaden, rather than narrow access to the provisions.

Sections 55 of the Patents Act 1977 (UK) and of the Patents Act 1953 (NZ), appear on their face to be somewhat narrower than the Australian legislation. Both Acts authorise “any government department and any person authorised in writing by a government department” to use a patented invention for the purposes of the section. “Government department” is not defined or specifically limited by either Act. Case law in the United Kingdom decided under previous legislation (which apparently remains relevant) gives some guidance as to interpretation. Accordingly the Chartered Institute of Patent Agents, states that a nationalised

industry is not a government department and neither is the Post Office.<sup>2</sup> According to *Dory v Sheffield Health Authority* [1991] FSR 221, however, for the purposes of s 55, a health authority *is* a government department, since it is exercising the functions of the Secretary of State (through legislation establishing the National Health System).

In New Zealand, the scope of 'government department' does not appear to have been tested. However, given the similarity of the Crown use provisions to those of the UK, the case law of the UK is likely to be influential, should the issue be tested in the future.

ACIP has specifically raised the concern that Government use provisions could be exploited by a body such as Telstra to gain an "arbitrary and artificial competitive advantage over other telecommunication providers." One way that these kinds of issues have been dealt with in the United Kingdom is not to amend the Crown use provisions themselves, but instead, to insert into legislation setting up public or semi-public bodies provisions that expressly state that the body is not to be considered the "Crown" for the purpose of the Crown use provisions. Legislation setting up new public corporations, such as the *British Telecommunications Act* 1981 (c. 38), now tends to include a definition expressly disclaiming Crown status for that body.<sup>3</sup>

In Canada, only the "Government of Canada" or a "government of a province" may apply to the Commissioner for use under section 19 of the Patent Act. The Act does not define 'government'. Nor does it expressly limit the scope of section 19 to specific persons or bodies within government. To IPRIA's knowledge there is no Canadian case law on the matter to date.

In the United States, 28 USC 1498(a) concerns use "by or for the United States" and expressly stipulates that this shall be construed to include use "by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the government." There is no further definition of "the United States" within the Act, however, and no indication that it is limited to any body or department of Government.

As noted above, many of the issues regarding Crown use in the United States are dealt with in case law. On this particular issue, it appears that the case law is uncertain. In *Bereslavsky v Standard Oil Co*<sup>4</sup> a wholly owned subsidiary of a wholly owned subsidiary of the United States was held to be "a mere purchasing agency" for the United States and therefore not covered by 28 USC 1498(a). However, in *Broome v Hardie-Tynes Mfg*<sup>5</sup> the supply of sluice gates for a dam built by a corporation of Ohio under contract with the United States was

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<sup>2</sup> Chartered Institute of Patent Agents (CIPA), *Guide to the Patents Act* (4<sup>th</sup> ed 1995), 478.

<sup>3</sup> *Ibid.*

<sup>4</sup> (1949) 175 F.2d 148

<sup>5</sup> *Co* (1937) 92 F.2d 886.

covered by 28 USC 1498(a) because it was under the control of United States engineers. In *John J McMullen Associates Inc v State Board of Higher Ed*<sup>6</sup> the use of a stabilisation tank on a vessel owned and operated for research purposes by Oregon State University was held to fall under 28 USC 1498(a) because the vessel was entirely financed by federal grants with a stipulation that it could only be used for specific purposes, which advanced “recognized vital interests of the US Government”. However, the court in that case would not uphold a general proposition that s 1498(a) covers all federal research grants, instead emphasising the “vital importance to the government” of the research being conducted.

Section 1498(a) refers to the ‘United States’ and, therefore, does not appear to apply to state governments. Instead, it appears that, according to this constitutional doctrine, state governments are not liable for patent infringement under the Eleventh Amendment and the related constitutional doctrine of state immunity,<sup>7</sup> unless the state can be found to have waived that immunity. Generally, however, the Eleventh Amendment does not apply to cities, counties or other political subdivisions of a State. Hence, they are liable for infringement of patents.<sup>8</sup>

Under Australian law, the Commonwealth or state may delegate in writing the exploitation of a patented invention under the Crown use provisions. While ACIP has not specifically discussed this particular aspect of the legislation, it is worth noting that similar powers exist in all the countries that IPRIA has surveyed, with the exception of Canada.

In conclusion, it appears from this survey that the Australian law regarding access to Government use provisions is not notably less certain than in other, comparable jurisdictions, which, like Australia, have broad legislative provisions that refer to “government” or “government departments”, and which have developed the content of “government” in this context via case law.

## *5.2 In other jurisdictions, is Government use permitted only after Ministerial approval?*

ACIP, in its Discussion Paper, raises the possibility that uncertainty regarding the scope of the Crown use provisions could be reduced by requiring Ministerial approval prior to exploitation of the patented invention. Australian law does not currently have such a requirement. IPRIA’s survey of comparable jurisdictions indicates that no such requirement of Ministerial

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<sup>6</sup> (1967) 268 F. Supp. 735.

<sup>7</sup> *Seminole Tribe of Florida v Florida* 116 S Ct 1114 (1996); *Florida Prepaid Postsecondary Education. Expense Board. v. College Savings Bank* 527 U.S. 627 (1999)

<sup>8</sup> Chisum 16.06[5]

approval has been introduced in the United Kingdom, New Zealand or the United States. Moreover, in the United States, section 1498(a) only allows the patent holder to apply to the Federal Claims court for compensation for use, not to challenge that use.

In the United Kingdom, approval of the Treasury is required regarding the terms of use of a patent, including remuneration given to the patent holder, unless the terms are determined by the court.

As explained above, in Canada, Government use is subject to authorisation, not by the Minister, but from the Commissioner of Patents.

## **6. Circumstances Enabling Government use of Patents and Designs**

ACIP has sought submissions on whether, even where the governmental status of a department or agency is not in issue, current Crown use provisions do not make clear what circumstances or purposes are appropriate for their invocation. Current Crown use provisions provide that they are to be used “for the services of the Commonwealth or a State [the Crown]”. However, it is unclear from legislation and from case law what constitutes such services. ACIP has asked whether this uncertainty may allow over use or incorrect use of the relevant provisions, which may be seen as an abuse of power by the Government or as an “easy and convenient method of acquiring technology on the cheap.”

One option ACIP has raised in response to these concerns is to restrict the types of patents that are subject to Crown use. Another option would be to categorise and condense the broad range of circumstances in which the Government can invoke the Crown use provisions. For example, access to Crown use provisions could be restricted to situations of national emergency or for defence or health purposes.

ACIP has thus sought submissions on whether the appropriate balance between the needs of IP right holders and the Crown is being achieved. In particular, it has sought submissions on: the current test for Crown use exploitation; the circumstances under which Crown use of patents should be allowed; whether there should be restrictions on the types of patents that are subject to Crown use; and whether it would be advantageous to categorise and/or restrict the circumstances in which the Government can invoke the provisions.

As noted above, IPRIA does not seek to advise ACIP on the appropriate circumstances under which, or purposes for which, Crown use provisions should be available in Australia. However, in order to assist ACIP in determining this issue, the following section of this review provides an overview of the *scope* of Government use in other jurisdictions. In particular, it seeks to establish:

- 1) In other jurisdictions, under what circumstances or for what purposes are the Government use provisions available? Are the provisions restricted to certain types of circumstances?
- 2) In other jurisdictions, are the Government use provisions restricted to particular types of patents?
- 3) In other jurisdictions, is the government's power limited in any way when seeking to sell a patent exploited under the Government use provisions?
- 4) In other jurisdiction, is Government use restricted to non-commercial use?

6.1 *In other jurisdictions, under what circumstances or for what purposes are the Government use provisions available? Are the provisions restricted to certain types of circumstances?*

In provisions similar to that of Australia, the Patents Acts of both the United Kingdom and New Zealand restrict Government use to use "for the services of the Crown".

The United Kingdom Act provides some further guidance, via a list of activities which are stated to fall within the meaning of "services of the Crown".<sup>9</sup> Thus "services of the Crown" includes: supply of anything for foreign defence purposes; production or supply of specified drugs and medicines; and purposes relating to the production or use of atomic energy or research into matters connected with atomic energy. The list approach provides some additional clarity, however, it is important to note that it is non-exhaustive and hence, does not actually function as a *limit* on the circumstances in which government may be interpreted as providing "services of the Crown". A similar elaboration was recommended for the Australian Crown use provisions by the Australian Law Reform Council in its Discussion Paper, *Gene Patenting and Human Health* (March 2004).

Because the current wording of this part of the United Kingdom provision has changed since the previous legislation, it is unclear how relevant cases concerning "services of the Crown" under that previous legislation now are. Nonetheless, *Pfizer Corporation v Ministry of Health (Pfizer)*,<sup>10</sup> which ACIP notes is reflected in the Australian *Patents Act*, defined the 'Crown' as "the executive government of the United Kingdom" and its 'services' as "those supplied by its servants under the direction of a minister." According to one commentator, this excludes services provided by other agencies of government supported by public finance such as industries still in public ownership; independent authorities, such as the Post Office; local government; and universities.<sup>11</sup>

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<sup>9</sup> Section 56(2).

<sup>10</sup> (1965) AC 512.

<sup>11</sup> W. R. Cornish, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* (4<sup>th</sup> ed, 1999), 297.

In New Zealand, 'services of the Crown' is not defined by the Act and has not been tested in New Zealand case law. However, presumably, given that the wording of the New Zealand provision is identical to that of the United Kingdom, case law, such as *Pfizer* would be influential in determining the scope of the New Zealand provision, should it ever be tested.

It is also worth noting that in periods of emergency, in both the United Kingdom and New Zealand, the kinds of purposes for which patented inventions may be exploited under the Crown use provisions become significantly broader. This is achieved through section 59 of the *Patents Act 1977* (UK) and section 58 of the *Patents Act 1953* (NZ), which extend the meaning of "services of the Crown". Section 59 of the United Kingdom Act extends the meaning to "use of the invention for any purpose which appears to the department [exercising the crown use provisions] necessary or expedient", not only for defence purposes, but also more general social and economic purposes. This is achieved via another non-exhaustive list under section 59, whereby government services includes:

- (a) for the efficient prosecution of any war;
- (b) for the maintenance of supplies and services essential to the life of the community;
- (c) for securing a sufficiency of supplies and services essential to the well-being of the community;
- (d) for promoting the productivity of industry, commerce and agriculture;
- (e) for fostering and directing exports and reducing imports in order redress the balance of trade;
- (f) for ensuring that the whole resources of the community are available for use, and are used, in a manner best calculated to serve the interests of the community; and
- (g) for assisting the relief of suffering and the restoration and distribution of essential supplies and services in any country or territory outside the UK which is grave distress as the result of war.

'Period of emergency' is defined in section 59(3) and must be declared by Order in Council approved by both houses of parliament.

In New Zealand, section 58 of the *Patents Act 1953* extends the meaning of "services of the Crown" in national emergencies to: include "any purpose which appears to the [Government] Department [exercising the Government use powers] necessary or expedient –

- (a) To avoid prejudice to the security or defence of New Zealand; or
- (b) To assist in the exercise of powers and the implementation of civil defence measures during a state of national emergency under section 46 of the Civil defence Act 1983 or a state of national civil defence emergency under section 50 of that Act."

In the United Kingdom and New Zealand, in contrast to the Australian Crown use provisions, the purposes for which the Government use provisions may be invoked are also determined by the definition of the term 'use'. This is discussed in greater detail in part 7.1 of this submission.

In the United States, since the purpose of 28 USC 1498(a) is to provide means for compensation, not to establish the scope of Government use, there is no legislative stipulation as to the purposes for which, or the circumstances under which, Government use of patented inventions may legitimately occur. Indeed, according to Chisum, the remedy of compensation conferred by section 1498(a) is exclusive, thereby precluding any action for damages or for an injunction under Title 35 USC against the government in dispute of its use of a patented invention.<sup>12</sup> This appears to indicate that section 1498(a) effectively allows all uses of patented inventions by the United States, regardless of the purpose for which it is used.

The Canadian legislation with regard to Government use of patents is also lacking detail as to the types of purposes for which, or circumstances under which, Government use of patented inventions may be permitted. There is no stipulation, such as in the United Kingdom, New Zealand and Australia, that use be for the services of the Government. Nor does the legislation define 'use' for the purposes of the Government use provisions. Section 19(2)(b) allows the Commissioner to authorise Government use "for such purpose, for such period and on such other terms as the Commissioner considers expedient."

Nonetheless, the scope for overuse of the provisions is narrower in Canada, since Government use is subject to authorisation from the Commissioner of Patents and because the Commissioner's authorisation is, in turn, subject to some express limitations: namely, that the use authorised shall be non-exclusive and predominantly to supply the domestic market. Furthermore, in accordance with TRIPS article 31(c), section 19.1(4) stipulates that the Commissioner may not authorise use of semi-conductor technology "other than a public non-commercial use." Finally, according to s19.1(1), before authorisation is given, the Government must also establish that it has made unsuccessful efforts to obtain authority to use the patent from the patentee on "reasonable commercial terms and conditions".

In conclusion, as in Australia, none of the jurisdictions surveyed expressly limit the circumstances under which patented inventions may be exploited, although the non-exhaustive list approach utilised in the United Kingdom and to a lesser extent in New Zealand does provide some greater detail than is presently provided by Australian legislation.

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<sup>12</sup> Chisum, above n 8, 5:16.06[3][b].

6.2 *In other jurisdictions, are the Government use provisions restricted to particular types of patents?*

As in Australia, in none of the jurisdictions reviewed is there any general limit in the legislation, or in the case law, as to the type of patents permitted to be used for services of the Crown.

In fact, s 56(1) of the United Kingdom *Patents Act 1977* broadens the meaning of “patented invention” that is generally given under the Act for the purposes of the Crown use provisions, to include inventions for which a patent has been applied, but not yet granted. This has the same effect as section 163 of the Australian *Patents Act 1990*, which expressly covers inventions for which the patent application is pending, as well as those for which it has been granted.

## **7. Government use and Re-Sale of Exploited Patents**

Since a key issue raised in the Discussion Paper is that Government use provisions may provide scope for government entities to gain an unfair and inappropriate advantage over private competitors, one purpose for which Government use provisions might be used is of particular concern – resale of patented articles to the public.

Although sale of patented articles is subject to the same limitation as all forms of exploitation by the Crown, that is, that it be necessary for the proper provision of services of the Crown, the exact scope of the Government’s power to sell a patented article to members of the public under Australian Government use provisions is uncertain. The ACIP Discussion Paper questions whether, in order to avoid an possible commercial abuses of the Crown use provisions, the sale of patented products should be limited, either by excluding sale of patented items from the definition of ‘exploitation’ under Crown use provisions, in all or in some circumstances, or by requiring Ministerial approval for the sale of such items under Crown use provisions.

With these issues in mind, IPRIA has reviewed how other jurisdictions address, or fail to address, the issue of sale of patented products within their Government use provisions. It did so, by seeking to answer the following questions:

- 1) In comparable jurisdictions, does Government ‘use’ include the sale of patented products to members of the public, and, if so, is the Government’s power to sell patented inventions limited in any way?
- 2) In comparable jurisdictions, is Government use restricted to non-commercial use?

*7.1 In comparable jurisdictions, does Government use include the sale of patented products to members of the public, and is any such power limited in any way?*

In contrast to the Australian Crown use provisions, the purposes for which the Government use provisions may be invoked in the United Kingdom and New Zealand is determined not only by what constitutes “services of the Crown, but also by the definition of the term ‘use’ within their respective Patents Acts.

In the United Kingdom, ‘use’ includes sale of patented inventions, but only in certain circumstances. For the purposes of sections 55 to 58, ‘use’ is defined as: make, use, import, keep, do or dispose of other than by selling a patented product or process. It also includes selling or offering to sell, but only in four circumstances:

1. where the sale of the a product would be ‘incidental or ancillary to making, using, importing or keeping it’;<sup>13</sup>
2. where the product is a specified drug or medicine or necessary for the production or supply of specified drugs or medicines;<sup>14</sup>
3. where sale is for foreign defence purposes; or;<sup>15</sup>
4. during “periods of emergency”.<sup>16</sup>

In addition, ‘use’ may mean ‘dispose or offer to dispose of anything which was made, used, imported or kept in the exercise of crown use and is no longer required for the services of the Crown.

In New Zealand, section 55(1) of the Patents Act permits the Government to “make, use, exercise and vend” a patented invention, which, according to section 55(2)(b), includes the sale of any articles made in the exercise of the Crown use provisions that are no longer required for purposes for which they were made. Further, section 55(3) deems “use for the services of the Crown” to include use of a patented invention where the Governor-General, by Order in Council, declares it “necessary or desirable to enable the public to derive full benefit from an enterprise or undertaking in which the Crown has a complete or almost complete monopoly.” Section 55(2)(a) also deems supply to a foreign government articles required for the defence of that country ‘use of the invention for services of the Crown.’ Where integrated circuits are concerned, however, section 55(2)(c) expressly excludes sale to the public from the powers of the Government under the Government use provisions.

In Canada and the United States, Government use provisions do not define or limit use in any way. In Canada, the power of sale may be limited by the need to obtain approval from the

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<sup>13</sup> *Patents Act 1977* (UK) section 55(1)(a)(i).

<sup>14</sup> *Ibid* sections 55(1)(a)(ii) and 55(1)(c).

<sup>15</sup> *Ibid* sections 55(1)(a)(ii) and 55(1)(b).

<sup>16</sup> *Ibid* section 59.

Commissioner. Further, section 19.1(4) of the Canadian Patents Act, in accordance with TRIPS, section 19.1(4) prohibits the Commissioner from authorising Government use of semiconductor technology other than where the use is public and non-commercial. In the United States, no specific mention of sale in contrast to any other form of exploitation is made.

In summary, in all jurisdictions surveyed, Government use includes sale of patented products to members of the public. Some limits on this power exist in all jurisdictions bar the United States, with the most extensive limitations in the United Kingdom.

#### *7.2 In comparable jurisdictions, is Government use restricted to non-commercial use?*

In none of the comparable jurisdictions reviewed in this submission, is the Government's power to use patented inventions expressly restricted to non-commercial use of those inventions, except, as mentioned above in section 6.2, in Canada in the case of semiconductor technology. Further, in Canada, in cases of public and non-commercial use of any invention, the Government is exempt from the requirement in section 19.1(1) that it make reasonable efforts to obtain from the patentee authority to use the invention on reasonable commercial terms and conditions prior to obtaining authorisation from the Commissioner.

In the United Kingdom and New Zealand, any restriction on Government use to non-commercial use would have to be implicit in the requirement that use be "for the services of the Crown". IPRIA is not aware of any cases where, Government use of patented inventions for commercial purposes has been tested in court in either of these jurisdictions.

### **8. Entitlements of the Patent Owner**

Although current Australian Crown use provisions require that patent holders be notified of, and compensated for, the Crown's use of their patents in most cases, ACIP's Discussion Paper raises concerns about the apparent lack of bargaining power that patent holders have when the Crown exploits their patents. Currently, if patent holders are dissatisfied with the outcome of negotiations with the Crown regarding the use of their patents, their only avenue for review is through the courts. Apart from being costly, this situation places the Crown in a better bargaining position, especially if the patent holder has limited finances, since it knows that even if patent holders are dissatisfied with the terms of exploitation, there is a significant chance that they can't afford the time, money or risk that appealing to the court would entail.

Another issue raised by ACIP with regard to compensation is who should pay compensation once it is agreed upon or determined by a court? ACIP notes that currently the situation in Australia is uncertain. If an authority that is empowered by a State or the Commonwealth

uses of a patented invention in accordance with the Crown use provision, is it the authority that is liable to pay compensation, or is it the State or Commonwealth?

In order to assist ACIP in determining these issues, the following section of this review provides an overview of how other jurisdictions provide for the needs and entitlements of patent holders whose patents have been exploited by government. Keeping in mind ACIP's concerns, it seeks to answer the following questions:

- 1) In comparable jurisdictions, is the Government required to notify the patent holder of its use of the patented invention? Is there a time limit before which patent holders must be advised of the Government use of their patents?
- 2) In comparable jurisdictions, is the Government required to remunerate the patent holder for use of the patented invention? If so, who is liable for such remuneration?
- 3) In comparable jurisdiction, what avenues do patent holders have to dispute either the Government use of their patents or the terms of that use?
- 4) In comparable jurisdictions, is provision made for patent holders with limited financial capacity to dispute the use of their patents? Is there an alternative to resolution in court?

*8.1 In comparable jurisdictions, is the Government required to notify the patent holder of its use of the patented invention? Is there a time limit before which patent holders must be advised of the Government use of their patents?*

As in Australia, and as required by TRIPS article 31(b), in all comparable jurisdictions reviewed in this submission, except the United States, legislation requires that patent holders be notified of the use of their invention under Government use provisions as soon as practicable. In the United Kingdom, as in Australia, this requirement is waived in situations where notification would be "contrary to the public interest".<sup>17</sup> In New Zealand it is waived where notification "would, or might reasonably be expected to, prejudice the security or defence of New Zealand."<sup>18</sup>

In the United Kingdom and in New Zealand, as in Australia, the responsibility of notification lies with the government department that has used or authorised the use of the invention. In Canada this responsibility lies with the Commissioner.

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<sup>17</sup> *Patents Act 1977* (UK), section 55(7).

<sup>18</sup> *Patents Act 1953* (NZ), section 58B(2).

In the United States, although patent holders are entitled to compensation for Government use of their patents, there is no requirement in section 1498(a) that they be notified of such use. In 1993, President Clinton issued Executive Order 12889, regarding the implementation of NAFTA. Section 6 of this order requires government agencies to notify patent owners of Government use of their patents, except in cases of national emergency or extreme urgency. This order is still binding on government agencies, and is included in the Code of Federal Regulations.<sup>19</sup> Nonetheless, the requirement applies only where the agency “knows or has demonstrable reasonable grounds to know” that the invention is covered by a patent, without having performed a patent search. Moreover, the requirement is unenforceable by patent holders against the government agency using the patent. The United States has been subject to criticism from the European Union, which claims that foreign right-holders are particularly likely to miss the opportunity to initiate and administrative claim procedure because they will generally not be able to detect Government use of their patents in the first place.<sup>20</sup>

In none of the jurisdictions surveyed is there a specific time limit on notification. However, notification is required “as soon as practicable”<sup>21</sup> in all jurisdictions except Canada.

In summary, all comparable jurisdictions surveyed have requirements to notify patent holders regarding Government use of their patents similar to those of Australia. In the United States, however, this requirement is not legislative, but regulatory and does not give rise to a cause of action against the government for failure to comply.

#### *8.2 In comparable jurisdictions, is the Government required to remunerate the patent holder for use of the patented invention? If so, who is liable for such remuneration?*

As in Australia, in all comparable jurisdictions that are the subject of this review, patent holders are generally entitled to remuneration or compensation for Government use of their patents. In the United Kingdom, however, payment for use of an invention for which a patent has been applied, but not yet granted is only payable once the patent has been granted.

In the United Kingdom, the government department that uses or authorises use of the patented invention (with approval from the Treasury) and patent holder are expected to agree upon terms of use, including remuneration or royalty for that use.<sup>22</sup> In addition, in the United Kingdom, under section 57A the patent owner or the exclusive licensee of a patent is, under certain circumstances, entitled to compensation for any loss resulting from not being awarded a contract to supply the product to the Crown. If the parties cannot agree, disputes as to

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<sup>19</sup> Title 48. Federal Acquisition Regulations System, 27.208.

<sup>20</sup> Services of the European Commission, *1995 Report on United States Barriers to Trade and Investment* (1995), <http://europa.eu.int/en/agenda/eu-us/pub/tbr95/>.

<sup>21</sup> *Patents Act 1977* (UK), section 55(7); *Patents Act 1953* (NZ), section 58B(1); Title 48 Federal Code of Regulations 27.208(2).

<sup>22</sup> article 55(4)

payment for use and compensation for loss of contract are referable to the court by either party, under section 58(1). Like the Australian legislation, and unlike the other jurisdictions which are considered below, the United Kingdom Act does not state any standard (such as 'reasonable', or 'adequate' remuneration) which the court is to apply in determining the terms of compensation to the patent owner.

In New Zealand, section 58C requires "the Crown" to pay "such remuneration to the patentee as may be agreed, or as may be determined by a method agreed, between the Crown and the patentee". If such an agreement cannot be reached, the dispute may be referred to the court by either party. In determining a dispute, the court is required, under section 57(3) to have regard to the need to ensure "*reasonable* remuneration having regard to the nature of the patented invention".

In the United States, the patent owner's "remedy" is "against the United States" and takes the form of "reasonable and entire compensation".<sup>23</sup> The onus, however, is on the patent holder to take action against the United States in the Court of Federal Claims.

In Canada, on the other hand, "adequate remuneration" is determined by the Commissioner when he or she authorises the Government use. The commissioner must take into account the circumstances of the use, including the "economic value of the authorisation." If either party is not satisfied with the terms of use determined by the Commissioner, it may appeal to the Federal Court for review.

In summary, in all comparable jurisdictions surveyed, the Government is required to pay remuneration to patent holders for use of their patents. Apart from the United Kingdom, where the government department that exercises the government use provisions is expressly responsible for negotiating terms of use,<sup>24</sup> none of the jurisdictions surveyed specify which element of government is liable to pay remuneration.

### *8.3 In comparable jurisdiction, what avenues do patent holders have a right to dispute either the Government use of their patents or the terms of that use?*

As is evident from the above elaboration of the remuneration provisions of comparable jurisdictions, like Australia, all jurisdictions reviewed here provide for disputes regarding remuneration or compensation payable for Government use of a patented invention to the courts. Further, as in Australia, in all comparable jurisdictions that are the subject of this

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<sup>23</sup> As the United States Code Annotated illustrates, there is a significant case law on the meaning of this phrase.

<sup>24</sup> *Patents Act 1977* (UK), section 55(4).

review, except the United States, patent holders have recourse to the courts to dispute, not only the *terms of use*, but also the actual use of, or authorisation to use, their patents by the Government. In New Zealand and Canada, as in Australia, the patent holder may also apply to the court or the Commissioner, respectively, to have the Government use terminated in cases where the court or the Commissioner is satisfied that the circumstances that gave rise to the right to use the patented invention have ceased and are unlikely to recur.

In the United States, section 1498(a) provides only that patent holders may apply for compensation for use. There is no provision for dispute of the use itself. Although the doctrine of eminent domain does require Government use be for 'public use', IPRIA is unaware of any cases where the government's actual use of a patented invention, rather than the terms of use, has been tested.

*8.4 In comparable jurisdictions, is provision made for patent holders with limited financial capacity to dispute the use of their patents? Is there an alternative to resolution in court?*

In all comparable jurisdictions reviewed in this submission, as in Australia, there is no avenue for patent holders to dispute the Government use of their patents, or the terms of that use, other than the court. In Canada, clearly, the requirement that the government require authorisation from the Commissioner before making use of a patented invention, gives some initial protection to patent holders with limited financial capacity, as the onus is moved from patent holders to dispute the use of their inventions, to the Government to seek permission to use those inventions. Where authorisation is granted, however, patent holders' only avenue for review is through the Federal Court.

In the United Kingdom and New Zealand, the court reviewing Government use may refer an issue of fact or the whole proceedings to an official referee or arbitrator. However, such reference can only be made by the court, once proceedings have begun and is not guaranteed. It is, therefore, unlikely to have significant impact on the bargaining power of patent holders with limited financial resources.

In the United States, although patent holders must apply to the court for compensation, section 1498(a) does expressly stipulate only in the case of "an independent inventor, a nonprofit organisation, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States", that "reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys in pursuing the action" for compensation. It thereby makes some attempt to alleviate the burden of

seeking compensation for patent holders with limited financial resources and to increase their power to negotiate proper compensation.

In summary, in none of the jurisdictions considered is there a tribunal or similar low-cost proceeding for addressing any challenge to the fact of, or terms of exploitation of a patented invention under the Crown use provisions.

## 9. Need for the Crown Use Provisions

Although the main issue addressed in ACIP's Discussion Paper is the *scope* of the current Crown use provisions, it also raises the question of whether Crown use provisions are necessary or justified at all. It notes that although Crown use provisions provide for a more efficient and possibly more certain and consistent means of using patented inventions in order to fulfil the functions of government, there are other means through which government bodies could exploit patented inventions.

In response to this issue, it is relevant to note that in all of the jurisdictions considered in this view, some form of Crown use is available to the government. The following sections of this review provide an overview of other jurisdictions' experiences with Government use provisions. Specifically, it seeks to answer the following questions:

- 1) In comparable jurisdictions, for what purposes have Government use provisions been used?
- 2) Have other jurisdictions reviewed their Government use provisions in recent years?

### 9.1 *In comparable jurisdictions, for what purposes have the Government use provisions been invoked?*

IPRIA is not aware of any data on instances of Government use of patents in any of the jurisdictions reviewed in this submission. The Australian Law Reform Commission's (ALRC) Discussion Paper on *Gene Patenting and Human Health* (March 2004) has concluded, however, that there "is no evidence that the Crown use provisions in the United Kingdom, New Zealand or Canada have been used any more frequently than in Australia."<sup>25</sup> The ALRC paper also cites reports by the United Kingdom and New Zealand to the Council for TRIPS<sup>26</sup>

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<sup>25</sup> ALRC *Gene Patenting and Human Health* (March 2004), par 26.52.

<sup>26</sup> Council for Trade-Related Aspects of Intellectual Property Rights, *Review of Legislation in the Fields of Patents, Layout-Designs (Topographies) of Integrated Circuits, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual Licences: United Kingdom*, (7 January 1998), [www.wto.org/english/tratop\\_e/trips\\_e/intel8\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel8_e.htm); Council for Trade-Related Aspects of Intellectual Property Rights, *Review of Legislation in the Fields of Patents, Layout-Designs*

indicating that their Crown use provision had not been exercised at all between 1996 and 1998 and between 1993 and 1997, respectively. The ALRC paper notes that the report to TRIPS by the United Kingdom implies that the Crown use provisions are most likely to be asserted by the Ministry of Defence.

Any further indication as to how frequently Government use provisions have been exercised in other jurisdictions must be gleaned from case law. IPRIA notes, however, that cases only reflect instances where exercise of the Government use provisions have been contested via court proceedings; not those where the provisions have been exercised without dispute or where such disputes have been settled out of court.

The ALRC Discussion Paper on Gene Patenting notes a “small number of reported United Kingdom cases,”<sup>27</sup> which included *Pfizer*,<sup>28</sup> and IPRIA is unaware of any cases concerning Government use in New Zealand.

In Canada, most cases concerning Government use of patents occurred under previous legislation and were “predominantly restrained to supporting war efforts”<sup>29</sup> One recent, high profile use of a patented invention by the Canadian government, however, was in order to ensure access to medicine in case of a national emergency. In October 2001, the terrorist attacks in the United States, the Canadian Government attempted to stockpile a generic equivalent to ciprofloxacin (an antidote for anthrax). In apparent contravention on section 19 of the *Patents Act 1985*, the Canadian Government approached a generic drug manufacturer to make ciprofloxacin, the patent for which was held by Bayer, without seeking authorisation from the Commissioner for Patents. The issue never ended up going to court, since Bayer and the Canadian government were able to negotiate a deal, whereby Bayer supplied the necessary quantity of ciprofloxacin. Nonetheless, this case highlights the problematic nature of subjecting Government use to prior authorisation from the Commissioner for Patents in times of emergency.

By contrast, the United States has made comparatively frequent use of its Government use provisions.<sup>30</sup> In fact, the European Commission claims that “the use of patented goods is extremely widespread in practically all government departments”. The most common exercise

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*(Topographies) of Integrated Circuits, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual Licences: New Zealand* (24 October 1997)

[www.wto.org/english/tratop\\_e/trips\\_e/intel8\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel8_e.htm) .

<sup>27</sup> ALRC, above n 25, par 26.52.

<sup>28</sup> *Pfizer Corporation v Ministry of Health* (1965) AC 512.

<sup>29</sup> Neil Belmore ‘When the Governments Override Patents: The Effect of International Agreements on the Patent Act’, prepared for *Insight Conference* – March 4/5, 2002 – Toronto, Ontario, <http://www.gowlings.com/resources/publications.asp?pubid=782>

<sup>30</sup> Jerome Reichman and Catherine Hasenzahl, *Non-Voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework under TRIPS, and an Overview of the Practice in Canada and the USA*, (UNCTAD-ICTSD Issue Paper Number 5, June 2003), 21; United States Code Annotated 28 USC 1498.

of Government use provisions appears to be for military purposes. There are also a number of cases in which the provisions have been used in the provision of infrastructure and facilities by government.<sup>31</sup>

Finally, it is worth noting that in the context of the AIDS endemic in Africa and recent discussions surrounding the Doha Declaration on the TRIPS Agreement and Public Health, Government use has received considerable attention as an option for enabling affordable access to medicines in least developed countries. It is in this context that most discussion of Government use appears to arise overseas and internationally.

In summary, Government use provisions in the United Kingdom, New Zealand and Canada, all of which have fairly similar Government use models to Australia, appear to be rarely exercised. Their main function in these jurisdictions appears to have been for military purposes, indicating that they do play an important role in situations of war or national defence. This conclusion is also supported by experience in the United States, where the majority of Government uses of patented inventions is for military purposes. The case of *Pfizer*<sup>32</sup> in the United Kingdom and the ciprofloxacin case in Canada also indicate the usefulness of Government use provisions in providing access to medicines. Reference to Government use provisions in the international arena also reflect this significance.

*9.2 In other jurisdictions, have the Government use provisions been subject to review in recent years? If so, what were the findings of these reviews?*

None of the comparable jurisdictions assessed in this submission appear to have reviewed their Government use provisions in recent years. Canada amended its Government use provisions in 1994. Prior to that Canada had a broader model of Government use. However, the narrowing of its Government use provisions appears to have been in response to the North American Free Trade Agreement, rather than any extensive review of the Government use provisions and their appropriateness.

The United Kingdom does not appear to have reviewed its Government use provisions since the current *Patents Act* was enacted in 1977. However, in a consultation conducted by the United Kingdom Patent Office regarding the proposed European Union Council Regulation for the Community Patent in late 2000 and early 2001,<sup>33</sup> substantive comments were received regarding the fact that the proposal would prevent the United Kingdom from exercising Crown use with regard to Community patents. Since that time European Union negotiations have

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<sup>31</sup> United States Code Annotated, 28 USC 1498.

<sup>32</sup> *Pfizer Corporation v Ministry of Health* (1965) AC 512.

<sup>33</sup> United Kingdom Patent Office, *Response from UK Interests on the Proposed Council Regulation for a Community Patent*, <http://www.patent.gov.uk/about/consultations/responses/commmpat.htm> .

resulted in a Government use provision being included in the proposal, which allows governments to apply to Community patents any national provisions that allow the non-commercial use of national patents by the government.<sup>34</sup> The outcome of this consultation would, therefore, indicate that they are still considered important provisions of the United Kingdom's patents regime.

In summary, Government use of patented inventions does not appear to be controversial or topical in any of the comparable jurisdictions reviewed by IPRIA. Most notably, in none of the jurisdictions covered by this submission does the issue of unfair competitive advantage appear to have been raised.

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<sup>34</sup> Council of the European Union, *Proposal for a Council Regulation on the Community Patent*, 11 June 2003, <http://register.consilium.eu.int/pdf/en/03/st10/st10404en03.pdf> article 9a.