



ADVISORY COUNCIL ON INTELLECTUAL PROPERTY

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

**DISCUSSION PAPER**

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**December 2003**

### **Contact details**

Jeff Roberts  
Secretariat  
Advisory Council on Intellectual Property  
PO Box 200  
WODEN ACT 2606

Email: [jroberts@ipaaustralia.gov.au](mailto:jroberts@ipaaustralia.gov.au)  
Telephone: 02 62832507

This paper is also available at: [www.acip.gov.au](http://www.acip.gov.au)

**Please note:** unless requested otherwise, written comments submitted to ACIP will be made publicly available.

**Comments should be received no later than 20 February 2004**

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# CROWN USE PROVISIONS - PATENTS AND DESIGNS LEGISLATION

## 1 Introduction

The Advisory Council on Intellectual Property (ACIP) is a government appointed body, which advises the federal Minister for Industry, Tourism and Resources on intellectual property matters and the administration of IP Australia.

The Parliamentary Secretary to the Minister for Industry, Tourism and Resources has asked that ACIP examine the issue of Crown use provisions in patents and designs legislation. The practical effect of the Crown use provisions is ultimately to ensure that Governments in Australia can balance the temporary monopoly rights that patents and designs provide owners, with the needs of the Australian public. The aim of this paper is to explore and discuss the Crown use provisions in the patents and designs legislation to ensure they reflect the needs of Government, business and the Australian public and do not undermine the rationale behind the intellectual property (IP) system. ACIP would welcome any comments on any aspects of the Crown use provisions in either the Patents or Designs Acts raised in this paper, and in particular:

- Is there sufficient justification for the Crown use provisions to continue?
- Should access to the Crown use provisions be restricted to certain types of circumstances, eg defence, public emergency, health?
- Should access to Crown use provisions be restricted to certain types of Government departments/agencies?
- Given the differences in the rights provided by the Patents and Designs Acts is it still appropriate to have similar Crown use provisions in the legislation?
- Is access to Crown use consistent with the Competition Principles Agreement, particularly, the concept of competitive neutrality?
- Should the Crown use be permitted only after Ministerial approval?

After consultation with relevant stakeholders, ACIP will report its findings to the Parliamentary Secretary.

### 1.1 *Request for Submissions*

ACIP seeks written submissions on the above-mentioned points and any other issues relevant to the inquiry but not identified in this paper. These should be addressed to:

Jeff Roberts  
Secretariat  
Advisory Council on Intellectual Property  
PO Box 200  
WODEN ACT 2606  
  
Email: [jroberts@ipaustralia.gov.au](mailto:jroberts@ipaustralia.gov.au)  
Telephone: 02 62832507

### **Comments should be received no later than 20 February 2004.**

Submissions may be made in electronic form or in hard copy. Unless marked confidential, all submissions will be made public and may be placed on ACIP's website. (The ACIP website can be found on <http://www.ACIP.gov.au>). ACIP's preference is for submissions to the public; confidentiality should be reserved for material whose disclosure would be genuinely prejudicial to the party making the submission.

## 2 Background

### 2.1 Patents

As patents are granted by the government under the *Patents Act 1990*, they can be offered on whatever terms thought appropriate and the government possesses wide power to reserve patents for itself and to exploit them for its own purposes. Under the patent legislation the Commonwealth may compulsorily acquire a patent (section 171) or make an assignment (section 172) or it can acquire a patent for what is effectively a compulsory licence in favour of public authorities (section 163).

This latter provision, referred to as Crown use, allows the Crown to exploit or acquire a patent (or a patent pending) without infringement or authorise another person to do so. The Crown can do this without first having to seek the owner's permission, although the use of a patent in this manner must be necessary for the proper provision of services of the Commonwealth or a State. The Crown use provisions, Chapter 17 of the *Patents Act 1990*, are at Attachment 1.

Where the Crown exploits an invention under section 163 of the Patents Act, the patent owner is entitled to be remunerated under section 165. That section provides for the terms of the remuneration to be negotiated between the patent owner and the Crown. In the absence of agreement, either party may apply to a prescribed court for the terms of the remuneration to be determined (see section 169, Attachment 1). A prescribed court is the Federal Court or any of the Supreme Courts of the States and Territories.

Historically, the two main justifications for use of the Crown use provisions have been:

- (i) the Crown should not be impeded by patents (which are, in effect, Crown grants) from acting in the public interest, particularly in relation to matters of national defence; and
- (ii) unlike private traders, the Crown, through its departments and authorities is ordinarily engaged in public services, rather than commercial activities, and therefore should be in a special position in regards to use of patented inventions.

When considering the application of these provisions today a major question arises as to whether the balance struck in the past by the Crown use provisions is still appropriate today, especially considering the increasing commercialisation and corporatisation of some 'Government' services.

### 2.2 Designs

The provisions relating to Crown use in Part VIA of the *Designs Act 1906* (see Attachment 2) are similar to those in the *Patents Act 1990*. Crown use provisions have also been included in the Designs Bill 2002 which is currently before Parliament. Section 40A of the Designs Act allows the Commonwealth or a State (which is defined to include the Territories) to use a design, once registered or lodged for registration, for the services of the Commonwealth or State. This is subject to notification and remuneration provisions as for patents, and the right to use similarly

includes the right to sell (section 40A). Designs may also be acquired by the Commonwealth, subject to compensation (section 40D).

These Crown use provisions have been essentially reproduced in Chapter 8 of the new Designs Bill. This is contrary to the view formed by the Australian Law Reform Commission (ALRC) in its 1995 Report No. 74 *Designs*, which recommended that the Crown use provisions in Part VIA of the Designs Act should not be retained (recommendation 75). However, the Government did not accept this proposal. It considered that it was important that it maintain a discretion to use a design, subject to payment of compensation, for reasons including possible defence and security needs. Many Commonwealth and State agencies supported retaining the designs Crown use provisions, which are consistent with other intellectual property legislation. The Government also considered the fact that the Crown use provisions have never been used as insufficient justification for their removal. Indeed their existence may have acted as a lever in negotiations for ensuring co-operation from design owners.

### **2.3 International obligations - TRIPS - Article 31**

The World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) is an attempt to narrow the gaps in the way IP rights are protected around the world, and to bring them under common international rules. It establishes minimum levels of protection that each Government has to give to the IP of fellow WTO members. The rationale for the Crown use provisions is reflected in various provisions of the TRIPS Agreement. In particular, Articles 7 and 8 place the protection of IP in a policy context, which includes considerations of "social and economic welfare".

Article 31 in the Patents section of the TRIPS Agreement provides that where the law of a member allows for "other use" of a patent without the authorisation of the right holder (Crown use provisions), such authorisation has to be considered on its individual merits (see Attachment 3). Use will only be permitted if, prior to such use, the proposed user has made efforts to obtain authorisation from the right holder on reasonable commercial terms and conditions and such efforts have not been successful within a reasonable period of time. This requirement can be waived by a member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use.

"Other use" is use other than that allowed under Article 30. Article 30 allows members to provide limited exceptions to patent rights so long as these exceptions do not unreasonably conflict with normal exploitation rights of the patent or do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

Australia amended its Patents Act in order to accord with these provisions to make it clear that remuneration is payable for any unauthorised use (see Attachment 4). The amendments also provide means for the patentee to apply to the court to have the exploitation ceased when the need for it has expired and to restrict the exploitation to the provisions of services within Australia.

## 2.4 Competition principles

The Crown use provisions must be viewed in the context of the Competition Principles Agreement. One of the major principles in this Agreement is that of competitive neutrality. Section 3(1) of the Competition Principles Agreement provides that the object of competitive neutrality policy is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities. Under this agreement government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership. These principles apply only to the business activities of publicly owned entities, not to the non-business, non-profit activities of those entities.

Competitive neutrality ultimately aims to ensure Australia's resources are used as efficiently as possible, by removing from public business any net competitive advantage due to public ownership. This principle allows resources to flow to efficient government and private business. Publicly owned businesses will attract resources if they merit them rather than because they have artificial advantages associated with government ownership. By placing government business activities on a similar competitive footing to that of their actual or potential private competitors, competitive neutrality establishes conditions for increased participation in industries, thus promoting competition with flow-on benefits to consumers.

The Crown use provisions have the capacity to compromise competitive neutrality. For example, Telstra is a publicly listed company that is co-owned by the Commonwealth Government. Should the Crown use provisions be exercised for a new communications patent, it may give Telstra an arbitrary and artificial competitive advantage over other telecommunication providers. If the Crown use provisions are genuinely used in the public interest then this provides some legitimacy in compromising competitive neutrality principles. However should the provisions be abused purely for commercial gain or interests then there is no such legitimacy, especially in the context of competitive neutrality.

## 2.5 Copyright

The scope of this paper does not extend to considering the Crown use provisions under the *Copyright Act 1968* at any great length. However it is useful to contrast these provisions with the Crown use provisions in the Patents and Designs legislation particularly in relation to the process of determining remuneration where negotiations between the IP owner and the Crown have failed. Section 183 of the *Copyright Act 1968* provides for Crown use of copyright material, allowing a form of statutory licence for Government use of works and other subject matter in circumstances which otherwise would constitute infringement. The Crown can use material that is protected by copyright where the use of the material is 'for the services of the Crown'. Some guidance on the meaning of the phrase 'for the services of the Crown' was provided in *Allied Mills Industries Pty Ltd v Trade Practices Commission* (1981) 34 ALR 104 where it was held that the use of documents by the Trade Practices Commission in court proceedings (that were owned by the plaintiff) was 'for the services of the Commonwealth' as required by section 183. Under the Copyright Act the Crown must notify the owner of the material and come to an agreement for remuneration. Failing an agreement the Copyright Tribunal will determine the terms of remuneration. These requirements are displaced where an agreement with a relevant collecting society, such as the Commonwealth's current agreement with the

Copyright Agency Limited (CAL), is in place as per section 183A. Unlike section 183 of the Copyright Act the Crown use provisions in the Patents and Designs legislation provide that where an agreement on the terms of remuneration cannot be reached the aggrieved owner of the IP or the Crown can seek determination of the terms of remuneration by a prescribed court. The differences in the process for determining the terms of remuneration are considerable particularly given the substantial costs of seeking court determination compared with the relatively lower cost of seeking a determination by the Copyright Tribunal under the Copyright Crown use provisions. It is arguable that the lower costs of the Copyright Tribunal have the effect of giving an aggrieved IP owner greater bargaining power in negotiating terms for remuneration.

### 3 Discussion

In light of the similarities of the Crown use provisions in the patents and designs legislation, the Crown use provisions are likely to be interpreted and applied in a similar way. The following issues, questions and options have been drafted in the context of patents legislation but can also be applied to the designs legislation. Any reference to patents includes both standard and innovation patents. ACIP welcomes submissions on the Crown use provisions contained in either the Patents and/or Designs Acts.

#### 3.1 Definition of the Crown

The definition of the Crown according to the Crown use provisions includes the Commonwealth and or a State, and more specifically 'an authority of the Commonwealth and an authority of a State' as per section 162 of the *Patents Act 1990*. Case law has assisted in the interpretation of what constitutes an 'authority of the Commonwealth or a State'.

In *Stack v Brisbane City Council* [1999] FCA 1279 (Stack), Brisbane City Council ("BCC") relied on the Crown use provisions as a defence to a claim for patent infringement. The court held in that case that the BCC was an 'authority of a state' and therefore was free to exploit the invention for the services of the State, which in this case it had done. The court also found that the primary focus in determining this question must be on government and the function of government. BCC was held to be an authority of the State by considering whether its functions were 'impressed with the stamp of Government' and whether BCC had been given by the State [or Commonwealth] the power to direct or control the affairs of others on behalf of the State [or Commonwealth].

The court held that all of the BCC's functions and powers were state Government functions and powers, delegated to BCC by legislation. The powers were exercised in the interests of the community, and were used to direct and control the affairs of people within BCC's territorial boundaries. Therefore BCC's activities were 'impressed with the stamp of Government' to such an extent that BCC was properly regarded as 'an authority of a state' for the purposes of the Crown use provisions in the Patents Act.

Considering all the available case law in relation to determining the question of what is an 'authority of the Commonwealth or a State' it appears that no one consideration

is decisive. It comes down to a question of fact and degree in the circumstances and its resolution depends on the structure, powers and functions of the body. The role, involvement and degree of control of the executive is also a relevant factor. The state of the law appears to have extended the interpretation of the Crown or Government as evidence by the fact that city councils and state instrumentalities have been considered to be 'the Government' for the purposes of the Crown use provisions.

Given the expansion of the Crown use provisions being applicable to a vast number of municipal councils and statutory authorities throughout Australia, there is some scope to argue that the provisions have become too broad. This is particularly so given the wide spread and exponential rate of corporatisation of Government services, which may in turn compete against privately owned operators in the market place. One possible option that may address this risk is to amend the legislation to require any Crown use of patents by any council, statutory corporation or any other like body to require Ministerial approval. This would centre the responsibility for invoking the Crown use provisions and would ensure that they are not commercially abused contrary to competition principles such as competitive neutrality.

### Issues

ACIP would welcome views on what is an appropriate definition of the 'Crown' as applied to the Crown use provisions. In particular:

- Has the definition been applied too broadly?
- Should the application of Crown use provisions be limited in some way, like, for example, requiring Ministerial approval?

### 3.2 *Entities that have access to the Crown use provisions*

The range of entities carrying on the functions of Government was considered in detail in the ALRC's Discussion Paper 64: *Review of the Judiciary Act 1903* and the subsequent Report (ALRC 92) *The Judicial Power of the Commonwealth: A Review of the Judiciary Act 1903 and Related Legislation* (September 2001). The ALRC noted (at 5.353 of the Discussion Paper) that the following types of entity may attract Commonwealth immunity:

- employees
- commissions
- statutory authorities
- statutory corporations
- government business entities (GBEs)
- government owned corporations (GOCs), and
- private corporations under contract to the government.

Even though the issue of Commonwealth liabilities and immunities (sometimes described as the "shield of the Crown") is somewhat removed from the Crown use issue in IP legislation, there is a similar need for clarity in demarcating the scope of such provisions (see further *Bradken Consolidated Ltd v Broken Hill Proprietary Co. Ltd.* (1979) 145 CLR 107 and *Townsville Hospitals Board v Council of the City of Townsville* (1982) 149 CLR). Taking into consideration the list of entities that may be

considered the Crown for the purpose of Commonwealth immunity from civil actions it can be extrapolated that such entities may also qualify to obtain the benefit of the Crown use provisions. This is of course provided the court holds them to have the authority of the State on a case by case basis. The vast range of entities that may be considered the Crown is the basis of some arguments that the Crown use provisions, whilst justified, apply to too many entities that have more commercial interests such as profits rather than the proper provision of Government services to the public.

Due consideration may be given to limiting the range of Government bodies that can exploit patents under the Crown use provisions. In the current environment statutory bodies are increasingly deregulated and corporatised with low levels of Government involvement but still have access to the Crown use provisions. Where an agency could be considered a Government body, simply because it derives its authority from legislation, but for all other purposes is a competitor in the market, the Crown use provisions could potentially give those bodies an unfair advantage in the market place.

One example of such a Government organisation is ActewAGL that has, according to the case law and legislation, access to the Crown use provisions in the Patents Act. Ownership of ActewAGL is shared equally between AGL and the Government-owned ACTEW Corporation. However, the ACT's water and wastewater assets remain public property, and therefore a statutory authority, as ACTEW Corporation retains 100 per cent ownership of these assets. ActewAGL then provides water and wastewater services under contract. On the one hand it is arguable that the Crown use provisions should not be open to ActewAGL because of possible unfair market advantages and on the other hand it should be open to use for the Government to provide the proper services to the public. It is conceivable that ActewAGL just like Brisbane City Council could exploit a patent related to their competitors market such as new water meter. There may be nothing wrong with this exploitation provided that the purpose is justified, ie for the proper provision of Government services not for the any vested commercial interests in generating profits or market advantages.

## Issues

ACIP would welcome views on the range of entities to which Crown use arrangements should appropriately extend. In particular:

- Should the availability of such provisions be limited or denied to certain organisations and/or functions of organisations?
- If so, on what basis?

### **3.3 Circumstances enabling Crown use of Patents and Designs**

Even where the governmental status of a department or agency is not in issue, it may be unclear whether its activities are really for the services of the Crown. The purpose of the Crown use provisions is ultimately to provide a balance between the rights of the Crown representing the public interest, and the rights of the patent owner. However there are some uncertainties as to when and under what conditions these provisions can be used. The over use or incorrect use of this right may be seen as an abuse of power by the Government and possibly an easy and convenient method of acquiring technology on the cheap.

Section 163 of the Patents Act provides that a patented invention may be used for the services of the Commonwealth or of a State if the exploitation of the invention is necessary for the proper provision of those services within Australia. The circumstances in which the provisions may be invoked appear to be quite broad. Despite this, the fact that there remains little case law on the subject may be indicative that the provisions are very rarely used.

Early case law concerning the circumstances that would invoke Crown use came from a UK decision by a 3:2 majority in the House of Lords on similar provisions to those in Chapter 17 of the Patents Act. In *Pfizer Corporation v Ministry of Health* (1965) AC 512 (Pfizer) the majority of the House of Lords adopted a broad view and held that an act was done "for the services of the Crown if it was done for the purpose of performing a duty or exercising a power, which was imposed upon or invested in the executive government by statute or by prerogative". This interpretation is reflected in the Australian Patents Act as acts can be regarded as having been done by the Commonwealth or a State in circumstances where a person or entity have been given the authority of the Commonwealth or the authority of a State.

The ambit of the phrase "necessary for the proper provision of services of the Commonwealth or States" in section 163 encapsulates a wide range of circumstances. It is arguable that this concept of what in fact is necessary for the proper provision of services may need further refinement. One option could be to restrict what types of patents should be subject to Crown use. This may have the effect of increasing certainty of the patent owner or potential patent owner and achieve a better balance between the exclusive rights of patent holders and the right of the Crown to exploit a patent in the public interest.

Another option could be to categorise and condense the broad range of circumstances in which the Government can invoke the provisions. Making approval based on a national interest basis, with associated criteria could do this. For example the provisions could be restricted to use in time of national emergency, for defence purposes, and/or health purposes. The rationale behind these possible changes is not because of a looming threat that organisations "impressed with the stamp of Government" may seek to exploit a patent but rather help ensure the provisions are used for their intended purpose. However it must be recognised that restrictions to the circumstances where the Government can invoke the Crown use provisions must not be too restrictive as this may be detrimental to the public when the provisions are required for some larger public interest. Any possible changes would need to maintain the intended balance between the monopoly interests of the patent owner and the overarching interest of the Crown in the proper provision of services to the public at large.

## Issues

ACIP would welcome views on whether the current Crown use arrangements are achieving an appropriate balance between the needs of IP right holders and the Crown. In particular:

- 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?
- Under what circumstances should Crown use of patents and designs be allowed?
- Should there be restrictions to particular types of patents and designs that are subject to Crown use?
- Would it be advantageous to categorise and/or restrict the range of circumstances in which the Government can invoke the provisions?

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

The Patents Act allows the Crown to exploit an invention that is patented or has a patent pending without first seeking the patent owner's permission. However eventually the owner must be notified (unless it would be contrary to the public interest to do so) and compensated. Section 165 makes it a requirement for the Crown to seek agreed terms of exploitation, including remuneration with the patent owner either before, during or after the exploitation. In the absence of an agreement on the level of remuneration, either party may apply to the court to have such terms decided.

If the Crown, for example an authority involved in commercial activities, chooses not to address the issue of remuneration when exploiting a patented invention it would then be open for the patent owner to begin legal proceedings which would be heard by a prescribed court. Whilst the Crown use provisions do not impose a penalty or sanction against an authority for not seeking an agreement for the exploitation, the affected party is entitled to seek just and equitable terms for the exploitation.

Nevertheless the case can still arise where a patent owner feels aggrieved on the compensation offered. Should this be the case, the patent owner has the right to seek intervention by the court but may be unable or reluctant to risk any financial loss in taking this step. This cost deterrent of the court significantly reduces the bargaining power of the patent owner particularly if they are not a corporation but an individual or small to medium enterprise (SME).

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. One possible option could be for the matter to be adjudicated through other means. For example, if the patent owner has failed to reach an agreement with the Crown, instead of seeking redress through the court system, other bodies could adjudicate the matter. Such bodies may include an independent tribunal or an independent expert appointed by the Commissioner of Patents. This independent expert could be a qualified accountant that has experience in IP evaluation. Adjudication by bodies other than a formal court would have the effect of reducing the deterrent of court costs to ensure that the patent owner receives adequate and just remuneration for the exploitation of their patent. It also means that prior to any negotiation for the terms or remuneration regarding exploitation the patent owner

has increased bargaining power, as the alternative to a mutual agreement is not as costly.

Authorities impressed with the stamp of Government, like municipal councils, derive their existence from a legislature at the State, Territory, or Commonwealth level. This poses an interesting question in the case of remuneration. Who does the liability for remuneration fall on under subsection 162(2) — is it the relevant authority or the legislature empowering the authority? To date the case law is silent on this particular issue.

In the *Stack* case, BCC had the authority of a State by virtue of the fact it had been delegated powers to make by-laws and regulations on a whole range of issues by the State of Queensland. Since remuneration was not an issue in that case, the court did not answer this question. However, it is notable that the State of Queensland was not a party to the proceedings and did not appear to argue its own interests on the question of liability for fees or royalties etc. Guidance in this area would be particularly useful in any future cases where the parties had failed to agree on the terms of remuneration. In these cases a prescribed court determines the terms and liability for remuneration or compensation for the exploitation or acquisition of a patent. It appears that the question of indemnities between authorities and the legislatures empowering them should be addressed with prudence when contracts or activities are entered into pursuant to Chapter 17 of the Patents Act.

## Issues

ACIP would welcome views on whether the current remuneration provisions are a fair and equitable arrangement for IP right holders, and especially for individuals and SMEs. In particular:

- Does the IP right holder have sufficient bargaining power to negotiate a fair, equitable and just remuneration with the Crown?
- 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?
- Is the process for assessing and settling remuneration and terms for exploitation an appropriate arrangement?
- 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 actions, if terms cannot be agreed?
- Are there any cost effective and timely alternatives to seeking redress from expensive court adjudication?

### 3.5 Crown use and re-sale of exploited patents

In Australia, the issue of whether the re-supply of a patented article to members of the public is a use "for the services of the Commonwealth or a State" is yet to be authoritatively determined. The case law gives one example (the *Pfizer* case) of an acquisition in Britain by the Ministry of Health of a patented article, which was then supplied to members of the public at a discount and in competition with the patentee. Hypothetically, this shows how the Crown use provisions could be applied to drugs

used in the treatment of diseases. By a narrow majority in the House of Lords, this was held to be Crown use. Here it is arguable that the patented article was being used for particular members of the public who were supplied with the patented article and not for the benefit and provision of Commonwealth or State services to the general public. Indeed the minority in that case preferred a narrower approach and held that protection did not extend to instances where the government re-supplied a patented article to members of the public, in competition with the patentee. If such an interpretation as to the re-supply of goods is adopted by the courts in Australia then current notions of what is permitted by the Commonwealth or a State in the proper provision of services could be expanded.

Even though section 167 and paragraph 168 (c) of the Patents Act allow for the sale by the Commonwealth of products made in the exercise of the right to exploit the invention, the right to make such sales is fettered. Exploitation of an invention under subsection 163(1), including sale under section 167, must be necessary "for the provision of those services within Australia", (a requirement under subsection 163(3) of the Patents Act). The sale of products made in the exercise of the right to exploit an invention would only be authorised under paragraph 168(c) where they were brought into existence for the purpose of enabling the Commonwealth to fulfil its obligations under an agreement with a foreign country to supply products required for the defence of the country as per paragraph 168(a). Where these requirements as to the purpose of the exploitation are not met, such a sale by the Commonwealth or a State would not receive the benefit of the Crown use provisions and would consequently constitute an actionable infringement of the patent.

If an authority of the State or Commonwealth were to seek to exploit a patent by selling it to the general public, would it be desirable, in the interests of certainty and to avoid any possible commercial abuses of the provisions, to require Ministerial approval either at State or Commonwealth level?

### Issues

ACIP would welcome views on whether the current Crown use arrangements contain sufficient safeguards to prevent the occurrence of commercial abuse and unfair competition. In particular:

- Should the sale of patented or design protected products, to particular members of the public, still be characterised as 'use necessary for the proper provision of Commonwealth or State services'? Please elaborate on the reasons for or against.
- Is the Crown's power limited in any way when seeking to sell an exploited patent or design? If not, should it be?

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

This discussion paper has only extended to the scope of the Crown use provisions, it does not extend to any question as to whether or not the Crown use provisions should be retained.

It could be argued that even in the absence of such provisions the Commonwealth in particular would still be able to exercise similar powers. The Commonwealth Government has alternative powers on which to rely where there really is a necessity to use IP without the consent of the owner. In situations of national emergency or

military operations, the executive and legislative powers of the Commonwealth (for example, under sections 51(vi) and (xxxix) of the Constitution) are considerable. Moreover, the Commonwealth has a power to enact laws with respect to the acquisition of property on just terms under section 51(xxxi).

In addition, there is a general doctrine of "executive necessity" or "the principle of government effectiveness" which operates to ensure that governments can fulfil the fundamental purposes for which they are created, even if this means interfering with legal rights (eg. contractual rights) of citizens (see *Ansett Transport Industries (Operations) v Commonwealth* (1977) 139 CLR 54). The doctrine was also briefly considered in the copyright case of *Kockums AB v Commonwealth of Australia* [2001] FCA 398. The issue of whether a government or a statutory authority has the power to commit itself by contract or otherwise to the future exercise in a particular manner of a statutory discretion or statutory duty has not yet finally been determined by the Australian courts. The doctrine involves the idea that contracts or other agreements and promises (such as grants of patents) are unenforceable in the public interest if they fetter or purport to fetter statutory executive discretions and powers. The rationale is that in the public interest, Government is required to act at times to override existing private and/or legal rights including those rights emanating from legislation.

Whilst the Commonwealth has alternatives derived from the Constitution and other legal doctrines the use of these powers would be quite difficult. In the absence of the Crown use provisions additional legislation may need to be passed in order to exploit or acquire IP. Given the alternatives, the Crown use provisions offer an expeditious and efficient mechanism in circumstances where the Crown needs to use a patent or design. As the Patents and Designs Acts share a consistency in the Crown use provisions, it is arguable that this provides greater certainty and consistency to IP owners in the application of those provisions. For example, there is some precedent on the way the provisions have been interpreted and applied in previous situations through case law. However, this may provide little comfort to those individuals and SME's that have limited resources and capacity and hence are unable pursue the terms and remuneration in the event of exploitation of their IP rights by the Crown. Furthermore if their IP rights are subsumed by the Crown, it may prove to be ruinous for those businesses with limited capacity to continue to compete in the market place.

### Issues

ACIP would welcome views on the relative relevance of the current Crown use provisions. In particular:

- Are the provisions appropriate in the current commercial environment as it relates to Crown activities?
- Are there any alternatives to the Crown use provisions?
- Would these alternatives be sufficiently flexible for the Commonwealth?
- What are the advantages in retaining the Crown use provisions?

## 4 Summary

The practical effect of the Crown use provisions is ultimately to ensure that Governments in Australia can balance the temporary monopoly rights that patents and designs provide the owners, with the needs of the Australian public. ACIP would

welcome any comments on any aspects of the Crown use provisions in either the Patents or Designs Acts raised in this paper in, particular:

- Is there sufficient justification for the Crown use provisions to continue?
- Should access to the Crown use provisions be restricted to certain types of circumstances, eg defence, public emergency, health?
- Should access to Crown use provisions be restricted to certain types of Government departments/agencies?
- Given the differences in the rights provided by the Patents and Designs Acts is it still appropriate to have similar Crown use provisions in the legislation?
- Is access to Crown use consistent with the Competition Principles Agreement, particularly, the concept of competitive neutrality?
- Should the Crown use be permitted only after Ministerial approval?

## Attachment 1: Patents Act 1990

### CHAPTER 17—THE CROWN

#### *Part 1—Introductory*

#### **161 Nominated persons and patentees**

A reference in this Chapter to a nominated person or to a patentee includes a reference to the successor in title of the nominated person or patentee or an exclusive licensee of the nominated person or patentee.

#### **162 Commonwealth and State authorities**

A reference in this Chapter to the Commonwealth includes a reference to an authority of the Commonwealth and a reference to a State includes a reference to an authority of a State.

#### *Part 2—Exploitation by the Crown*

#### **163 Exploitation of inventions by Crown**

- (1) Where, at any time after a patent application has been made, the invention concerned is exploited by the Commonwealth or a State (or by a person authorised in writing by the Commonwealth or a State) for the services of the Commonwealth or the State, the exploitation is not an infringement:
  - (a) if the application is pending—of the nominated person's rights in the invention; or
  - (b) if a patent has been granted for the invention—of the patent.
- (2) A person may be authorised for the purposes of subsection (1):
  - (a) before or after any act for which the authorisation is given has been done; and
  - (b) before or after a patent has been granted for the invention; and
  - (c) even if the person is directly or indirectly authorised by the nominated person or patentee to exploit the invention.
- (3) Subject to section 168, an invention is taken for the purposes of this Part to be exploited for services of the Commonwealth or of a State if the exploitation of the invention is necessary for the proper provision of those services within Australia.

#### **164 Nominated person or patentee to be informed of exploitation**

As soon as practicable after an invention has been exploited under subsection 163(1), the relevant authority must inform the applicant and the nominated person, or the patentee, of the exploitation and give him or her any information about the exploitation that he or she from time to time reasonably requires, unless it appears to the relevant authority that it would be contrary to the public interest to do so.

#### **165 Remuneration and terms for exploitation**

- (2) The terms for the exploitation of the invention (including terms concerning the remuneration payable to the nominated person or the patentee) are such terms as are agreed, or determined by a method agreed, between the relevant authority and the nominated person or the patentee or, in the absence of agreement, as are determined by a prescribed court on the application of either party.

- (3) For the purposes of subsection (2), the terms, or the method, may be agreed before, during or after the exploitation.
- (4) When fixing the terms, the court may take into account any compensation that a person interested in the invention or the patent has received, directly or indirectly, for the invention from the relevant authority.

#### **165A Exploitation of invention to cease under court order**

- (1) A prescribed court may, on the application of the nominated person or the patentee, declare that the exploitation of the invention by the Commonwealth or the State is not, or is no longer, necessary for the proper provision of services of the Commonwealth or of the State if the court is satisfied that, in all the circumstances of the case, it is fair and reasonable to make the declaration.
- (2) The court may further order that the Commonwealth or the State is to cease to exploit the invention:
  - (a) on and from the day specified in the order; and
  - (b) subject to any conditions specified in the order.

In making the order, the court is to ensure that the legitimate interests of the Commonwealth or of the State are not adversely affected by the order.

#### **166 Previous agreements inoperative**

An agreement or licence (whether made or given before or after the commencement of this Act) fixing the terms on which a person other than the Commonwealth or a State may exploit an invention is inoperative with respect to the exploitation, after the commencement of this Act, of the invention under subsection 163(1), unless the agreement or licence has been approved:

- (a) if the relevant authority is the Commonwealth—by the Minister; or
- (b) if the relevant authority is a State—by the Attorney-General of the State.

#### **167 Sale of products**

- (1) The right to exploit an invention under subsection 163(1) includes the right to sell products made in exercise of that right.
- (2) Where under subsection 163(1) the sale of products is not an infringement of:
  - (a) a patent; or
  - (b) a nominated person's rights in the products;
 the buyer, and any person claiming through the buyer, is entitled to deal with the products as if the relevant authority were the patentee or the nominated person.

#### **168 Supply of products by Commonwealth to foreign countries**

Where the Commonwealth has made an agreement with a foreign country to supply to that country products required for the defence of the country:

- (a) the use of a product or process by the Commonwealth, or by a person authorised in writing by the Commonwealth, for the supply of that product is to be taken, for the purposes of this Chapter, to be use of the product or process by the Commonwealth for the services of the Commonwealth; and
- (b) the Commonwealth or the authorised person may sell those products to the country under the agreement; and

- (c) the Commonwealth or the authorised person may sell to any person any of the products that are not required for the purpose for which they were made.

**169 Declarations that inventions have been exploited**

- (1) Subject to subsection (4), a patentee who considers that the patented invention has been exploited under subsection 163(1) may apply to a prescribed court for a declaration to that effect.
- (2) In proceedings under subsection (1):
  - (a) the alleged relevant authority is the defendant; and
  - (b) the alleged relevant authority may apply by way of counter-claim in the proceedings, for the revocation of the patent.
- (3) The provisions of this Act relating to the revocation of patents apply, with the necessary changes, to a counter-claim.
- (4) An application under subsection (1) in respect of an innovation patent cannot be made unless the patent has been certified.

**170 Sale of forfeited articles**

Nothing in this Chapter affects the right of the Commonwealth or a State, or of a person deriving title directly or indirectly from the Commonwealth or a State, to sell or use an article forfeited under a law of the Commonwealth or the State.

## **Attachment 2: Designs Act 1906**

### ***Part VIA—The Crown***

#### **40 Interpretation**

- (2) In this Part, a reference to the Commonwealth shall be read as including a reference to an authority of the Commonwealth and a reference to a State shall be read as including a reference to an authority of a State.

#### **40A Use of designs for services of the Commonwealth or a State**

- (1) At any time after an application for registration of a design has been lodged or a design has been registered, the Commonwealth or a State, or a person authorized in writing by the Commonwealth or a State, may make use of the design for the services of the Commonwealth or State.
- (2) An authority under subsection (1):
  - (a) may be given either before or after the registration of the design;
  - (b) may relate to, and authorize retrospectively the doing of, acts done after the lodging of the application for the registration of the design and before the giving of the authority; and
  - (c) may be given to a person notwithstanding that he is authorized directly or indirectly by the owner of the design to make use of the design.
- (3) Where a design has been made use of under subsection (1), the Commonwealth or State, unless it appears to the Commonwealth or State that it would be contrary to the public interest to do so, shall inform the owner as soon as possible of the fact and furnish him with such information as to the use made of the design as he from time to time reasonably requires.
- (4) Where a design is made use of under subsection (1), the terms for that use of the design are such terms as are, whether before or after that use, agreed upon between the Commonwealth or the State and the owner of the design or, in default of agreement, as are fixed by a prescribed court.
- (5) The prescribed court may, in fixing those terms, take into consideration compensation that a person interested in the design has received, directly or indirectly, from the Commonwealth or State in respect of the design.
- (6) An agreement or licence (whether made or given before or after the commencement of this Part) fixing the terms upon which a person other than the Commonwealth or a State may make use of a design is inoperative with respect to the making use of the design, after the commencement of this Part, under subsection (1), unless the agreement has been approved by the Minister or by the Attorney-General of the State.
- (7) No action or proceeding for infringement lies in respect of the making use of a design under subsection (1).
- (8) The right to make use of a design under subsection (1) includes the right to sell articles to which the design has been applied in exercise of that right and a purchaser of goods so sold, and a person claiming through him, is entitled to deal with the articles as if the Commonwealth or State were the owner of the design.

#### **40B Declaration may be sought as to use of registered design**

- (1) An owner of a design who considers that the design has been made use of under subsection 40A(1) may apply to a prescribed court for a declaration accordingly.
- (2) In a proceeding under subsection (1):
  - (a) the Commonwealth or the State concerned, as the case may be, shall be the defendant; and
  - (b) where the design is a registered design, the Commonwealth or State may, by way of counter-claim in the proceeding, apply for the rectification of the register by the expunging of the entry of the registration of the design from the register.

#### **40C Forfeited articles**

Nothing in this Part affects the rights of the Commonwealth or of a State, or of a person deriving title directly or indirectly from the Commonwealth or a State, to sell or use an article forfeited under a law of the Commonwealth or the State.

#### **40D Acquisition of designs by the Commonwealth**

- (1) The Governor-General may direct that a design the subject of an application for registration, or a registered design, shall be acquired by the Commonwealth from the owner, and, thereupon, the design or registered design, and all rights in respect of the design or registered design, are, by force of this section, transferred to and vested in the Commonwealth.
- (2) Notice of the acquisition shall be given to the owner and be published in the *Official Journal* and the *Gazette* unless, in the case of the acquisition of a design the subject of an application for registration, an order is in force under section 40F in relation to the application.
- (3) The Commonwealth shall pay to the owner of the design, and, in the case of the acquisition of a registered design, to all other persons appearing in the register as having an interest in the design, such compensation as is agreed upon between the Commonwealth and the owner or other persons, as the case may be, or as, in default of agreement, is determined by a prescribed court in an action for compensation against the Commonwealth.

#### **40E Assignment of design to Commonwealth**

- (1) The owner of a design may assign to the Commonwealth his interest in the design and in the monopoly obtained, or to be obtained, in the design.
- (2) The assignment and all covenants and agreements contained in the assignment are valid and effectual notwithstanding any want of valuable consideration and may be enforced by action or other appropriate proceeding in the name of the Minister.

#### **40F Prohibition of publication of information with respect to designs**

- (1) Subject to any directions of the Minister, the Registrar may, if it appears to him to be necessary or expedient so to do in the interests of the defence of the Commonwealth, by order in writing under his hand, prohibit or restrict the publication of information with respect to the subject-matter of an application for registration of a design, whether generally or to a particular person or to persons included in a class of persons.

- (2) A person shall not, except in accordance with the written consent of the Registrar, publish or communicate information in contravention of an order made under subsection (1).

Penalty: Imprisonment for 2 years.

- (3) Where an order is in force under this section in relation to an application for registration of a design, the application may be dealt with under this Act but a design shall not be registered on that application.

- (4) Where:

(a) an order under this section in relation to an application for registration of a design has been revoked; and

(b) at the date of the revocation of the order, the design would, but for the operation of subsection (3), have been registered;

the design shall be registered within one month after that date.

- (5) Nothing in this Act prevents the disclosure of information concerning a design to a Department or authority of the Commonwealth for the purpose of obtaining advice as to whether an order under this section should be made, amended or revoked.

## Attachment 3: Article 31 - TRIPS

### Other use without authorization of the right holder

Where the law of a Member allows for other use<sup>7</sup> of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

- (a) authorization of such use shall be considered on its individual merits;
- (b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;
- (c) the scope and duration of such use shall be limited to the purpose for which it was authorized, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;
- (d) such use shall be non-exclusive;
- (e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;
- (f) any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;
- (g) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;
- (h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;
- (i) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
- (j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
- (k) Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;
- (l) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:

<sup>7</sup> "Other use " refers to use other than that allowed under article 30.

- (i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;
- (ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and
- (iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.

## Attachment 4: Patents (World Trade Organization Amendments) Act 1994

### PART 5 —CROWN USE

#### Exploitation of inventions by Crown

14. Section 163 of the Principal Act is amended by adding at the end the following subsection:  
  
"(3) Subject to section 168, an invention is taken for the purposes of this Part to be exploited for services of the Commonwealth or of a State if the exploitation of the invention is necessary for the proper provision of those services within Australia."

#### Remuneration and terms for exploitation

15. Section 165 of the Principal Act is amended:
  - (a) by omitting subsection (1);
  - (b) by omitting from subsection (2) "Subject to subsection (1), the" and substituting "The";
  - (c) by inserting in subsection (2) "(including terms concerning the remuneration payable to the nominated person or the patentee)" after "invention".
  
16. After section 165 of the Principal Act the following section is inserted:

#### Exploitation of invention to cease under court order

- "165A.(1) A prescribed court may, on the application of the nominated person or the patentee, declare that the exploitation of the invention by the Commonwealth or the State is not, or is no longer, necessary for the proper provision of services of the Commonwealth or of the State if the court is satisfied that, in all the circumstances of the case, it is fair and reasonable to make the declaration. "
- (2) The court may further order that the Commonwealth or the State is to cease to exploit the invention:
  - (a) on and from the day specified in the order; and
  - (b) subject to any conditions specified in the order.

In making the order, the court is to ensure that the legitimate interests of the Commonwealth or of the State are not adversely affected by the order."

#### Application

17. The amendments made by this Part do not apply to an invention that was being exploited by a relevant authority under section 163 immediately before the commencement of this Part.

## Attachment 6: Case list

*Allied Mills Industries Pty Ltd v Trade Practices Commission* (1981) 34 ALR  
*nsett Transport Industries (Operations) v Commonwealth* (1977) 139 CLR 54)

*Bradken Consolidated Ltd v Broken Hill Proprietary Co. Ltd.* (1979) 145 CLR 107

*Committee of Direction (COD) of Fruit Marketing v Delegate of the Australian Postal Commission* (1980) 144 CLR 577

*Kockums AB v Commonwealth of Australia* [2001] FCA 398.

*Steel Industries Inc v The Commissioner for Railways (NSW)* (1964) 112 CLR 125).

*Pfizer Corporation v Ministry of Health* (1965) AC 512

*Stack v Brisbane City Council* [1999] FCA 1279).

*Townsville Hospitals Board v Council of the City of Townsville* (1982) 149 CLR).