

INNOVATIVE TECHNOLOGIES AUSTRALIA

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**SUBMISSION  
OF  
CROWN USE PROVISION IN PATENTS AND DESIGN  
LEGISLATION  
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To Mr. Jeff Roberts  
Secretariat  
Advisory Council on Intellectual Property  
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## Executive Summary

Patent law by its very nature is designed for exclusive use by the IP holder. TRIPS provides an international avenue to members by which this exclusivity can be compromised via the crown use provision. TRIPS allows member countries to include internal statutory laws to make available IP for governments to access IP under certain conditions.

The government's position centres on the concept that the good of the many outweighs the good of the one, where sovereign use of intellectual property is concerned. While the concept is understandable from a national point of view, little has been done to balance the right of Government compulsory use against quick, fair and adequate compensation to the original IP holder.

The thrust of the discussion paper, when distilled, centres on this issue.

Obtaining an adequate balance between the needs of government against that of the original IP holder must be the focus of any amendments. These amendments must also provide an adequate, consistent and enforceable due process, which must be respected by all parties with integrity. The process must cover not only the method by which crown use provision can be enacted but must also cover a standardised method for remuneration on a commercial basis and a low cost avenue for appeal where applicable.

Government compulsory use where applied should be adequately specified, (scoped, and time lined), as to the extent of use **at the time of enactment**. Allowing for the clear determination of remuneration and for the patentee to explore ancillary markets. While the scope of the compulsory licence remains unclear, the patentee is unfairly bound; constrained from obtaining any financial gain to cover research costs, outstanding debts and/or pay any required legal costs. This further binds the patentee to the government's will where compensation is concerned. In a majority of cases the patentee is an average citizen who has not received grants, or any government assistance, in developing their IP. Their situation is very different from universities and Government Departments.

## Specific Questions

### ***1. What is an appropriate definition of the 'Crown', as is applied to the Crown use provisions.***

The definition of the crown as currently defined, given its breadth, allows for the maximum possibility for innovation within the country. Little will be gained by reducing who can apply; it is the application context; circumstances of invocation; and the approval and appeal process which must be addressed.

Based on an understanding of WIPO and world trade regulations, crown use application should be restricted to:

1. A Commonwealth or State emergency as defined by an appropriate government **federal minister** and where no other **active** alternative patent or design is currently available to address the crises. The relevant declarations of “a state of emergency” for the enactment of crown use should be restricted to such areas as defence, public health and environmental catastrophes;
2. In the event of a demonstrable and considerable social gain being achieved through the use of a patent, which has not been exercised, or in the process of being exercised, within three years of it being fully granted, except in the case of a natural disaster, or other justifiable reasons. In this case, the compulsory license would be non-exclusive and through **agreement** or a joint license with the IP holder.

Exercising the patent must be extended to include manufacture outside of the commonwealth domain ie importation, if that is the most cost effective way for the IP owner to develop their IP. In the instance that the government wished for economic reasons that the patent be manufactured within Commonwealth grounds then assistance should be provided, not crown use enacted

3. Where the working of a patented invention is necessary to remedy an antisocial monopoly, but only after this being demonstrated in a judicial process (at no cost to the patentee).

Based on a survey by the Australian National Audit office in 2002-2003 it can be demonstrated that each government department undertakes crown use provision based on differing processes and standards, with an overall poor result.

All enactments must follow a standardised process that concludes at **ministerial or a delegated central federal body's approval** for a statutory (compulsory) license. Currently an authorised purchasing officer can initiate and carry out any potential crown use decision within any government department or agency. Such a decision may be made without an adequate knowledge of intellectual property rights and/or the government's sanction due process.

Consideration must be applied to what should be the consequence for both the government employee and its department where due process is **proven not** to have been followed. At present there appears to be little incentive to understand both the process and the entitlements of the original patentee, leaving the door open to abuse. Where the process and guidelines have **not** been adhered to, by Government Departments, then it can only be seen as an infringement and thus open to action.

There are three such cases pending an outcome eg. Stack vs Brisbane City Council, where after many years in negotiation the IP holder was forced to go to court and ongoing litigation is still seeking a settlement. If the BCC followed and exercised a standard process according to patent laws (crown use), acquiring authorisation from the IP holder and negotiating a proper commercial settlement then there may have been little or no reason to go to court. Given it took court time to determine whether or not Brisbane City Council was in fact a government agent, it begs the question as whether or not government departments [including councils] and their legal advisors, have a clear understanding of the current IP laws and the clarity with which they have been defined and implemented.

Procurement offices and Government employees in general are under the impression that any act on their behalf with respect to the crown use provision is not subject to legal action as it is not considered an infringement of IP owner's rights. This may be the case where due process has been followed but clearly cannot be the case where it has not.

The consequences of an inappropriate enactment of the crown use provision should be defined clearly and incorporated into the act. The act should clearly state that any such indiscriminate use of the crown provision can be seen as an infringement and is subject to legal action.

## ***2. Entities to which Crown use arrangements should appropriately extend.***

By centralising the appropriate authority to approve a request for crown use, one therefore reduces the possibility for unfair exploitation. Currently the seeker is also to some extent the approver, thus emphasising the issues of;

- The extent of government authority which can gain access to the crown use provision; and
- Demonstrating non-commercial activities.

One of the tests for approval for crown use should be unfair competitive advantage. Another is demonstrated proof that it is in the best interests of society. A third would determine the issue of commercial or non-commercial activity by the Government Department requiring Patents and Designs.

These tests can only be deliberated, in a non-biased fashion, by a divorced party where a case must be made.

## ***3. Are current Crown use arrangements achieving an appropriate balance between the need of IP right holders and the Crown?***

As discussed previously the struggle continues in balancing patentee rights with that of the Crown. Lack of case law is not an adequate measure by which to determine whether the current provisions are sufficient for it does not take into account patentees who have not the financial means to achieve a suitable resolution and have simply walked away. The writer knows of at least three cases where in fact this is the case.

The purpose of Trips is to ensure the flexibility for government to utilise innovation in the public's service. Having said that, it is not possible to predetermine what type of patent will fulfil society's needs; hence it is difficult to restrict the type of patents and designs, which are subject to crown use.

The focus should be placed on preventing undue/unlawful use by government departments and ensuring adequate remuneration is in place for the patentee. In doing so confidence remains in the innovation system.

Every law can be bent, broken or smashed. Society continues to operate based on the reasonable expectation that all, if not most, will abide by these laws or the consequences of breaking them. In the area of IP, the IP holder has a reasonable expectation that their rights and privileges will remain in tact. It is this expectation, which maintains the drive for innovation.

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#### **4. Are the current remuneration provisions a fair and equitable arrangement for IP right holders and especially for individuals and SMEs?**

With the possible exception of a national emergency we borrow from Goring and “In such instances it is reasonable to understand the TRIPS Agreement as requiring prior consultation with the right holder before a compulsory license may be sought from the government”. These previous consultations should be evidenced by documentary proof prior to requesting a compulsory license to be provided. The objective here is a win-win contractual arrangement as opposed to compulsory licensing being the primary step. It can be proven in a number of departments within Australia that little or no consultation has been undertaken with the above in mind. This is not good enough. A case in point comes directly to mind where a procurement department, instead of seeking resolution, has instead moved directly into damage control and has suggested the patentee to go the Federal court in the hope that the patentee will not have the financial means. This proves the lack of departmental due diligence in relation to IP Law. Given the pending legal dispute the identities will not be divulged at this time.

The central body that approves the exploitation must also define whether it is not in the best interest of the country to advise the patent owner. Under all other circumstances the owner must be advised of the expectation, scope and exclusivity, either before or within 14 days of the exploitation having commenced. Failure to do so may breach licensed contracts orchestrated by the patentee, both within Australia or overseas, which have been signed in good faith and in the absence of any knowledge of a pending crown use requirement.

The question to be considered is where does the Government stand in relation to acquiring a patent/design for its needs if exclusive licences have already been contracted overseas by the IP holder? It could be licensed with another Government, and the Australian Government Department is not aware of this because the department made no effort to contact, or chose not to notify, the IP holder either before or after it exercised its crown use provisions. Would this not be placing the patentee in a negative position at no fault of their own?

When crown use is enacted the documentation provided to the patentee at the commencement of the crown use proceeding, should include copies of the “central body’s” authorisation and an indication of fair and appropriate compensation, as drawn up by a independent, “IP literate” QC; based on an approved methodology. The approved methodology should take into account the patentee’s financial loss both during development and due to the subsequent loss of potential contracts, as a result of the loss of exclusivity. If forced into legal action, then legal costs including those of expert witnesses should also be compensated for. After all, it’s the Government’s department who exercise its powers under the crown use provision.

Why should the inventor / patent holder be subject to associated costs? To assist deliberation on this question, I have attached for your reading a bill H.R.632 passed by the USA congress, in January 1995 which amendment section 1498. Reading this I believe that the USA, even then, was far in advanced of Australia with respect to fairness to the IP holder, where crown use is concerned.

Consideration may also be given to mediation being the imposed 1st step through the copyright council. This should be free of charge.

If no resolution is obtained in a legally defined period then court action is the only alternative. Though a means tested supporting fund such as "IP Australia aid" could be considered. If IP Australia is accepting patent fees to provide IP holders with fully granted IP of exclusivity, why is it then not IP Australia who enforce the IP laws it represents on behalf of the patentee's where litigation is concerned?

If IP Australia cannot afford this task then perhaps all the legal costs should be budgeted out of the department which exercised the crown use provision in the first place.

If the Patent Acts 163,164 & 165, were amended to be clear and precise, (and the Government department exercised due diligence with respect to them), then disputes would be less likely.

With regard to remuneration, IP holders should be remunerated on a commercial business basis. Intellectual Property has tangible and intangible value on the commercial market. If a State or Federal Government Department does not adhere to the amended Patent Act s163, 164 & 165, currently the remuneration is reduced based on the reduced market of that particular state. The infringement may have in fact cost the patentee much more than that due to their inability to provide exclusivity in other states and overseas. With this in mind, and supported by the fact that crown use is a federal law; then any remuneration should take a federal view point ie the holistic market loss.

Payment should be made without delay or within 90 days. Any dispute costs associated with the obtaining the amount should be paid by the Government Department concerned. Government Departments must have integrity, and without exception, accept responsibility for their actions as patentee's and business have to.

##### ***5. Do the current Crown use arrangements contain sufficient safeguards to prevent the occurrence of commercial abuse and unfair competition?***

Distilling the commercial use of IP by the government down to two main areas namely;

- Supply to the domestic market;
- To fulfil its obligations for defence to a foreign market.

One cannot argue the ethos or merit of the two principle guidelines. However a further restriction should be applied in that it can be proven that the initial IP holder was approached in order to provide for the governments requirement.

The initial stance of the government when attempting to supply a specific market should be to approach the IP holder and attempt to make a financial arrangement to support the supply of the market the Government has in mind. Whether that market is Domestic, commercial or International in nature. Where the IP holder does not wish or, cannot meet the Governments Demand for commercial reasons, then a non-exclusive compulsory licence may be the fall back position. In this instance the Government is duty bound to negotiate a specific licensing arrangement with clear compensation.

Where a product has IP protection and has had a compulsory licence placed against it, the Government must indemnify the original IP owner from any suite as result of misuse or faulty production especially in the areas of pharmaceuticals. The IP holder must also be indemnified should the IP be leaked via the compulsory licensing arrangement.

## ***6. Current relevance of Crown use provision.***

The laws and concepts around crown use provision in the way that it is currently enacted are authoritarian in nature and thus at odds with society's values in general. One cannot escape however that the Government holds within its grasp the responsibility for the welfare of the people it services. Having said this, the most logical solution is a concept of accepted crown rights, which are tempered and accessed via contract law instead of the current crown use provisions. This should be the case for both government and privately owned IP. In this instance the Government would be forced to approach the IP holder through a 3<sup>rd</sup> party i.e. State or Commonwealth purchasing board, (which would include an IP specialist area), and negotiate a contractual position with respect to recompense. This is after an initial approval to proceed is given to the government department for the use of IP, from a competent federal Minister.

## **Closing statements**

At present our current IP laws are far inferior to those of other WIPO and WTO members, ie South Korea, China, Japan, and Singapore; some of which do not even follow our political principles. We have a wonderful opportunity now to review our law in this area and ensure we are amongst the world's best practice. There is an understanding that some of the Sentiments or processes discussed above may be considered naive or require a large amount of administration. This may be particularly viewed as the case, when the government faces its perceived loss of personal power. But think of the alternative.

I know a number of patentee's, who have Patented innovation which is in fact very suitable for a number of government departments. But under the current weak laws surrounding the crown use provision and the lack of Government Departments IP knowledge; the risk to these patentees's is obvious. Their expectation is that the first port of call by the government would be that it exercises it's right with extreme indifference and that they would have to endure Federal court cost of anywhere between \$ 50,000 and \$ 270,000. The Departments legal staff tend to delay, ignore, and try to create a new interpretation of what the patent law states. This is far too high a risk to consider.

A question could be asked, if you had a Patent or Design which would be perfect for say a State Government Railway or a city council, would you risk showing your patented innovation or design under the current conditions in Australia?

I believe Australia has been missing out on great number of opportunities. With appropriate change business leaders and IP holders will be more willing to offer IP to government departments with greater confidence to what is currently the case today. The IP provision is of benefit to both the government and society at large. If we can manage our own laws to the benefit of both, then the expectation is that others will be drawn to trade in our environment with greater fervour. The opportunity is here for this to be achieved for Government and IP right holders alike.

Australia's Patent and Design laws need to be amended urgently. It will take an extraordinary committee or an extraordinary individual to implement the required changes and to get it right now.

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assisted by Vicki De Bono