



Law Council
OF AUSTRALIA

Mr Jeff Roberts
The Advisory Council on Intellectual Property
P O Box 200
Woden ACT 2606

Dear Mr Roberts,

Review of Crown Use Provisions in Patents and Designs Legislation

I refer to Mr Lenn Bayliss' letter of 1 December 2003 in which he invites the input of the Intellectual Property Committee of the Business Law Section of the Law Council ('the Committee') to a review that the Advisory Council on Intellectual Property is conducting on Crown Use provisions for patents and designs.

I have pleasure in enclosing a submission prepared by the Committee. Please note that this submission has been approved by the Business Law Section but has not been endorsed by the Council of the Law Council of Australia.

Thank you for giving the Committee the opportunity to comment.

Yours sincerely,



Michael Lavarch
Secretary-General

10 March 2004

Enc.

RESPONSE TO THE ACIP DISCUSSION PAPER
ENTITLED "REVIEW OF CROWN USE PROVISIONS IN PATENTS AND
DESIGN LEGISLATION"

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia ('the Committee') welcomes the opportunity to comment on the issues raised in the discussion paper.

Please note that these comments have been approved by the Business Law Section but have not been endorsed by the Law Council of Australia.

Preliminary

1. Structure of Parts 1 and 2 of Chapter 17 of the Patents Act 1990 ('Act')

The structure of Part 2 of Chapter 17 is that:

- (a) exploitation of an invention by the Commonwealth or a State (which includes a Commonwealth or State authority) or someone authorised in writing by the Commonwealth or a State.
- (b) for the services of the Commonwealth or a State

is not an infringement (s163).

Section 164 then requires, as soon as possible after exploitation, that the authority exploiting the invention inform the patentee and the nominated person of the exploitation, and give to them any information about the exploitation that may reasonably be required.

Section 165(2) defines the terms of exploitation as such terms as are agreed, or determined by a method agreed, between the authority or patentee or nominated person, or in the absence of agreement, as determined by a prescribed court. Section 165(3) provides that the terms or method may be agreed before, during or after exploitation.

Part 2 does not expressly state that the patentee or nominated person is entitled to require that any use be subject to reasonable terms and conditions, including as to quantum and

payment of remuneration. Rather, it simply requires that notice of and information concerning the exploitation be given and provides that the terms of exploitation are those that are agreed or determined by a prescribed court.

The Committee takes the view that there is an hiatus in Part 2 that should for clarity (and TRIPs compliance - see below), be remedied by specifying in the act that the patentee or nominated person is entitled to reasonable terms and conditions being applied to any such use, including quantum and payment of remuneration, and that failing agreement on those terms and conditions within a prescribed period, they are to be determined by a prescribed court.

2. **TRIP's compliance**

Article 31(b) of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPs) stipulates that "other use" (that is, use without the authorisation of the right's holder) is only permitted if prior to such use the proposed user has made efforts to obtain authorisation from the right's holder on reasonable terms and such efforts have been unsuccessful over a reasonable period of time (except in the cases of national emergency or public non-commercial use).

Article 31(h) of TRIPs requires that the right's holder be paid adequate remuneration.

Part 2 of Chapter 17 of the Act does not contain a provision giving effect to Article 31(b), and as outlined in section 1 above, nor does it contain express recognition of a right to adequate remuneration, and consequently it is non-TRIPS compliant.

The Committee submits that the Crown use provisions should be made TRIPS compliant.

3. **Cost of Copyright Tribunal versus cost of court determination for patents/designs**

The Committee considers that the complexity of any remuneration determination is such that it should only be conducted before a court.

Prior to ACIP concluding (section 2.5 page 5) that "the differences in the process for determining the terms of remuneration are considerable particularly given the substantial costs of seeking court determination compared to the relatively lower costs of seeking a determination by the Copyright Tribunal" and then further concluding that the patent/design holder has greater bargaining power in negotiating terms, anecdotal

evidence should be obtained to support the basic assertion. The Committee suggests that in relation to adjudication of remuneration, the main item of cost would be cost of legal representation, and given that the length of the hearing would be much the same whether before a tribunal or a court, the cost is likely to be the same. Furthermore, it has been the experience of Committee members that proceedings before the Copyright Tribunal have been as expensive as proceedings before a court.

3.1 Definition of the Crown (as extended to authorities)

The Committee does not consider that the definition of the "Crown" has been applied too broadly. The interpretation of an "authority of the Crown" adopted and applied by the courts provides desirable flexibility and should not be constrained legislatively.

The suggestion that ministerial approval be required in order for a statutory authority to be entitled to the exemption would not apply a standard that is necessarily objective but it may be a discipline that the government of the day would prefer to have in the exercise of its responsibility.

3.2 Entities that have access to the Crown use provisions

The Committee has no comment.

3.3 Circumstances enabling Crown use of patents and designs

The Committee does not favour any restriction based upon particular types of patent or design subject-matter. That is because there may be true public interest in the Crown using patents covering all subject-matter and the only way to preserve freedom to provide for the public interest is to ensure that there is no such restriction.

3.4 Compensation for the owner of the patent or design

Bargaining Power

The Committee is of the view that there may well be an imbalance in bargaining power between a patent owner/nominated person and the Crown. The imbalance could be ameliorated to some extent by a simple amendment to the Federal Court Rules making mediation compulsory when an application for determination of the terms and conditions of exploitation is made to the court.

Liability for payment of compensation

Part 2 of the Act and the case law are indeed silent upon whom any liability to pay compensation should fall. The possibilities are:

- (a) the Commonwealth or a State that directly exploits the invention;
- (b) a Commonwealth or State authority that directly exploits the invention;
- (c) a person authorised in writing by the Commonwealth or a State or by a Commonwealth or State authority.

Obviously, fairness suggests that the entity benefiting from the exploitation should be responsible for the payment of compensation. In cases where more than one entity benefits, such as in the case where a person is authorised in writing to exploit the invention and both profit as a consequence, fairness again suggests that the compensation should be apportioned in the same proportions as the parties profit. However, such a solution would be difficult to draft legislatively and be very difficult to administer in practice. The Committee suggests the preferable solution is to legislate to provide that in cases where there is only one party benefiting from exploitation of the invention, then that party must pay compensation, but in cases where a second or additional parties are authorised in writing to exploit, regardless of whether one or all parties profit from the exploitation, the authorised party or parties are jointly and separately liable to pay compensation in the absence of an agreement in writing to the contrary. Such an arrangement would only require a minor amendment to Part 2 of the Act, and would force parties considering accepting authorities in writing to exploit an invention, to carefully consider the question of compensation and discuss those issues with the authorising party prior to deciding whether or not to accept the written authority to exploit and actually exploiting. It is also submitted that this impetus to consider compensation pre-authorisation is likely to ultimately facilitate negotiation of compensation because the exploiting party/parties will have already considered, and made allowance for, payment, before exploitation.

In the Committee's experience contracts offered by the Commonwealth or States, or authorities of the Commonwealth or States, normally require the party or parties authorised to provide an indemnity in relation to any compensation required to be paid under Part 2. Accordingly, the Committee's suggestion is to a significant extent already in line with accepted practice.

An issue not raised by the discussion paper is the consequence of non-performance after agreement. One possibility is that the right to exploit be suspended unless and until performance is resumed.

3.5 Crown use and resale of exploited patents

The Committee does not wish to comment other than to say that there may well be instances when it is in the public interest for the Commonwealth or a State to supply in competition with a patentee. For example, it may wish to urgently supply a patented anthrax antidote in an emergency situation in the public interest, or breast-cancer screening tests at nominal costs, albeit in competition with private interests.

3.6 Need for the Crown use provisions

The Committee is of the view that although there are constitutional powers and general doctrines that would arguably give government similar powers to those provided by Part 2, it is in the public interest to retain Part 2 because it provides certainty and consistency for intellectual property owners, government, and parties authorised to exploit. This certainty and consistency should be contrasted to the uncertainty of outcome and enormous cost associated with attempting to adjudicate rights relying upon the alternative arguments. Furthermore, the Committee submits that the certainty and consistency could be enhanced by the simple statutory modifications suggested above and below.

General comment

Although strictly speaking a policy issue, the Committee is of the view that there has been a fundamental change in the function and activities of government since the time when the Part 2 provisions were first enacted. At the time of enactment, government was rarely engaged in business activities, especially business activities in competition with private enterprise. However recently government, and especially government instrumentalities, have become engaged in business activities, often in competition with private enterprise, usually in an endeavour to generate income to reduce the extent to which the authorities' activities require funding from public resources. To the extent that government, and particularly government authorities, are engaged in such business activities they might, as a consequence of the Part 2 provisions, enjoy some degree of competitive advantage over their private sector rivals. Accordingly, the Committee accepts that Part 2 may from time to time compromise competitive activity in

contravention of the Competition Principles Agreement. The Committee therefore does see as a matter of policy, justification for modifying the operation of Part 2 to ensure that it operates in a manner that does not compromise competitive activity.

The Committee suggests that the mechanism for determining the terms and conditions of exploitation could be used to achieve an outcome whereby highly desirable maximum flexibility could be retained and public interest protected, without offending competition law principles. The mechanism would be to draw up a non-exhaustive list of considerations to which the parties may have regard in negotiating the terms of exploitation, including remuneration, and to be considered by the courts in the absence of agreement. The list of considerations, a concept similar to that adopted in recent Trade Practices legislation provisions, would non-exhaustively list factors to which the parties/courts may have regard such as: the nature and degree to which the public interest is served by the exploitation, such as in the areas of national security, public health, protection of the environment, to list a few; the nature and degree of urgency of the exploitation; the nature and degree to which the Crown derives a profit from the exploitation; the nature and degree to which the exploitation affects the rights holder's ability to compete; the nature and degree to which the exploitation affects the rights holder's interest in the invention, and so on. Reference could be made to the list of considerations by way of a simple addition to the wording of s165.

The Committee also wishes to highlight the relevance of compliance with TRIPs Article 31(b) to competitive activity. Obviously, if the legislation is amended to contain a provision compliant with TRIPs Article 31(b) that would go a long way toward redressing any imbalance in bargaining power.

Conclusion

In summary, the Committee suggests Part 2 of the Act be amended to:

- (a) include an express statement of the patentee's right to have the Crown's exploitation of the invention subject to reasonable terms and conditions including payment of adequate remuneration (section 1);
- (b) render Part 2 compliant with TRIPs, including Articles 31(b) and (h) (section 2);
- (c) expressly identify the party or parties required to pay any compensation (section 3.4); and

- (d) incorporate a list of considerations that may be used in determining the terms and conditions of exploitation, including any remuneration (see General comment section above).

The effectiveness of these modifications would be assisted by compulsory mediation in the Federal Court of Australia.

The Committee suggests these modifications could be drafted and incorporated in Part 2 with minimum disruption to the wording of the Part. The Committee also submits that the modifications suggested would preserve and enhance certainty and consistency and protect the public interest, including the desirability of fair competition in commercial activities.