

**19<sup>th</sup> February 2004**

**Submission to:**

**Federal Minister for Industry, Tourism and Resources  
Via  
Advisory Council on Intellectual Property**

**From**

**Bill Allardyce** Managing Director

**Pacific Technologies (Australia) Pty Ltd**

Unit 3, 11 Inverloch Street, ANGLESEA Victoria 3230

Tel (03) 5263 1396 Fax (03) 5263 1116 Mobile 0419 631396

Email: [ballardyce@bigpond.com](mailto:ballardyce@bigpond.com)

We believe that the Crown Use provisions as they stand are quite suitable except for a few minor points. The first point being that the patent owner **must** be notified by the Crown of the pending Crown Use. The second point is that the Crown **must** attempt to negotiate to purchase the intellectual property from the patent owner. If the Government fails to do so then it has established a compulsory licence of that patent. In the absence of agreement by both parties then if the Crown makes use of the patent then in our opinion the patent owner should be paid an immediate payment of \$600,000 plus a further \$300,000 per year until the matter has been amicably settled. Further more the Crown should be responsible to remunerate the patent holder for all lost future sales both nationally and internationally which have been caused by their actions of establishing a compulsory licence. This final payment should include interest calculated at 10% from the time that the Crown Use occurred until the time that the patent holder receives his/her/it's payment.

## 1. Background:

Bill Allardyce has been a consultant to Australian Inventors for the past 18 years. He has been instrumental in the Commercialisation of over 200 products and four of these have returned major profits to the parties concerned.

He is a past consultant to the Victorian Innovation Centre (now renamed as Innovic) for 14 years. During this time he conducted two commercialisation information seminars each month, spoke at information seminars for IP Australia in Melbourne and conducted hundreds of one on one interviews with budding and experienced inventors.

Further more he is well aware of the Stack v Brisbane City Council case details and also has been directly involved in a Crown use case that has spanned several years.

Further information on Pacific Technologies (Australia) Pty Ltd and Bill Allardyce in attached Power Point Presentation.

## 2. Patents

Refer Page 9 of ACIP Document, last paragraph. “Whilst the Crown use provisions are rarely used there should be some consideration given to ameliorate the apparent lack of bargaining power for the patent owner when the Crown exploits their patent”.

This sums up the Crown use of patents main issue in one sentence.

It is well known in inventing circles that an inventor, company, product designer or ideas generator person always **patents their idea because they believe that they are going to make a lot of money either from selling their idea or from selling their intellectual property.**

The problem with the Crown Use Provision from the inventors point of view is firstly his/her invention has been acquired without his/her prior knowledge and without him/her being notified. The next major problem is that the conditions of remuneration are not decisive they are in fact very vague. For instance, adequate remuneration, adequate compared to what. By negotiation by whom, who is the patent owner to negotiate with. It is often the case that the patent owner has to negotiate with a Government Procurement Officer who knows very little about intellectual property and does not want to be placed in the position where by doing the wrong thing could jeopardize his/her job and even worse, their superannuation package. This syndrome is a very real issue and of great concern to an inventor who has Intellectual Property of tangible and intangible assets which have been acquired by the Government without his or her knowledge or permission.

Inventors very rarely criticize the fact that the Crown uses their invention. Their problem is that they have paid high patent protection fees which have secured monopoly for their Intellectual Property for 20 years. Imagine how they feel when the Government Procurement Officer, who thinks the Intellectual Property has some benefit or value to the general public have made use of the product and then do everything in their power to ensure that the Government **keeps the remuneration to an absolute minimum so that the inventor is either unable to pay court costs to take the matter further or gives up due to the fact that big brother is too big to fight and win.**

### **3. Case Study**

In the Stack v Brisbane City Council the remuneration issue has dragged on for many years and Stack has not yet been remunerated. Why? How big an issue could it be to calculate the number of water meters sold per year, calculate the net profit amount per year, normally 40% of the sale price, then project these figures with a 5% market increase annually for the life of the patent. Then this is the amount of money that the Stack company has lost in Australia.

Then similar projections can easily be calculated for other countries. USA market is usually 16 times the sales profits made in the Australian market and other countries have similar known ratios. Unfortunately because the exact interpretation of remuneration is not clear cut and concise, Stack's remuneration has been drawn out to a stage where he now has out of pocket expenses for Court costs, solicitor, legal documents and not to mention interest foregone and business expansion foregone due to lack of capital for expansion. Not to mention health issues caused by the stress involved.

In most Crown Use issues Government is unable to define a concise clearly defined remuneration formula. Our people have often heard comments from Government employees stating that these issues are not their responsibility. Often poor remuneration issues are caused by Government Procurement Officers not wanting to be involved or responsible for the actions that they or their predecessors have taken. Often they just do not want to be involved. This would make them responsible indirectly responsible through their lack of involvement, would it not? We all know that it not right to blame individuals; they all have to work within the system. Therefore the remuneration guidelines need clarification. To be defined by a court is not enough. We recently heard a Queens Counsel say that patent holders are always underpaid for their intellectual property because no one wants to set precedence. He agreed that patent owners were indeed entitled to better remuneration packages. He then went on to say that there seems to be some resistance to change in this sector of the legal system. It is our belief that the ACIP should be congratulated on the initiative of inviting submissions on this vital topic of Crown Use.

### **3. How can the Remuneration issue be resolved?**

Our recommendations would be to have an initial defined amount that is paid within 90 days from the date that the Use by the Crown occurred. It would in this case mean that the Crown would need to immediately notify the patent owner and to instigate action toward payment. How much would this amount be expected to be? Several known cases have initially spent up to \$600,000 to support their legal activities. We would support this amount \$600,000 plus a further \$300,000 per year plus costs and out of pocket expenses.

It is also our recommendation that the total losses including Court and other costs are calculated, the amount paid to date is then to be deducted. ACIP members may say that this could cost the Government a fortune. In your words page 9 last paragraph, "Crown use provisions are rarely used". This being the case it will not cost the Government a fortune because Crown use as you know is a very infrequent occurrence.

Why this amount? Because it is defined it is clear cut. If this was the Law then there would be no argument on what happens when the Government makes use of their Crown Use Provisions.

Although the following example is not related to patents, none the less it demonstrates how Government Revenue can be easily wasted. Example is the Seal Rocks Case in Phillip Island Victoria, where the people from Seal Rocks wanted \$6 million compensation from the Government. Due to lack of agreement the Case eventually ended up in Court.

The final outcome was that Seal Rocks were awarded \$50 million and the Court costs to the Government were a further \$31 million. A total amount of \$81 million. This proved to be an unfortunate waste of taxpayers money. Copy of the seal rocks newspaper article attached.

The purpose of quoting the Seal Rocks Case is that often the Government spends more money trying to limit the **remuneration** due to a patent holder and the total amount of money paid out by the Government including legal costs often greatly exceeds the amount the patent holder would have settled for in the first place. I feel sure that this is the case in *Stack v Brisbane City Council*.

The problem is clear, the Government employees involved do not understand patent law, nor do they often have any respect for patent law. Currently they do not have a hand book which would give those guidelines on how to approach a Use by the Crown issue.

Australia used to survive on the sheep's back, now this is no longer the case. From now on Australia will survive on its intellectual property, copyright, computer software and engineering skills. It would be a good move for Australia if the Law was changed to protect our Intellectual property owners, patent owners, copyright owners and the like and to clarify and **set decisive well constructed remuneration formulas**. If we do not do this then there would not be a patent in the country that is worth the paper it is written on nor a patentee who would have the confidence to pay patent fees and believe that they have secured some monopoly for their Intellectual Property.

To my knowledge this industry gross turnover at IP Australia around \$50 million per year and the gross turnover generated by patent attorneys, Lawyers and allied services would be in excess of \$2.5 billion. This is indeed an industry well worth protecting.

We have often heard it stated that patent infringement and or Crown use Only amounts to approximately 2% of the patents lodged and that it is not worth changing laws for only 2% of the patent owners. Remember it only takes one bad apple to contaminate the barrel. All patent owners want the patent system to be strong and sound. Our recommendation is that the ACIP rectify the situation by implementing some **concrete guidelines** in these areas of patent law especially in the area of remuneration where Crown use has occurred.

The current situation in regard to remuneration as it exists is that all aspects of remuneration are subject to interpretation. Currently five or six different people could be asked their interpretation of Section 165 of the patents act and we would have five or six different interpretations. How can this system provide fair and equitable remuneration? Even the Judges have greatly varying views on what is adequate remuneration. I believe that a flat payment (such as the \$600,000 that I suggested earlier in this document) upon the Crown making use of a patent would greatly increase the bargaining power of the patent owner and would eliminate the stress and anxiety which we are told we will never be compensated for because we are told it is not related to the patent issue. Well unfortunately we and others believe it is. The faster the remuneration issue is settled then the less stress and anxiety to all concerned.

## **Answers to questions on page 1**

### **Question 1**

Is there sufficient justification for the Crown use provisions to continue?

Our answer is **yes with a few changes**. It is our belief that a large portion of Crown use occurs due to the Government employee that instigates Crown use does not have a sound understanding of patent law. If the Crown use provisions were to be abolished then these cases would still occur and remuneration and settlement would be even more complicated. The existence of Crown use provisions does give the patent owner some leverage against the Government. The implementation of a severe penalty payment by the Government would firstly assist in deterring the Government from taking Crown use; they would only then use it in extreme cases. Secondly it would give the small inventor, company and other designers the finances to ensure that could afford proper legal representation and maximum bargaining power.

## Question 2

Should access to the Crown use provisions be restricted to certain types of circumstances, eg. defense, public emergency, health?

Our answer is **no it should not**. As stated earlier, Crown use occurs often from lack of knowledge of patent law. These cases would still occur and having split divisions would complicate overall understanding of issues and slow the remuneration time even further.

## Question 3

Should access to Crown use provisions be restricted to certain types of Government departments/agencies?

Our answer is **no it should not**. Most Government employees do not understand patent law now how would you educate them to which departments Crown use has been restricted. This would cost the Taxpayer Millions of Dollars. Another point is that the other departments will take use by the Crown anyway often caused by naivety.

If Crown use were to be restricted to certain types of Government Departments and the Crown use that occurred outside that scope then the poor patent holder would be left with an even more complicated situation.

#### **Question 4**

Given the difference in the rights provided by the Patents and Designs Acts is it still appropriate to have similar Crown use provisions in the legislation?

Our answer is **yes it is**. Patents, designs, trademarks and copyright are all forms of intellectual property and their rights should be highly respected by the general public, Government employees and all other members of the community. It is our belief that in the next decade intellectual property will be a big source of income for Australia and we believe that it should be given the respect that it truly deserves.

#### **Question 5**

Is access to Crown use consistent with the Competition Principles Agreement, particularly, the concept of competitive neutrality?

The Competition Principles Agreement is a Government Law that Has to be abided by. In order to comply with this law some Government Procurement Officers have no option to take Crown Use of a Patent or other Intellectual Property. Unfortunately in some cases this law crosses over the exclusive rights offered to a patent owner. The Government employee is often faced with the issue of whether to restrict trade to protect the exclusive rights of a patent owner or whether to offer a product to the public to satisfy the Competition Principles Agreement which then creates a situation where Crown use applies and the patent owners 20 year exclusive right has been eliminated.

This is then a clear case for remuneration and it is our belief that there should be a severe penalty payable by the Government. Often the other suppliers of product in a Crown use situation provide inferior product which compromises the integrity of the original product and can often ruin the whole market for the product. In some cases the Governments intervention can take a very lucrative ongoing market for the Intellectual Property Owner and turn it into an initial price war and then to no ongoing sales at all. In some cases where the Government does not insist on a quality standard some products are inferior or do not work in some cases. These inferior products then lead people to believe that all of the supplier's products are no good and sales of units in some cases have stopped. We believe that a patent owner should also be compensated for losses of this type after all the situation has been created by the Governments actions. Then if the product has a life cycle then there are future repeat sales that are also lost. In many cases it can be shown that losses that are caused by Crown use can be much higher than can be seen at a quick glance by a Government lawyer with pre conceived opinions.

### **Question 6**

Should the Crown use be permitted only after Ministerial approval?

A Government Minister is only as good as his advisors. They are extremely busy and the advisors shuffle the paper through their offices. Unnecessary Crown use could still occur. It is our belief that it is the remuneration and the quality and amount of remuneration that counts not how to stop Crown use. It is caused by a head strong individual who has an opinion that it is in the public interest for the Government to make use of a patent. We do not believe that the number of Crown use incidents change as there are too many public servants to educate.

We believe that a high penalty payment will make public servants have more respect for the patent system and will ensure that the patent holder is not disadvantaged or suffering from a lack of bargaining power.

## **Page 2**

We do not think that the corporatisation of some Government services should affect the Crown use provisions. If a Government department becomes privatised then that Company will then come under the standard infringement of patent provisions. We do not see a problem in this area.

## **Page 6 Issues**

Has the definition of Crown been applied too broadly?

Our answer is, **no it has not.** Government employees will go about their day to day business and if they need to make use of Patent holders Intellectual Property for Crown use provisions and they see it as part of their job then they will apply the Crown Use Provision.

Should the application of Crown use provisions be limited in some way, like, for example, requiring Ministerial approval?

Our answer is that the system is already complicated enough without adding another dimension. Although if the ministerial approval was to be implemented and there was a definite remuneration package negotiated prior to the Crown use then we do believe that it would be worthy of consideration.

## **Page 7 Issues**

Should the availability of such provisions be limited or denied to certain organizations and/or functions of organizations?

Our answer is again **no it should not**. It would cost millions of dollars to educate all of the public servants to the new or limited system and it is still possible for them to fall outside the limited organizations thus making it even more difficult for the patent holder to be remunerated.

### **Last sentence page 7**

In our opinion this is true the Government often sees the acquisition of patents and designs as an easy means of acquiring technology on the cheap. Does IP Australia provide a 50% price reduction to small inventors just in case the Government make Crown use of their patent? Of course not. The patent owner has to pay the market price. This being the case then the Government should pay the proper remuneration. There are only a few people in Australia who are expert in preparing remuneration claims. One of these is Lonergan and Edwards in Sydney. If these people prepare a claim amount then the Government should pay it to the cent. Why not, they are the experts and as your group knows there are not a huge number of Crown use cases, none the less they should not be penalized by receiving inadequate remuneration.

## Page 8

Paragraph one and two: In our opinion the problem is not in the use by the crown. The problem is in the fact that the remuneration offered, if any is always inadequate. As stated earlier in this document, the Patent Owner has lodged the Patent with the intention of making money. It is our opinion from our research that the Patent Holder is not too worried where the money comes from, the commercial world or from the Government as long as the remuneration is satisfactory in regard to the **Wealth that the Patent would have generated for that person, company or other entity.**

Paragraph three: To restrict Crown use to a particular type of Patent would be a nightmare to police. It is also our findings that the Government Procurement Officer who initiates Crown use usually does not know that he or she has taken Crown use of a Patent until the Patent Owner contacts them. Therefore this being the case all Patents would still be subject to Crown use despite the change in the regulations, Patents Act or other Governing Bodies.

Paragraph four: To categorise and condense the broad range of circumstances in which the Government can invoke the provisions in our opinion would only complicate a complicated issue even more than it is now. You state that Crown use provisions must not be too restrictive, we agree. If the Government can benefit the larger public interest then they will always make use of Intellectual Property.

**It is our belief that if the Patent Owner has PAID FEES to register his/her interests for monopoly of a Patent then and that Patent has been granted then it is only right that the Government pay to purchase that monopoly to compensate for the loss of that exclusive right for the 20 year life of the Patent and the remuneration should be what profits the Patent would have generated over its 20 year life. Often the Governments intervention kills the Patent Owner's ability to further commercialise the Patent.**

**This is what I understand has been the situation in the case of Stack v Brisbane City Council. Our research on this case is that Stack had a thriving business with 100 employees when Crown use occurred and now his business has completely closed down and due to ill health the Business may never ever start up again. Had he been compensated immediately his business may still be thriving today. We believe that he is due for major compensation by the Government because their intervention has caused him to lose everything he has worked for and this is not right.**

**Page 9**

**Question:**

Is the current test for Crown use exploitation (ie. is necessary for the proper provision of those services within Australia') appropriate and/or is it appropriately applied?

**Answer:**

Yes, as far as we know. The problem as we see it is that the Government Officers responsible remuneration deny the fact that Crown use has occurred for the first five or six years hoping that the Patent Owner either goes away or gives up. It is our opinion that this is not a responsible way for the Government to act. Especially in regard to a Government Act which in this case is the Patents Act. It is our opinion that these under hand tactics should cease immediately. We would welcome ACIP's assistance to see that the Patents Act be modified to ensure that this does not continue to occur in the future.

**Question:**

Under what circumstances should Crown use of Patents and Designs be allowed?

**Answer:**

As stated before changing the status quo would only complicate an already complicated issue.

**Question:**

Should there be restrictions to particular types of patents and designs that are subject to Crown use?

**Answer:**

No. All there needs to be is documentation put in place to ensure adequate remuneration is paid to the Patent Owner. For the Government to make use of a Patent Owners invention is actually discriminating against him/her in regard to the other Patent Owners who do not have their Patent taken by the Crown.

**Question:**

Would it be advantageous to categorise and/or restrict the range of circumstances in which the Government can invoke the provisions?

**Answer:**

It is difficult to know whether it would be advantageous because we believe that individuals who work for the Government would always make their own decisions no matter what the provisions were. Proper remuneration is the answer and to simplify how and when it is to be paid.

### **3.4 Compensation for the Patent or Design**

Compensation after exploitation is always difficult to calculate. There is mostly an absence of agreement. Applying to the Court also comes up with vague figures. Such as prove how much money you would have made. How can you do that it is like winding back the clock or shutting the gate after the horse has bolted. The Patent holder's experts can only project figures that may have sold and the Government will always quote that they are only projected figures and not actual lost sales. If sales did not occur then all figures in this regard are all projected. Such as Business Plans and the like. This is truly not a fair and just system. How people are remunerated needs modification. The Patent holder whoever they are Individuals or Corporations have very little bargaining power against the power and might of the Government.

Last Paragraph:

The Idea of having an Independent Qualified Accountant that has experience in IP evaluation. This is a very complex and difficult issue and in our opinion would have to be overlooked by at least a committee of four experts to ensure fair and just remuneration and even then the case is only as good as the presentation and facts presented. The Patent Owner usually does not have enough money to prepare an adequate brief. Once again the Patent Owner has a lack of bargaining power. Possibly a Group of IP Australia experts would provide a fairer remuneration as they fully understand the Patent Act and why fair remuneration must be paid.

## Page 10

First Line: An immediate payment of money to the Patent Holder would greatly increase bargaining power.

Next Paragraph: (Authorities). The relevant Authority is the usually Department that cause or initiated Crown use. The Department of Sport and Recreation or whichever department and unfortunately they have a vested interest to not admit liability. Yes it is important to have an empowered authority who can assess the Patent information and make an immediate decision that Crown use has occurred. (We believe that this Authority should be the Patents Office. At this time known in Australia as **IP Australia**). The current status is that the relevant department denies Crown use has occurred for several years as has occurred in the Stack v Brisbane City Council. In our opinion this is not good enough. It is obvious to all concerned on both sides that Crown use has occurred and that remuneration is due, yet the legal people still continue to throw in non relevant details just to delay the inevitable.

Next Paragraph: (In the Stack case). Stack himself informed our people that he wanted remuneration and that it has not been forthcoming. Why was it not an issue in this case? Please let us know as we are very interested in Crown law issues.

The case of whether the liability by the Government is for fees or royalties often comes up. Often the royalty path is offered by the Government because it is the lowest cost option to them. In our opinion this is not right. If the Patent owner is manufacturing and selling his Patented Product then he will enjoy the financial rewards. For example if he sells his product for say \$200.00 then he will usually make around \$100.00 profit. Do you then think that it is right that the Government after Crown use has occurred to offer a royalty of 5% of the wholesale price (which is the average industry norm for royalty payments) which = \$5.00 royalty per product that they have created loss of sales to the Patent Owner. This may be the cheapest option for the Government, in our opinion is completely wrong. In this case the Patent Owner has actually lost \$100.00 per unit and that is how much he should be remunerated. Not a \$5.00 royalty.

Furthermore in the case where the Patent Owner is receiving royalty payments then yes he/she should be remunerated in royalty payments but the Licensee should also be remunerated for the balance of the amount between profits and royalties if Crown use has occurred because he/she too has lost income due the Governments actions. This is only fair and just. This submission is about what is fair and just not about what has always happened, not about **not setting a precedent** and not about how to save the Government money when they have clearly **breached the Federal Government's Patent Laws by not remunerating the Patent Owner. The Patent Owner has paid his correct fees to the IP Australia Office in the Belief that he/she has exclusivity for 20 years. How do you think they feel when they find out that the Government has intervened and ruined their chances of making money from their Invention. They want and deserve adequate correctly calculated proper remuneration.**

## **Issues (middle of page 10)**

### **Question**

Does the IP right holder have sufficient bargaining power to negotiate a fair, equitable and just remuneration with the Crown?

Of course the IP right holder does not have enough bargaining power. It is usually the small company or individual who is affected by Crown use. We are not sure whether the Government Procurement Officers steer clear of taking Crown use of Patents owned by large multi national companies because they have the might and power to negotiate not only Patent income losses but also damages claims which would amount to ten times the Patent income losses. This could be a possibility we have no facts to substantiate this but we do believe that if this were not the case the Government Officers concerned would certainly think about negotiations with multi national companies prior to taking Crown use provisions.

### **Question**

Is the Process adequate for informing the IP right holder that exploitation has occurred or is intended to occur? Should some specific time limit (or similar mechanism) be introduced in which the IP right holder must be advised of the exploitation?

### **Answer**

The process of advising of exploitation is not adequate. In fact in most cases the IP right holder is not informed at all and finds out some time later when he/she sees their Patent selling in the market place. This should not be allowed. Our opinion is that the Patent holder must be notified within 14 days maximum and also be paid a deposit compensation amount of \$600,000 which will then give the IP right holder the opportunity to play on a more level playing field.

## Question

Is the process for assessing and settling remuneration and terms for exploitation an appropriate arrangement?

## Answer

No it definitely is not. Firstly because the Government Officers concerned want to protect their own and their colleague's positions they adamantly deny that Crown use has occurred. The Act says the **relevant authority** well who is the relevant authority. In most case it is the people who are denying that Crown use has occurred. **This needs to be changed as soon as possible. It is our belief that IP Australia should have a panel of experts that evaluate and nominate that Crown use has occurred. Why would we say this, because IP Australia are the experts on patent law, why then would you leave lesser qualified people to make such an important decision. The task of whether Crown use has occurred should be undertaken by the most qualified and experienced people in the country. Not the Government Department who took Crown use of the IP right who are constantly trying to protect themselves, their department and their colleagues. In fact it is not right that these Government Officers are placed in this compromising position in the first place. Our research has shown that the average Government Procurement Officer has very little knowledge of Patent Law.**

## **Question**

Given the financial capacity of the Crown, is it unduly onerous for individuals or SME's with limited financial capacity to be required to take court action, if terms cannot be agreed?

## **Answer**

Not only is it unduly onerous to individuals and SME's it is absolutely wrong that they have to take Court or any other action because they are the innocent party. They have lodged a Patent; they then expect to make a large amount of money from it. All Patent Owners expect to make a large amount of money from their Patent or they would not have gone to the expense of lodging the Patent in the first place.

I feel sure that the ACIP members would all know very well the fact that a huge majority of Patent Owners think that they are going to make millions of dollars from their Intellectual Property. That is the way that they think. Then the Government come along and takes Crown use of their Patent and they want big remuneration. Their thinking has not changed. Their belief has been and always will be that their Patent is worth millions of dollars and in many cases it is.

Correct remuneration is simple and easy to calculate. The sales would have been a number of units by a dollar figure and the remuneration is a defined number of dollars. This is in the case of an immediate remuneration for example payment within 14 days of Crown use.

How do you calculate the remuneration if the Government denies that Crown use has occurred and the claim goes on for eight or ten years then it is a completely different scenario. The Patent owner has not only lost his initial income for his IP he/she has lost further income for interstate and international sales which could have been facilitated with the profits from the original sales. Often in these cases the Government expects to only pay the initial amount. This is in our belief grossly wrong.

The Crown use action we believe that in the case of a long drawn out remuneration case the Crown is not only responsible for lost initial sales, the Crown is also responsible for lost interstate and international sales because the IP right holder could have made many other sales nationally and internationally had the Government not interfered with their Patent. This payment should also include some type of damages payment for the delay and interest at a determined set rate, say 10%. This would then eliminate a lot of the present confusing areas of Patent Law in regard to remuneration for Crown use.

### **Question**

Are there any cost effective and timely alternatives to seeking redress from expensive court adjudication?

### **Answer**

Yes. All negotiations should be out of Court. I understand that it is difficult and expensive to get proper remuneration through the Courts. Refer further suggestions above. We still believe that some kind of payment initially whether it be called damages or profit loss or some other term which would assist to level the playing field. The most important issue is that the remuneration issue should be managed by people with experience and knowledge of Patent Law who would have some compassion for the Patent Owner. We would suggest that the ACIP Committee try a roll reversal exercise and assume that they were the IP rights owner who had spent \$5,000, \$10,000, \$20,000 or more to secure their intellectual property rights. What remuneration would the ACIP expect to be remunerated and why. This would put the shoe on the other foot so to speak. What remuneration would they expect if the case had gone on for 7 to 10 years with the Government claiming that Crown use had not occurred when in fact it had. This roll reversal would be a very interesting exercise and it would definitely give the ACIP Committee a new slant on the expectations of the Intellectual Property Owner and the fact that adequate remuneration is a rightful expectation. The initial payment concept of \$600,000 in our opinion definitely has merit.

### 3.5 The Pfizer case.

In a case such as this the just and fair way to determine remuneration is to pay the remuneration on the usual sale price not the Government's discounted price. It should not be the Patent Owners problem if the Government chooses to discount the intellectual property that they have acquired. They should pay remuneration at the amount of profits that they Patent Owner would have made. There is often a problem at this stage where the Government usually state that if they had not discounted the product then only 10% of the sales would have occurred. Would they? Is this true? How long is a piece of string? In our opinion the remuneration should be paid on full sale price and that the additional price paid by the Government serves them right for not negotiating with the Patent Owner prior to their move to Crown use, they can not have it both ways. Someone has to pay and in the situation of Crown use it is the Government. They have in most cases ignored the right to negotiate prior to Crown use therefore they need to pay damages to the IP right holder it is as simple as that. If the Government wants to discount the sale price of an invention they may be better off financially to purchase the Patent outright from the Patent Owner. This may in the long term save them money and create good will with the IP right holder.

Ministerial approval would certainly reduce some of the Crown use issues. Currently in our opinion a large proportion of Crown use is due to Government Procurement Officers having a lack of knowledge of Intellectual Property Law. **Ministerial approval would certainly reduce these incidents provided the Government Minister had a sound knowledge of Intellectual Property Law otherwise it would make no difference.**

### **3.6 Need for Crown use provisions.**

We fully understand that there is a need to have a Crown use provision. We know and understand that in some circumstances that there may be a need for the Government to make use of a Patent for the overall good of the community. We do not see this to be a problem. **The problem as we see it is that there is no defined relevant authority and that no department has absolute power over the Crown use issue.** In the *Stack v Brisbane City Council*, the Brisbane City Council is the relevant authority that Stack is to negotiate with. They have a vested interest in ensuring that the correct remuneration is **not paid** because it will save them money. In the case of *Stack v Brisbane City Council* it would be interesting to know who the person was that instigated the Crown use by the Brisbane City Council and what experience they had in regard to Intellectual Property Law.

#### **Page 11: Last paragraph.**

We believe that if the Crown use provision was to be abolished then the Patent Owners would never be able to find their way through the legal maze to find out which law their claim would come under nor how they would approach submitting a remuneration claim. The system is already complicated enough. The abolishment of Crown use provisions would just complicate the issue even further. If the Commonwealth already has power then why change the Patents Act and complicate things further.

**Page 12: Second paragraph last line.**

Government is required to act at times to override existing private and/or legal rights including those rights emanating from legislation. This statement is fine and may be the case **although in our view, in a democratic society adequate fair and reasonable remuneration should be paid. Otherwise why have a Patent system at all. If the Government can take any intellectual property rights it wants with no remuneration then there is a tendency back to a communistic outlook. Which in our view is the wrong way to go. The Patent Owner pays his money to register his patent and for this he/she expects to have rights and in the absence of those rights they expect to have the right to be remunerated.**

**Page 12: Third paragraph last line.**

When the Government chooses to take Crown use of a Patent in most cases it does prove to be ruinous to the businesses involved or the individual Patent Owner. How do you compensate for this problem? Often the Patent Owner has health issues due to the stress of it all, how do you compensate for that. It is Impossible! The best that we can ask for is that they IP right holder be remunerated no more than 30 days after the Crown use has occurred. This eliminates stress, health issues, not having enough money to enter interstate and international markets etc. The faster the matter is settled the less complications in regard to what and how much remuneration is due. Our advice is to set up a system that is clearly defined, uncomplicated and administered quickly. This we believe will suit all parties concerned with the possible exception of the Legal Profession who makes millions of dollars from their vague interpretation of the law.

## **Page 12: Issues**

### **Question**

Are the provisions appropriate in the current commercial environment as it relates to Crown activities?

### **Answer**

Crown Provisions appear to be adequate except for the fact that in many cases the Government will not admit to Crown use until several years after the incident. This needs to be changed immediately and remuneration and how it is calculated and how much must be clarified as soon as possible. It is our belief that a damages amount should also be paid for the inconvenience and also for the stress factor. ACIP have indicated that Crown use is very infrequent. Therefore whatever changes are made it will not cost the Government very much financially because there are not very many to be remunerated. A fairer system is definitely required to uphold the integrity of the Patent system. It is also our belief that any changes made should be retrospective so that existing cases such as Stack v Brisbane City Council can be clarified and settled.

### **Question**

Are there any alternatives to Crown use provisions?

### **Answer**

From my understandings Crown use provisions operate in all countries around the world. Why would we want to step outside what is the norm worldwide. We see no point, in further complicating an already complicated system, which is working except for the remuneration aspect.

### **Question**

Would these alternatives be sufficiently flexible for the Commonwealth?

### **Answer**

Our people are somewhat confused with the fact that the Patent Act is a Commonwealth Act which the States often have a total disregard for. We believe that a stronger position should be taken by the Commonwealth to say that this is our Law and State Government Employees should abide by and have more respect as to the notification, admission and remuneration of IP rights owners who have been registered and recognized by the Federal Government.

### **Question**

What are the advantages in retaining the Crown use provisions?

### **Answer**

Crown use provisions is already established and known. If it were to be abolished what would the new system be? What part of the Law would remuneration for Government Patent use come under? How would the Government Employees be notified and trained in this regard? Would the Government Employees be concerned about Crown use? Currently it is, "I will give you this advice but you can not quote me and do not get me involved because I do not want to rock the boat or become redundant through assisting you". This being the case the information is available to support the Patent Owner but not usable in negotiations or Court.

## 2. Summary

The balance of temporary monopoly rights is fine. All the Government Procurement Officers need to remember is that if the **Invention/Idea/Innovation is so good that it is of great benefit to the Community then the Community should have to pay for it. That is the Government should use Taxpayers Money to remunerate its rightful and original owner the IP right holder/Patent Owner.**

### Question 1

Is there sufficient justification for the Crown use provisions to continue?

Our answer is **yes with a few changes**. It is our belief that a large portion of Crown use occurs due to the Government employee that instigates Crown use does not have a sound understanding of patent law. If the Crown use provisions were to be abolished then these cases would still occur and remuneration and settlement would be even more complicated. The existence of Crown use provisions does give the patent owner some leverage against the Government. The implementation of a severe penalty payment by the Government would firstly assist in deterring the Government from taking Crown use; they would only then use it in extreme cases. Secondly it would give the small inventor, company and other designers the finances to ensure that could afford proper legal representation and maximum bargaining power.

## Question 2

Should access to the Crown use provisions be restricted to certain types of circumstances, eg. defense, public emergency, health?

Our answer is **no it should not**. As stated earlier, Crown use occurs often from lack of knowledge of patent law. These cases would still occur and having split divisions would complicate overall understanding of issues and slow the remuneration time even further.

## Question 3

Should access to Crown use provisions be restricted to certain types of Government departments/agencies?

Our answer is **no it should not**. Most Government employees do not understand patent law now how would you educate them to which departments Crown use has been restricted. This would cost the Taxpayer Millions of Dollars. Another point is that the other departments will take use by the Crown anyway often caused by naivety.

If Crown use were to be restricted to certain types of Government Departments and the Crown use that occurred outside that scope then the poor patent holder would be left with an even more complicated situation.

#### **Question 4**

Given the difference in the rights provided by the Patents and Designs Acts is it still appropriate to have similar Crown use provisions in the legislation?

Our answer is **yes it is**. Patents, designs, trademarks and copyright are all forms of intellectual property and their rights should be highly respected by the general public, Government employees and all other members of the community. It is our belief that in the next decade intellectual property will be a big source of income for Australia and we believe that it should be given the respect that it truly deserves.

#### **Question 5**

Is access to Crown use consistent with the Competition Principles Agreement, particularly, the concept of competitive neutrality?

The Competition Principles Agreement is a Government Law that Has to be abided by. In order to comply with this law some Government Procurement Officers have no option to take Crown Use of a Patent or other Intellectual Property. Unfortunately in some cases this law crosses over the exclusive rights offered to a patent owner. The Government employee is often faced with the issue of whether to restrict trade to protect the exclusive rights of a patent owner or whether to offer a product to the public to satisfy the Competition Principles Agreement which then creates a situation where Crown use applies and the patent owners 20 year exclusive right has been eliminated.

This is then a clear case for remuneration and it is our belief that there should be a severe penalty payable by the Government. Often the other suppliers of product in a Crown use situation provide inferior product which compromises the integrity of the original product and can often ruin the whole market for the product. In some cases the Governments intervention can take a very lucrative ongoing market for the Intellectual Property Owner and turn it into an initial price war and then to no ongoing sales at all. In some cases where the Government does not insist on a quality standard some products are inferior or do not work in some cases. These inferior products then lead people to believe that all of the supplier's products are no good and sales of units in some cases have stopped. We believe that a patent owner should also be compensated for losses of this type after all the situation has been created by the Governments actions. Then if the product has a life cycle then there are future repeat sales that are also lost. In many cases it can be shown that losses that are caused by Crown use can be much higher than can be seen at a quick glance by a Government lawyer with pre conceived opinions.

### **Question 6**

Should the Crown use be permitted only after Ministerial approval?

A Government Minister is only as good as his advisors. They are extremely busy and the advisors shuffle the paper through their offices. Unnecessary Crown use could still occur. It is our belief that it is the remuneration and the quality and amount of remuneration that counts not how to stop Crown use. It is caused by a head strong individual who has an opinion that it is in the public interest for the Government to make use of a patent. We do not believe that the number of Crown use incidents change as there are too many public servants to educate.

We believe that a high penalty payment will make public servants have more respect for the patent system and will ensure that the patent holder is not disadvantaged or suffering from a lack of bargaining power.

Finally the above suggestions have been made in good faith and from our research to date. All references to Patent issues are also meant to cover Designs, Trademarks, Copyright and other forms of intellectual property. Our suggestion of the \$600,000 Payment and \$300,000 per year are meant for Patent use. We clearly understand that lesser forms of intellectual property would attract a lesser payment. None the less we do believe that there should be a deterrent penalty on all aspects of intellectual property.

Submitted by :  
Bill Allardyce  
Pacific Technologies (Australia) Pty Ltd  
Unit 3/11 Inverlochy St  
Anglesea Vic 3230  
Tel: 5263 1396  
Fax: 5263 1116  
Mob: 0419 631 396  
International: +613 5263 1396  
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