



Australian Government

Advisory Council on Intellectual Property

**Review of Crown Use Provisions
for Patents and Designs**

November 2005



Australian Government

Advisory Council on Intellectual Property

The Hon Warren Entsch MP
Parliamentary Secretary to the Minister for
Industry, Tourism and Resources
Parliament House
CANBERRA ACT 2600

Dear Mr Entsch,

In early 2003, you asked ACIP to consider and report on the Crown use provisions in the *Patents Act 1990* and *Designs Act 2003* to ensure they reflect the current needs of the Government, business and the Australian public and do not undermine the rationale behind the intellectual property (IP) system. I am pleased to present you with the Council's report.

The Crown use provisions ultimately ensure that Commonwealth and State government agencies are protected from infringement actions when such agencies need to exploit a patent or design in the public interest. In the past, the balance between the exclusive rights of IP owners and the needs of the Australian public has remained largely intact. In recent times, however, this balance may have become distorted due to increasing levels of privatisation of traditional government services, and court rulings giving a wide interpretation to the range of hybrid public/private entities that can access the Crown use provisions.

These developments highlight a greater propensity for the Crown use provisions to be abused which can have adverse consequences for IP owners, compromise competitive neutrality in the market place and potentially lower domestic and international confidence in the patent and design system in Australia.

In preparing this report we widely circulated a discussions paper and held consultations with interested parties. The majority of responses advocated that Australian patent and design law be amended to increase accountability and transparency where organisations invoke the Crown use provisions.

I look forward to the Government's response to the report.

Yours sincerely

Anne Trimmer
A/g Chair

21 October 2005

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ABBREVIATIONS

ACIP	Advisory Council on Intellectual Property
ADR	Alternative Dispute Resolution
ALRC	Australian Law Reform Commission
AUSFTA	Australia and United States Free Trade Agreement
BCC	Brisbane City Council
CAL	Copyright Agency Limited
FMS	Federal Magistrates Service
GBE	Government Business Entities
GOC	Government Owned Corporations
IP	Intellectual Property
IPRIA	Intellectual Property Research Institute of Australia
NZ	New Zealand
SME	Small to Medium Enterprise
TRIPS	Trade Related Aspects of Intellectual Property
UK	United Kingdom
US	United States
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

1 Executive Summary

The Crown use provisions in the *Patents Act 1990* (Cth) (*Patents Act*) and *Designs Act 2003* (*Designs Act*) provide for an ‘authority’ of the Commonwealth or of a State to use a patent or design, if such use is necessary for the proper provision of services of the Commonwealth or of a State. The practical effect of these provisions is that the Crown, or any organisation or person authorised by the Crown, has a statutory shield protecting them from actions for patent or design infringement. However, should the provisions be invoked, the IP rights holder is entitled to remuneration for such use. The ultimate purpose of the provisions is to ensure that governments in Australia can balance the grant of exclusive patent and design rights to IP owners, with the needs of the Australian public. When considering the application of these provisions ACIP sought to examine whether this balance is still appropriate today, especially considering the increasing commercialisation and corporatisation of many ‘government services’.

In the past, the balance between the exclusive rights of IP owners and the needs of the Australian public has remained largely intact where the Crown will grant exclusive rights to IP owners, with the overarching proviso that the Crown has the power to use a patent or design for the proper provision of services by the Commonwealth or of a State. However, ACIP received submissions that, in recent times, this balance may have been disrupted due to increasing levels of privatisation of previously traditional government services, and court rulings giving a wide interpretation to the range of entities that can access the Crown use provisions. These developments highlight a greater propensity for the Crown use provisions to be abused in the absence of increased checks and balances which provide transparency and accountability.

The need for prior consent

ACIP believes that circumstances permitting, the Crown use provisions should be invoked only after genuine negotiations to agree on fair and reasonable terms of use with the IP owner have failed. ACIP received submissions that this preliminary step is being ignored by some organisations that claim access to the provisions in order to achieve favourable terms of use, particularly in relation to remuneration. Such organisations may improperly invoke the Crown use provisions to gain an unfair competitive advantage in the market place. ACIP found very few examples of organisations formally invoking the Crown use provisions, but threats to invoke the Crown use provisions may be more prolific. Threatening to exploit the IP of others can have dire consequences for IP owners, compromise competitive neutrality and potentially lower domestic and international confidence in the patent and design system in Australia.

In order to address stakeholder concerns it has become apparent to ACIP that new requirements and prerequisites for the Crown use provisions need to be implemented. This will ensure that the provisions are not used surreptitiously whilst inappropriately ignoring the rights of IP owners. The ability of Crown entities to exploit patents or designs without prior consent from IP owners is of particular concern to ACIP, as this does not appear to accord with international standards. Under the TRIPS Agreement, *prior* to any use of another’s IP, a Member State has an obligation to obtain authorisation from the IP rights holder on reasonable commercial terms and within a

reasonable time frame. Under TRIPS these obligations can only be waived by the Crown in urgent situations, national emergencies or in circumstances of public non-commercial use. The *Patents Act* and *Designs Act* do not contain any obligations on the Crown to seek the permission of the IP owner *prior* to actual use. This apparent inconsistency with TRIPS appears to have been justified on the basis that *all* use by the Crown or duly authorised persons is for ‘public non-commercial use’.

ACIP concurs with submissions that in particular situations the obligations of seeking *prior* consent and negotiating commercial terms with the IP owner may be waived or set aside until the urgency of the situation has ended. However, the need to obtain prior consent from the IP owner should not be set aside either when the provisions are invoked in non-emergency type situations or when used by hybrid public/private organisations which predominantly operate with a view to profit. ACIP is of the view that exploitation of IP by these types of organisations should not qualify as ‘public non-commercial use’ and recommends changing the current policy to require efforts to obtain prior consent from IP owners before resorting to the Crown use provisions.

Definition of the Crown and Ministerial Approval

Another issue which raised considerable concern for stakeholders was the range of entities that potentially have access to these provisions and the case law on what constitutes an ‘authority’ under the *Patents* and *Designs Acts*. The less government involvement in an organisation the less clear on whether an organisation can invoke the Crown use provisions, in the absence of express written authorisation. The definition of an ‘authority’ of the State or the Commonwealth appears to be quite vague particularly in relation to some quasi-government organisations such as private research institutes that also receive public funding. This uncertainty has left the status of some organisations in doubt as to whether they qualify as an ‘authority’. These organisations may believe they meet the requirements of an ‘authority’ of the Commonwealth or of a State when in fact they do not. ACIP sought to ensure that those organisations that may have a legitimate need to invoke the provisions could do so, whilst preventing access to other more private organisations, which may never have been intended to have access to the provisions.

Given the uncertainty surrounding the definition of the Crown, and the vast scope of entities that could possibly invoke the provisions, ACIP agreed with some stakeholders that access to the provisions should be controlled and centralised through a system of Ministerial approval. ACIP is of the view that the ambiguity and complexity surrounding research institutes, and other organisations with little or no government involvement, would be largely diminished when all Crown use must be authorised by the appropriate Minister.

Remuneration

Another major focus under this review is the remuneration that may be payable to the IP rights holder for any government use of their IP. Stakeholders expressed concerns that some apparent instances of Crown use are not on the public record on the basis that some organisations have achieved private agreements with IP owners, only by threatening to invoke the Crown use provisions, together with threats of protracted litigation. These tactics can be employed in order to exert high levels of bargaining power in negotiations for IP licensing agreements. Obviously this has the potential to generate one sided agreements that are unfavourable to the IP rights holder. To

ameliorate the risk of this occurring, ACIP recommends a new structured process outlining the necessary steps towards an agreement on remuneration. This process, together with a requirement to obtain Ministerial approval to invoke the protection of the Crown use provisions, ensures that Crown entities and duly authorised organisations meet certain requirements, obligations and responsibilities when seeking to use the patents or designs of IP right holders.

ACIP found that there were some areas of the Crown use provisions that may not necessarily be compliant with Australia's international obligations such as TRIPS and the AUSFTA. Of particular note is the absence of a standard or benchmark of remuneration. The TRIPS agreement requires a Member State's use or Crown use of another's IP must be subject to *adequate* remuneration. The *Patents Act* and *Designs Act* do not contain such a requirement. The legislation as it now stands leaves a prescribed court to determine the remuneration if there is a disagreement between the parties in this area. ACIP believes that an express statutory standard of remuneration should be implemented into the legislation in the interests of both TRIPS compliance and assisting parties in their negotiations and the courts in determining the requisite amount of remuneration.

The recommendations in this Report were drafted with a view to preserving the original policy intent behind the need for the Crown use provisions. No restrictions are recommended on either the circumstances or types of patents or designs that are open to Crown use. In all, ACIP makes 9 recommendations mainly aimed at increasing certainty, accountability, transparency, equity and compliance with international obligations. ACIP is of the view that these recommendations will benefit all parties concerned.

List of Recommendations

Recommendation 1 – The Need for Prior Consent

1.1 The patents and designs legislation should be amended to align with the requirements of Article 31 (b) of the TRIPS Agreement by ensuring that prior to any use of a patent or design the Crown or authorised user should:

- Make genuine efforts to obtain authorisation from the right holder;
- Exploit the IP on reasonable commercial terms; and
- Seek to make an agreement on the terms of use within a reasonable period of time.

These requirements may be temporarily waived in cases of national emergency or other circumstances of extreme urgency or in cases of public non-commercial use.

1.2 A temporary waiver claimed on the grounds of 'public non-commercial use' should only be available for Crown entities operating solely in the public interest and should not be available to hybrid public/private organisations that predominantly operate for profit.

Recommendation 2 – Definition of the Crown and Ministerial Approval

- 2.1 The current definition of the Crown in the patents and designs legislation should be maintained at this time.
- 2.2 If a person or organisation seeks to use a patent or design under the protection of the Crown use provisions, Ministerial approval must be obtained prior to any such use.
 - a) To invoke the Crown use provisions by State controlled organisations will require the prior approval of the relevant State Attorney General.
 - b) To invoke the Crown use provisions by Commonwealth controlled organisations will require the prior approval of the Federal Minister with portfolio responsibility for the patent and design legislation.
- 2.3 To ensure consistency and a whole of government approach, guidelines for granting Ministerial approval to invoke the Crown use provisions should be included in the patents and designs legislation.
- 2.4 The patents and design legislation should expressly state the circumstances where an organisation can temporarily waive the requirement of Ministerial approval to invoke the Crown use provisions. These circumstances should include:
 - Emergencies;
 - Situations of urgency;
 - National security situations; or
 - Where the waiver is required in the public interest.

However, in order to obtain the protection of the Crown use provisions as soon as practicable after temporary waiver, the organisation must:

- Obtain Ministerial approval;
- Notify the IP rights holder that their patent or design has been used; and
- Commence negotiations following the prescribed statutory remuneration process.

Recommendation 3 – Remuneration and Processes

- 3.1 Patents and Designs legislation should include an express statutory standard of remuneration to compensate IP owners affected by the Crown use provisions. The standard should be:
 - a) ‘just and reasonable taking into consideration the circumstances of the case’; and

- b) applicable to parties in negotiations prior to any Alternate Dispute Resolution process or court action.
- 3.2 To facilitate agreement between the parties there should be a prescribed statutory remuneration process in the patents and designs legislation. The general stages of the process should be as follows:
- a) A person or organisation should enter into genuine negotiations to obtain permission to use a patent or design from the IP rights holder;
 - b) If there is insufficient time to negotiate or a failure to obtain an agreement on remuneration or terms of use, Ministerial approval can be sought to invoke the Crown use provisions;
 - c) If an agreement is not reached after notifying the IP rights holder of invoking Crown use, the parties must participate in an Alternative Dispute Resolution process;
 - d) If the Alternate Dispute Resolution process fails the person or organisation seeking to use the patent or design must inform the IP rights holder of what remuneration will be paid for the use and if this is not acceptable, the IP rights holder may apply to a prescribed court.
- 3.3 An awareness campaign outlining the new legislative changes and the process of formally invoking the Crown use provisions should be undertaken to inform state and federal government organisations of the obligations and responsibilities owed to IP rights holders.

2 Introduction

The Advisory Council on Intellectual Property (ACIP) is an independent body established to provide advice to the Minister for Industry, Tourism and Resources and IP Australia on matters of policy and administration. The Council has been requested to take a broad strategic view of the role of intellectual property and its contribution to the development of Australian industry. Members of the Council are drawn from business and manufacturing sectors, the patent attorney and legal professions, the tertiary and research sectors, and technology and commercialisation groups.

Parliamentary Secretary Warren Entsch has responsibility for patent, trade mark, design and plant breeder's rights within the Industry, Tourism and Resources portfolio. In early 2003, Mr Entsch asked ACIP to consider and report on the Crown use provisions in the *Patents Act 1990* and *Designs Act 2003* to ensure they reflect the current needs of the Government, business and the Australian public and do not undermine the rationale behind the intellectual property (IP) system.

3 Background

3.1 Review process

In December 2003 ACIP commenced the review by circulating a Discussion Paper to a number of interested parties to seek their comments. In addition, ACIP placed advertisements in all major Australian newspapers inviting written expressions of interest commenting on any issue relating to the Crown use provisions. The Discussion Paper provided a background to the current issues surrounding the provisions and also sought the views of the relevant stakeholders in order to gauge the issues that were of most concern. This Paper stimulated public discussion and ACIP received a number of written submissions.

3.2 Submissions in response to the Discussion Paper

ACIP invited comments on any aspects of the Crown use provisions in either the *Patents Act 1990* (*Patents Act*) or *Designs Act 2003* (*Designs Act*), for example:

- Whether the definition of the Crown has been applied too broadly.
- Whether access to Crown use provisions should be restricted to certain types of organisations.
- Should access to the Crown use provisions be restricted to certain types of circumstances, eg times of war, terrorism, or public emergencies?
- Do IP right holders have sufficient bargaining power to negotiate a fair, equitable and just remuneration with the Crown?
- Is the process for informing the IP right holder that exploitation has occurred or is intended to occur adequate?
- Are there any cost effective and timely alternatives to seeking redress from expensive court adjudication?
- 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 Crown use be permitted only after Ministerial approval?
- Are the provisions still appropriate in the current commercial environment as it relates to Crown activities?

It was clear to ACIP from the submissions received that there was a divergence of opinion on the current Crown use provisions. Some stakeholders gave specific examples of their grievances concerning the provisions and provided ACIP with options to consider addressing these grievances. The differing views and interests expressed by the stakeholders were in respect of a number of issues ranging from the process and standard of remuneration to notification requirements, Crown abuse of bargaining power and the applicability of the Crown use provisions to certain types of organisations.

3.3 Discussions in response to the Consultation Brief

After considering the issues and concerns raised in the initial submissions ACIP circulated a Consultation Brief to interested parties. This document refined the substantive issues raised by the submissions and suggested possible options to be considered further in a series of one to one consultations. ACIP held discussions in several Australian cities with a variety of interested parties. A listing of submissions and participants in the consultation process in response to the Discussion Paper and Consultation Brief Paper is at *Attachment A*.

3.4 Overview of concerns of IP right holders and other stakeholders

There were a number of recurring concerns expressed in the submissions and during consultations regarding the Crown use provisions predominantly in the *Patents Act*. Some of these were responses to the issues raised by the ACIP Discussion Paper and Consultation Brief and others were raised by the personal experiences of the stakeholders themselves in dealing with organisations exercising the Crown use provisions. The main concerns with the current Crown use provisions included:

- The application of the provisions to a wide range of different entities and organisations, particularly those with a private rather than public interest.
- The need for more transparency and accountability of organisations invoking the provisions.
- The statutory obligations on the Crown to notify the patentee when invoking the provisions.
- The possibility of the provisions not being compliant with international agreements.
- The absence of any provision that expressly states a standard of remuneration.
- The need for a formal procedure to both invoke the provisions and remunerate the patentee for any Crown use.
- Ethical considerations of the Crown questioning or threatening to challenge the validity of a patent in negotiations for remuneration.
- The Crown using its financial capacity in oppressive ways in respect of litigation.
- The specific circumstances where the Crown use provisions should be invoked.
- The need to raise awareness of the provisions in the general IP policy of both State and Commonwealth authorities.

- The need for a consistent whole of government approach to the provisions.
- The need to educate owners of IP rights on the subject of Crown use.

3.5 The balance of rights and needs

The Crown use provisions ultimately maintain a balance between the exclusive rights of IP owners and the needs of the Australian public. In the past this balance has remained largely intact where the Crown will grant exclusive rights to IP owners, with the overarching proviso that the Crown has the power to use a patent or design for the proper provision of services by the Commonwealth or of a State. However, in more recent times this balance may have become distorted due to increasing levels of privatisation of previously traditional government services, and court rulings giving a wide interpretation to the range of entities that can access the Crown use provisions. These developments highlight risks of a greater propensity for the Crown use provisions to be abused in the absence of increased checks and balances which provide transparency and accountability.

There are very few examples of recorded court cases involving the Crown use provisions, leading many to assume that the provisions are rarely used. Whilst this may be the case, this assumption may be misleading as there is potential for the Crown use provisions to be easily abused without formally invoking the provisions, and indeed ACIP received submissions to this effect. Furthermore, submissions claimed that some IP right owners had been put under considerable pressure by organisations threatening to invoke the provisions in situations where it was not clear whether these organisations had the requisite authority or the legal requirements to qualify as a Crown entity. Without these requirements an organisation has no legitimacy claiming access to the provisions and therefore making such threats to patent and designs owners is inappropriate abuse of the provisions.

ACIP believes that the Crown use provisions should not be open to such abuse and that circumstances permitting, the provisions should only be invoked by appropriate organisations or persons, after genuine negotiations to obtain owner consent and fair and reasonable terms of remuneration have failed. Submissions to ACIP indicate that this preliminary step is being neglected by some organisations that claim access to the provisions in order to achieve favourable terms of use, particularly remuneration, to the considerable detriment of the rights holder. The broad range of entities now considered ‘the Crown’ presents a real danger that some organisations, particularly with low levels of government involvement, may seek to take advantage of the provisions for commercial interests such as profits rather than the proper provisions of government services to the public. It is questionable whether the Crown use provisions were ever intended to be accessed by hybrid public/private organisations unless directly and appropriately authorised by a State or Commonwealth government.

It has become apparent to ACIP that new requirements and prerequisites prior to invoking the Crown use provisions need to be implemented to ensure that the balance between the needs of the state and the exclusive rights enjoyed by patent and design owners is maintained.

3.6 Relevant Legislation

3.6.1 Patents

The main purpose of granting patents is to stimulate industrial invention and innovation by granting limited exclusive rights to inventors in return for full disclosure to the public of the invention, thereby increasing public availability of information on new technology. A patent gives the patentee the exclusive right, during the term of the patent, to ‘exploit’ the patented invention in Australia, including the right to make, hire, sell, use or import the invention, and/or authorise another person to do so. In Australia, a standard patent lasts for up to 20 years, with a further five year extension possible for pharmaceuticals. Annual renewal fees are payable from the fifth year. An innovation patent may last for up to eight years, with annual renewal fees payable from the second year. As the Crown use provisions apply equally to a standard and innovation patent any reference to patents in this Report refers to both.

Patents are granted by the Commonwealth Government under the *Patents Act 1990* (*Patents Act*), and can be offered on whatever terms thought appropriate as the Government possesses wide powers 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*, are at *Attachment B*.

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. 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.

The Commonwealth Government has alternative powers on which to rely where there is a need to use IP with or 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 section 51 (vi) and (xxxix) of the Constitution)

are considerable. Moreover the Commonwealth has the power to enact laws with respect to the acquisition of property on just terms under section 51 (xxxix). Whilst the Commonwealth has these alternatives, 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 IP rights when the need arises. 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.

3.6.2 Designs

A design is the overall appearance of a product. The visual features that form the design include the shape, configuration, pattern and ornamentation which, when applied to the product, give it a unique appearance. A registered design can be a valuable commercial asset - registration of a design gives the owner protection for the visual appearance of the product but not the feel of the product, what it is made from or how it works.

The provisions relating to Crown use in the *Designs Act 2003* (*Designs Act*) are similar to those in the *Patents Act* (see Attachment C). Section 96 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. The right to use similarly includes the right to sell and designs may also be acquired by the Commonwealth, subject to compensation requirements.

Retaining the Crown use provisions in the *Designs Act* was 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 the old Part VIA of the *Designs Act 1906* should not be retained (recommendation 75). However, the Government did not accept this proposal. It considered that it was important that it maintain 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.

3.7 International Obligations

3.7.1 TRIPS Agreement

Any review of the Crown use provisions must aim to be compliant and adhere to Australia's international obligations regarding the treatment of IP rights holders. The World Trade Organization's (WTO) *Agreement on Trade-Related Aspects of Intellectual Property Rights 1994* (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 rules¹. 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

¹ See *Agreement on Trade-Related Aspects of Intellectual Property Rights (Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization)*, 1995 ATS, (entered into force on January 1 1995).

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 D*). 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 circumstance 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.

3.7.2 Australia United States Free Trade Agreement

The exception of the Crown use provisions over the exclusive rights granted to patentees were also reproduced in the recent Australia and United States Free Trade Agreement (AUSFTA). This inclusion is indicative of the importance of the provisions in ensuring that the respective governments can use and exploit a patent should the appropriate circumstances arise. Australia and the United States have agreed to reduce the differences in their intellectual property laws. Article 17.9.14 of the Agreement states:

Each Party shall endeavour to reduce differences in law and practice between their respective systems, including in respect of differences in determining the rights to an invention, the prior art effect of applications for patents, and the division of an application containing multiple inventions. In addition, each Party shall endeavour to participate in international patent harmonisation efforts, including the WIPO fora addressing reform and development of the international patent system.

Articles 17.9.7 and 17.9.3 relate specifically to Crown use and are found in Chapter 17 of the AUSFTA under the heading ‘Intellectual Property’ (see *Attachment E*). Article 17.9.3 is almost identical to the wording of Article 30 of the TRIPS Agreement. It allows for limited exceptions to the exclusive rights conferred by patents but safe guards the intellectual property rights of the patentees by requiring that any such exception firstly does not **unreasonably conflict** with a normal exploitation of a patent and secondly does not **unreasonably prejudice** the legitimate interests of the patentee.

Article 17.9.7 refers to Crown use or ‘other use’ as per Article 31 of the TRIPS Agreement. This Article states that a Party to the Agreement shall not permit the use* of the subject matter of a patent without the authorisation of the right holder except in specified circumstances outlined in the Article. Like TRIPS, the AUSFTA is

important for this review as any recommendation relating to the Crown use provisions should aim to be compliant with the terms of this Agreement.

* ‘Use’ in this paragraph refers to use other than that allowed under Paragraph 3 of the AUSFTA similar to Article 30 of the TRIPS Agreement.

3.8 Competition Principles

The Crown use provisions must be reviewed in the context of the Competition Principles Agreement. One of the major principles in this Agreement is that of competitive neutrality. Section 3 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 activities². 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, a publicly listed company that is co-owned by the Commonwealth Government could invoke the provisions over a product or process which could provide the company with an arbitrary and artificial competitive advantage over other companies in the same field. 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 rather than the public interest then there is no such legitimacy, especially in the context of competitive neutrality.

3.9 Copyright

The scope of this review does not extend to considering the Crown use provisions under the *Copyright Act 1968* at any great length. However, for the purposes of this report it is useful to contrast these provisions with the Crown use provisions in the *Patents Act 1990* and *Designs Act 2003*, 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

² See National Competition Council, *Compendium of National Competition Policy Agreements*, 2nd ed, June 1998, p17.

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 Acts* 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.

3.10 Crown use in other Jurisdictions³

An overview of similar Crown use provisions in other international jurisdictions can provide a valuable context when reviewing the Crown use provisions in Australia. What follows is a brief account of the Crown or Government use provisions in the United Kingdom (UK), New Zealand (NZ), Canada and the United States (US). They have been chosen because these jurisdictions most closely resemble Australia in their legal systems, legal histories and cultures. Significantly, all these jurisdictions contain some legislative provision for Government use of patented inventions.

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

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

³ This section of the Report is adapted from the submission from the Intellectual Property Research Institute of Australia (IPRIA).

patent holder and determined by the Commissioner. Decisions made by the Commissioner are also subject to appeal to the Federal Court.

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

According to a leading commentary on US patent law⁴, the remedy of compensation conferred by section 1498 (a) is exclusive in cases of Government use. Accordingly, section 1498 (a) does not stipulate or limit in any way the purposes for which the Government may use patents. Nor does section 1498 (a) provide for dispute of the government’s exercise of its powers. It does not even require the patent holder to be notified of the Government’s use of his or her patent. Section 1498 (a) simply provides patent owners with the right to have a court determine the ‘reasonable and entire’ compensation that they are owed. Interpretation and/or limitation of the government’s powers to use patents are left largely to case law.

Entities with access to the Government use provisions

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

As in Australia, Government use in the UK, NZ and the US does not require Ministerial approval. However, in Canada Government use is subject to authorisation, not by the Minister, but from the Commissioner of Patents.

Circumstances enabling Government use of patented inventions

As is the case in Australia, in none of the jurisdictions surveyed are there express limits on the circumstances under which patented inventions may be exploited, although further guidance is provided by means of non-exhaustive lists in the UK. Similarly, there is no general limit in the legislation or in the case law as to the type of patents permitted to be used for services of the Crown.

Rights of the patent owner

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

⁴ Donald S Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity and Infringement* (1978-1998).

Remuneration

In all comparable jurisdictions surveyed, the Government is required to pay remuneration to patent holders for use of their patents. All jurisdictions reviewed provided for disputes regarding remuneration or compensation payable for Government use of a patented invention to the courts. In none of the jurisdictions considered is there a tribunal or similar low-cost proceeding for addressing any challenge to the fact of, or terms of exploitation of a patented invention under the Crown use provisions. With the exception of the US, patent holders in all the comparable jurisdictions have recourse to the courts to dispute, not only the terms of use, but also the actual use of, or authorisation to use, their patents by the government.

Resort to Government use provisions in practice

Government use provisions in the UK, NZ and Canada, all of which have fairly similar Government use models to Australia, appear to be rarely exercised. Nonetheless, their main function in these jurisdictions appears to have been for military purposes, indicating that they do play an important role in situations of war or national defence. This conclusion is also supported by experience in the US, where the majority of Government uses of patented inventions is for military purposes. The case of *Pfizer Corporation v Minister of Health* [1965] AC 512 in the United Kingdom and similar cases in Canada also indicate the usefulness of Government use provisions in providing access to medicines. None of the comparable jurisdictions examined for this Report appear to have reviewed their Government use provisions in recent years.

4 Issues

In the light of similarities of the Crown use provisions in the *Patents Act* and *Designs Act*, the Crown use provisions are likely to be interpreted and applied in a similar way. This report was drafted in the context of the *Patents Act* but can also be applied to the *Designs Act*, however, any inconsistency or differences will be expressly stated.

4.1 The Need for Prior Consent

4.1.1 Background

Under section 163 of the *Patents Act* exploitation of a patent by the Crown can be undertaken without first having to obtain authorisation from the patentee. The only obligation on the Crown, should this occur, is that notification and information regarding exploitation is to be provided to the patentee as soon as practicable after an invention has been exploited as per section 164. These obligations are subject to a threshold test of whether it is in the public interest to do so. Section 165 states that remuneration is payable with subsection (3) stating that the terms of remuneration may be agreed before, during or after exploitation. This section reflects the same underlying theme as the proceeding sections 163 and 164, i.e. there are no obligations on the Crown to obtain consent from or inform the patentee of its intentions *before* it has exploited a patent. Section 169 may offer some assistance to the patentee as they can apply for a declaration from a prescribed court that the Crown is or has exploited the relevant patent. However, this may not necessarily be an attractive option to a patentee as the same section expressly provides that the Crown can respond by way of counter-claim in the proceedings for revocation of the patent.

Article 31 of the TRIPS Agreement, provides that authorisation, and efforts to negotiate adequate remuneration within a reasonable time with the patent owner is a requirement *prior* to actual use by the Crown. These preliminary requirements can be waived in particular circumstances of national emergency, extreme urgency or in cases of public non-commercial use. Unlike TRIPS, the Crown use provisions do not refer to express obligations owed to the patentee prior to exploitation. The provisions appear to have been drafted in order to provide a Crown authority the protection of the provisions with minimum obligations owed to the IP rights holder.

According to Australia's response to the Council for TRIPS, all Crown use is considered to be 'public non-commercial use'⁵. This interpretation explains the notable absence of Crown obligations in the patents and designs legislation prior to exploitation in contrast to the requirements specified under TRIPS. There appears to be a permanent waiver of the TRIPS requirements as Australia's compliance with this agreement is ultimately maintained by arguments that **all** Crown use under the *Patents* and *Designs Acts* is considered 'public non-commercial use'.

Whilst it may be relatively easy to identify public emergencies or urgent situations under TRIPS the issue becomes more uncertain in cases of 'public non-commercial use'. The TRIPS Agreement does not define the meaning of what constitutes 'public non-commercial use'. A strict dictionary interpretation would suggest that this TRIPS exception refers to a type of use that is for the benefit of the public and not for commercial purposes aimed at creating a profit. The submissions to the TRIPS Council did not elaborate on whether all Crown use is considered to be 'public non-commercial use' regardless of use by Crown bodies with a level of private commercial interests. Given the increasing movement toward private commercialisation of previously traditional government services, the lack of Crown responsibilities prior to actual exploitation based on the 'public non-commercial use' exception, raises the question of whether current legislative arrangements are still appropriate.

Given that the provisions do not provide any mandatory obligations on the Crown to seek the IP owner's permission prior to any use of a patent or design this could be perceived as unjust and also counter to policies that encourage innovation. IP owners would naturally expect that if they have a valid IP right this should be respected not only by the private sector but especially the Crown having granted the right in the first place.

The ability of various Crown entities to obtain the protection of the Crown use provisions in the absence of special circumstances such as emergencies has the potential to undermine confidence in the IP system in Australia. Furthermore unauthorised use has the potential to financially ruin some IP right holders. For example, an IP owner who objects to a Crown entity exploiting their patent may have to incur significant expense in seeking court intervention. The possible detrimental effects that unauthorised exploitation can have on some IP rights holders lends weight to the argument that the provisions need to be amended.

⁵ See Review of Legislation in the Fields of Patents, Layout Designs (Topographies) of Integrated Circuits, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual Licences: Australia, 22 October 1997.

4.1.2 Discussion of views

A clear majority of stakeholders were of the view that it is entirely appropriate that in some circumstances the Crown must act so urgently, be it for emergencies, national security or any other pressing situations that prior authorisation from the IP owner and remuneration is not possible⁶. However, in the absence of these types of situations, numerous stakeholders considered that the Crown should be obliged and thus bound to follow certain obligations owed to the IP rights holder prior to exploitation in accordance with international agreements such as TRIPS⁷. These submissions argued that only after failing to obtain an agreement on fair and reasonable terms with the IP owner should the option of invoking the protection of the Crown use provisions be open to Crown entities.

In consultations it was further submitted that the broad interpretation that all instances of Crown use being considered as ‘public-non-commercial use’ by Australia at the Council for TRIPS was no longer appropriate given the increasing levels of privatisation of some government services. Stakeholders argued that Crown use by government bodies that are partially privatised and clearly operating with a view to profit could not be classified as ‘public non-commercial use’ on any logical interpretation of the words⁸. Some submissions questioned why such use should not require the prior consent from the IP owner in any event unless it was contrary to the public interest or some other exceptional circumstance. In advancing this line of reasoning it was submitted that there needed to be a clear and unambiguous set of obligations owed to the IP rights holder in the absence of exceptional or emergency type circumstances where the Crown simply needs to exploit the IP for the proper provision of services of the Commonwealth or of a State⁹.

Whilst there were some stakeholders who felt that current obligations of the Crown to the patentee were appropriate,¹⁰ the majority of stakeholders supported mandatory Crown obligations to IP owners prior to any use subject to waiver only in exceptional circumstances like national emergencies and other time critical circumstances. However, these stakeholders were skeptical of the ‘public non-commercial use’ exception. Stakeholders viewed the ‘public non-commercial use’ exception as ambiguous as it waived what would otherwise be normal requirements to seek the IP owner’s permission before using the desired IP.

Numerous stakeholders put forward other arguments that obligations on the Crown before actual exploitation were necessary in keeping with the spirit of the *quid pro quo* or social contract of disclosing an invention in return for the granting of letters patent and thus obtaining exclusive rights. Central to these arguments was the need for transparency and goodwill of the Crown to ‘do the right thing’ by the patent holder who has acted in good faith, contributed to innovation and investment in

⁶ Law Council of Australia, FICPI, IPTA, Department of Defence, Department of Health and Ageing, Innovative Technologies, P7 Pty Ltd, Pacific Technologies.

⁷ FICPI, IPTA, P7 Pty Ltd, Law Council of Australia, Medicines Australia.

⁸ FICPI, IPTA, Medicines Australia,

⁹ Medicines Australia.

¹⁰ Department of Health and Ageing, Department of Defence.

Australia and without whom the Crown may not obtain the benefit of their disclosure should it be required¹¹.

Other arguments were made surrounding the requirement of business certainty. Should the Crown properly invoke the provisions a patent holder would need information concerning the exploitation as soon as possible in order to minimise any commercial losses arising from the exploitation and to ensure other related business decisions can be made with certainty¹².

Some stakeholders submitted that Crown entities should be forthright, open and transparent in exploiting IP and that patent holders should not be burdened with the expense of costly court proceedings simply to obtain information about whether the Crown is or has been exploiting their patent¹³. There were concerns that the Crown use provisions did not place a sufficient range of obligations on the Crown and that some organisations could abuse the provisions and not meet minimum obligations to the IP rights holders prior to any exploitation. Submissions indicated that Crown organisations that were of particular concern were those with lower levels of government involvement. Some stakeholders were skeptical about whether the Crown would be forthcoming to a patentee in obtaining prior authorisation or initiating genuine negotiations to determine the terms of use citing the bureaucratic and litigious culture in some government organisations¹⁴.

4.1.3 ACIP Considerations

ACIP agreed with submissions that the Crown use provisions in the *Patents and Designs Acts* do not meet TRIPS requirements to obtain consent from the IP owner *before* actual exploitation. However, ACIP believes it is entirely appropriate that any Crown organisation or duly authorised person have minimal or no prior obligations or requirements to adhere to in certain circumstances, for example where it would be contrary to the public interest or in urgent or emergency situations. In the absence of these types of situations there appears to be no valid reason why the Crown should not adhere to a clear set of prior obligations similar to those prescribed under Article 31 (b) of TRIPS i.e. genuine efforts to obtain prior consent from the IP owner and, negotiating reasonable commercial terms within a reasonable period of time.

Under the current Crown use provisions government organisations can effectively ignore the exclusive rights granted to IP right holders and address remuneration at a later time. Where this occurs the IP owner has the option to seek court intervention to obtain further information from the Crown regarding the exploitation. However, by electing this course of action IP owners undertake a significant risk of becoming engaged in very expensive litigation with opponents who have significant resources. This consequence could be avoided if there were requirements or obligations on Crown entities to seek permission of the owner before exploiting the IP.

¹¹ P7 Pty Ltd, Pacific Technologies.

¹² Bilney, P7 Pty Ltd, Innovative Technologies, Medicines Australia, Dimitriou Eliadis (Barrister).

¹³ P7 Pty Ltd, FICPI, IPTA, Medicines Australia, Innovative Technologies, Pacific Technologies.

¹⁴ P7 Pty Ltd.

ACIP concurs with stakeholder arguments that only in exceptional circumstances should the Crown seek to use a patent or design first and address issues of consent and remuneration later. At least two stakeholders expressed concern that this was not in fact happening and that some government organisations were invoking the Crown use provisions, using the desired IP and ignoring the pleas of the IP owners for information regarding the exploitation or calls to commence negotiations for remuneration. ACIP believes that the rights of IP owners in Australia must be respected in order to maintain the high levels of confidence in the IP system. For example, foreign investors or corporations may be reluctant to file for patents or designs in Australia if there is a real risk that governments, or persons duly authorised by a government can infringe the IP rights of others without obtaining prior consent. The Crown use provisions should not simply be a means to inexpensively access a repository of IP without due consideration of the effects that unauthorised exploitation may have on IP owners, not to mention the considerable investment, human endeavour and resources involved in developing IP. Exploiting a patent or design without authorisation or appropriate remuneration essentially constitutes infringement. Ideally unauthorised use should be the exception rather than the general rule.

Exploiting patents or designs without prior permission from the owners and in the absence of exceptional circumstances conflicts with the Government's policy of promoting innovation, economic development and growing technologies. ACIP concurs with arguments that the Crown use provisions may not be compliant with international agreements such as TRIPS. Currently the issue of compliance relating to Crown obligations prior to exploitation is highly dependent on the interpretation of TRIPS Article 31 (b). Australian representatives have argued that **all** Crown use is classified as 'public non-commercial use' and thus there are no prescribed obligations, e.g. efforts to obtain authorisation, on the Crown prior to exploitation¹⁵. ACIP believes this interpretation is outdated given the more recent trends of increasing privatisation of government services in Australia.

The current provisions of the *Patents and Designs Act* permit Crown entities to consider obtaining consent from IP owners before, during or after exploitation. ACIP believes that prior to invoking the Crown use provisions there must be genuine efforts to gain consent from the IP rights holder unless there are specific circumstances of urgency where prior negotiation and authorisation is not possible or not in the public interest. Waiving these obligations to IP owners by reason that all use of the IP is 'public non-commercial use' would appear to be no longer tenable.

¹⁵ See Review of Legislation in the Fields of Patents, Layout Designs (Topographies) of Integrated Circuits, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual Licences: Australia, 22 October 1997.

4.2 Definition of the Crown and Ministerial Approval

4.2.1 Background

The definition of the ‘Crown’ according to the Crown use provisions includes the Commonwealth and a State, or more specifically ‘an authority of the Commonwealth and an authority of a State’ as per section 162 of the *Patents Act*. Whilst the Commonwealth and the States have the power to authorise particular entities in writing to exploit a patent, without infringement, uncertainty and confusion can arise as to which bodies qualify as an authority of the Commonwealth or of a State. Given this, there is an apparent need for the scope of the provisions to be delineated in order to ensure there is no misuse of the provisions by organisations that have some characteristics of the Crown but which may not have been intended to have access to the provisions.

What is meant by ‘the Crown’ is the office of the monarch or rather the individuals and institutions exercising the executive functions of government¹⁶. Although there is but one indivisible Crown, each executive government in Australia is understood as a separate manifestation of the Crown. As such the term ‘the Crown in the right of each State and of the Commonwealth’ distinguishes between the various governments in our federal system. The Crown is held to be a separate legal entity and this endows the governments of the Commonwealth and of the States with all the attributes of being a separate legal personality such as the capacity to own property and to sue and to be sued¹⁷. However, the question of whether or not an organisation or body is the Crown exercising inherent or delegated executive functions of Government can be difficult to establish.

Stack v Brisbane City Council

Case law has assisted in the interpretation of what constitutes the Crown or an ‘authority of the Commonwealth or a State’. In *Stack v Brisbane City Council* (1994)131 ALR 333 (*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 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

¹⁶ PJ Hanks, *Constitutional Law in Australia*, Butterworths, Australia, 1991 pp 124-125.

¹⁷ See generally, T Blackshield and G Williams, *Australian Constitutional Law & Theory*, Federation Press, Australia, 1998.

regarded as 'an authority of a state' for the purposes of the Crown use provisions in the *Patents Act*.

Whilst the Federal Court held that the main focus in determining whether a body was an authority of the State was on the functions of government, the role and involvement of the executive, through the Governor in Council or the appropriate Minister, was also a relevant factor¹⁸. The Federal Court also stated that in determining whether a body satisfied the test, no one consideration was decisive. It was a question of fact and degree in the circumstances and depended on the structure, powers and functions of the body. Whilst this does provide some assistance on what entities constitute the Crown the question is not without uncertainty. The case law provides a vague definition that would appear to broaden the scope of the provisions when there is growing evidence they are applicable to a vast number of municipal councils and statutory authorities throughout Australia.

Research Institutes

The ALRC Report, *Genes and Ingenuity: Gene Patenting and Human Health*, (Chapter 26)¹⁹, raised concerns of ambiguity on the issue of whether some research institutes have sufficient government involvement to be 'impressed with the stamp of government' as stated in *Stack*.

The ALRC referred to the fact that more than half of human health-related biological research in Australia is funded by the Australian Government. Much of this research is conducted by bodies that may not constitute the Commonwealth or a State, or an authority of the Commonwealth or of a State, for the purposes of the *Patents Act*²⁰. For example, publicly funded research is often conducted by medical research institutes, such the Garvan Institute for Medical Research (Garvan) and the Walter and Eliza Hall Institute of Medical Research. The ALRC found that, 'such institutes may be established by state legislation and may be affiliated with public sector universities or hospitals, however, they are self-governing, set their own research priorities, and receive some funding from non-government sources, including private donations'²¹.

Following the approach taken by the Federal Court in *Stack*, it seems likely that such bodies would not constitute authorities of a State for the purposes of the *Patents Act*. They are not 'impressed with the stamp of government' because their functions are not governmental or delegated by the State. While institutes such as Garvan may be established by state legislation, the State executive generally does not retain a prominent role or practical involvement in their operation.

The flow on effect of this is ambiguity. Some organisations can be mistaken about whether or not they qualify as the Crown for the purposes of the Crown use provisions. This may lead to misuse of the provisions and possibly compromise the principles of competitive neutrality. It may also lead to instances whereby an organisation believes they have Crown status and thus immunity from patent infringement actions, when in fact they do not. This is assuming these organisations

¹⁸ *Stack v Brisbane City Council* (1994) 131 ALR 333 at 339.

¹⁹ ALRC, *Genes and Ingenuity: Gene Patenting and Human Health*, Report 99, June, 2004, p 601.

²⁰ *Ibid.*

²¹ *Ibid.*

have **not** been authorised, in writing, to invoke the provisions by the Commonwealth or a State government.

This uncertainty is not isolated to research institutes as described above but can also extend to a myriad of other quasi-government organisations. 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. Excluding persons or organisations that may be authorised in writing by an Australian government (state or federal) there are a huge number of entities that could potentially have access to the provisions. In the current environment the application of the Crown use provisions by such entities or organisations is increasingly unclear particularly as many are progressively privatised with little or no government involvement. 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 types of bodies an unfair competitive advantage in the market place.

4.2.2 Discussion of Views

The vast range of entities that may qualify as an 'authority of the state' was the basis of some submissions that the Crown use provisions apply to too many entities that have more commercial interests such as profits rather than the proper provision of government services to the public²². Submissions suggested that 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. Many stakeholders viewed this as inappropriate and argued that lower levels of government involvement meant that there was less accountability and therefore more likelihood that the provisions could be misused²³. Some stakeholders, however, argued that the current definition maintained certain flexibility and pointed out that a rigid definition may cause problems for some organisations with a legitimate need to

²² Medicines Australia, IPTA, FICPI, P7 Pty Ltd, Dimitrius Eliadis (Barrister).

²³ Ibid.

access the provisions²⁴. Others preferred that the current definition be tightened to exclude organisations such as councils²⁵.

One submission highlighted that the way these matters of Crown use have been dealt with in the UK is not to amend the Crown use provisions²⁶. Instead the UK has inserted into the legislation setting up public or semi public bodies provisions that expressly state that the body is not to be considered the ‘Crown’ for the purposes of the relevant Crown use provisions. Legislation setting up public corporations in the UK such as the *British Telecommunications Act 1931* (c.38) now tend to include a definition expressly disclaiming Crown status for that body. Section 55 (1) of the *Patents Act 1977* (UK) provides for the exploitation of a patented invention ‘for the services of the Crown’ by ‘any government department and any person authorised in writing by a government department’. This reference to ‘any government department’ appears to be narrower than the definition in the *Patents Act* which refers to ‘an authority of the Commonwealth or a State’. This particular option was not supported by stakeholders in general as they pointed out there would be significant problems with this type of change given that Australia, in contrast to the UK, is a federation of states²⁷.

Most stakeholders recognised that the Crown use provisions involve potentially significant interference with the rights that patent holders otherwise have under the patent system. It was generally accepted that invoking the Crown use provisions was rare, but from consultations it appears that the threat of using the provisions, in negotiations, was far more prevalent than actual use. It was submitted by some stakeholders that Crown use of patents may be inappropriate if the provisions are relied on too readily which would have the effect of lowering confidence in the patent system²⁸. These stakeholders argued that this potential lowering of the confidence in the patent system may act as a political constraint on the exercise of these provisions particularly by hybrid entities that have predominately commercial interests rather than public interests.

Political constraint or executive government approval was the centerpiece of another possible preference suggested by submissions which involved moving away from defining a range of Crown bodies or exclusions. Instead, approval could rest with a Minister of Parliament. A significant majority of stakeholders indicated support for the concept of Ministerial approval in consultations preferring it over vague notions of organisations that are ‘impressed with the stamp of government’²⁹. Stakeholders indicated that this would have the beneficial effect of centering the responsibility for invoking the provisions, helping to prevent the provisions from being commercially abused. Other benefits highlighted with this option included the maintaining of optimal competitive neutrality in the market and additional certainty, integrity, accountability and transparency.

²⁴ Department of Health and Ageing, Department of Defence, Law Council of Australia.

²⁵ IPTA, FICPI, Dimitrius Eliadis (Barrister), P7 Pty Ltd.

²⁶ See IPRIA submission.

²⁷ FICPI.

²⁸ Medicines Australia, IPTA, FICPI, P7 Pty Ltd, Dimitrius Eliadis (Barrister).

²⁹ Innovative Technologies, IPTA, FICPI, Medicines Australia, P7 Pty Ltd, Dimitrius Eliadis (Barrister).

On the other hand, some argued that a process of Ministerial approval may be seen as overly politicising access to the Crown use provisions and may expose the Government to claims of introducing avoidable bureaucracy³⁰. Other stakeholders believed that the authority to invoke the provisions should be appropriately delegated to public officials employed in an authority of the State or Commonwealth. It was argued that delegating the power to authorise the exercise of the Crown use provisions would circumvent any tedious or time consuming approval process particularly in circumstances of emergency or situations of extreme urgency³¹.

4.2.3 ACIP Considerations

ACIP focused on the definition of the Crown because it effectively limited the access to the provisions by organisations that were not intended to have the right to such provisions. At the time the Crown use provisions were first enacted in 1903, the scope of government activities was more limited than at present. Within this context ACIP considered that this aspect of the provisions was outdated and need to be tightened to reflect modern government organisation and practices. Initially, the definition of the Crown seemed the most obvious point to consider reviewing.

Several ideas were floated such as adopting the UK approach in requiring organisations such as government utilities or councils to include in their enabling legislation a provision expressly claiming or disclaiming Crown status for the purpose of the Crown use provisions. However, this idea is not systemic as it does not directly address the IP legislation under review by ACIP, and would require amendments to scores of statutes making it quite impractical. Another consideration by ACIP was to consolidate a list of the current organisations or bodies which qualify as having access to the Crown use provisions. The problem with this idea was that given the infrequency of use of the provisions and the fact that some government organisations can change over time to become increasingly commercialised with private interests this also did not appear to be a viable option.

Upon further deliberations it became increasingly apparent that amending the actual definition of the Crown or arbitrarily classifying organisations that qualify as the Crown in legislation would cause greater problems than those caused by the current definition at present. ACIP believes that stakeholder submissions requiring a type of Ministerial approval to be of considerable merit and that the advantages of this approach outweighed the disadvantages outlined by the minority of submissions.

Given that the exclusive rights granted to holders of patents and/or designs are Crown grants, the Crown represented by the appropriate State and Commonwealth Government Ministers are in the best position to determine who the Crown should be and when Crown use should be invoked. In drafting the recommendations for Ministerial approval, it was agreed that for State controlled organisations certain State Ministers could provide the necessary approval and for Commonwealth controlled organisations, a Federal Minister could provide the necessary approval. All Ministers would have the aid of regulatory guidelines to ensure a consistent whole of

³⁰ Department of Health and Ageing.

³¹ Department of Defence.

government approach and approval would need to be obtained by organisations that already qualify as having access to the provisions as they currently stand.

ACIP considered that the Ministers charged with the power to approve Crown use at the State level should be the respective States and Territories Attorneys-General. The high levels of cooperation between Attorney-General departments would have considerable benefits in applying the approval process in an even and consistent manner. It was also thought that the expertise of IP Australia in administering both the *Patents* and *Designs Acts* would also be beneficial and therefore the Minister responsible for the *Patents* and *Designs Acts* should have the sole power to approve Crown use at the federal level. The source of the state or federal legislation creating the body or entity seeking approval for Crown use should be the determining factor on whether approval should be sought from the relevant State Attorney General or the Federal Minister³². In the absence of such legislation, approvals are to be sought by the Federal Minister responsible for patents and designs legislation. ACIP examined and discussed two models of approval, these being single instance approval and class approval.

Single Instance Approval

The process of single instance approval is largely self evident. This would occur where an organisation or entity, seeks approval by the appropriate State or Federal Minister for a single instance of Crown use. Any additional use of other patents or designs would require the organisation or person to seek further approval. Single instance approval is not a radical change from current legislative provisions which permit a person or organisation to be authorised in writing to invoke the Crown use provisions. The main difference is that Ministerial approval restricts organisations acting on their own accord thereby making the power to invoke Crown use of IP more centralised.

In situations where there is insufficient time to enter into negotiations with the IP rights owner, or to obtain Ministerial approval, (for example in situations of emergency, urgency, national security) Ministerial approval must still be obtained after any use of a patent or design. Without Ministerial approval an organisation would not have the protection of the Crown use provisions and may be liable for patent or design infringement. ACIP believes this will ensure organisations seek to use the Crown use provisions only when there is a genuine need and reduces the possibility of the provisions being abused.

Class Approval

Class approval would operate quite differently from single instance approval. Class approval would be granted by the Federal Minister responsible for the patent and design legislation to a body or organisation that can satisfy the Minister that there may be a need to invoke the provisions without having to first seek approval for each instance of use. This is basically a system of delegation in recognition of the fact that some organisations are unequivocally the Crown for the purposes of the provisions, e.g. the various State Health Departments and the Department of Defence. A pre-requisite for class approval would be for applicants to have an IP policy in place that

³² A reference to a 'State' under the *Patents Act 1990* (Cth) Sch 1 includes the Australian Capital Territory, Northern Territory and Norfolk Island. In this Report reference to a State Attorney General applies to a Territory Attorney General or equivalent.

includes procedures for applying the Crown use provisions. Class approval would allow departments that qualify to have the autonomy to determine instances of Crown use as the need arises and not be fettered by requiring higher level or Ministerial approval. Class approval would still be limited to the extent that use of a patent or design must be for the ‘proper provision of the services of the Commonwealth or of a State’ as per section 163 (3) of the *Patents Act*.

Whilst a class approval model would theoretically reduce transaction costs, this does not appear to be an issue given the scarcity of recorded instances of organisations formally invoking the Crown use provisions. This fact, combined with the lack of any actual evidence provided during the review process to support a class approval model has convinced ACIP that a single instance model of Ministerial approval for Crown use is the most appropriate option. This recommended model can be viewed diagrammatically at *Attachment F* (incidentally this diagram also incorporates some of ACIP’s other recommendations on remuneration).

All Ministers considering a request for approval to invoke the protection of the Crown use provisions should have the benefit of certain guidelines to follow in determining approval. This will help to achieve a consistent whole of government approach to approvals. ACIP does not propose to recommend the substance of these guidelines however, such guidelines should be drafted into the Patents and Designs Regulations and could include or require the following:

Approval Considerations

- Genuine attempts have been made to negotiate remuneration.
- The nature and degree to which the public interest is served by the exploitation such as in areas of national security, public health, protection of the environment.
- The nature and degree of urgency of the exploitation.
- The nature and degree to which the exploitation affects the rights holder’s ability to compete in the market place.
- The nature and degree to which the exploitation affects the rights holder’s interests in the invention.
- Whether approval will provide an unfair competitive advantage over other traders.
- Whether approval is necessary for the proper provisions of government services to the Australian public.
- Secrecy and confidentiality issues.
- Other matters as the relevant Minister shall determine.

Without Ministerial approval any organisation, entity or person government or otherwise would be open to being sued for infringement for using a patent or design by the IP rights holder. The ambiguity and complexity surrounding whether research institutes and other organisations with little or no government involvement qualify as the Crown would be largely diminished when all Crown use must be authorised by the appropriate decision maker. ACIP believes executive government approval with the aid of regulatory guidelines would promote certainty, consistency, integrity and accountability, ensuring that the provisions are not abused and that competitive neutrality in the market is preserved.

Exceptions to the requirement to seek Ministerial approval

ACIP acknowledges that there are some situations where the requirement to obtain Ministerial approval must be temporarily set aside. This will ensure expedient access to patents or designs needed in emergencies, national security situations or other like circumstances and minimise any impediment to use in such situations. However, there is a risk that in specifying the precise individual situations where the requirement for Ministerial approval can be waived may lead to ambiguity when new situations arise. To minimise this danger, “Example A” below lists the broad circumstances where the requirement of Ministerial approval may be temporarily waived.

Example A

- 1) Emergencies;
- 2) Situations of urgency;
- 3) National security situations or;
- 4) Where the waiver is required in the public interest.

The Ministerial approval process in these types of circumstances can be viewed diagrammatically (see *Attachment G*).

All potential users of the Crown use provisions will have the inherent power to temporarily waive the requirement of Ministerial approval. However, if the protection of the Crown use provisions is required as soon as practicable after waiver Ministerial approval must be obtained, the IP rights holder must be notified and duly remunerated.

4.3 Remuneration

4.3.1 Background

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 before, during or after the exploitation. In the absence of an agreement on the level of remuneration, either party may apply to a prescribed court to have such terms decided³³. If the Crown or an authority 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. 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 a court order on the terms of exploitation including remuneration.

In 1994 the Federal Government amended the *Patents Act* in order to ensure the Crown use provisions make it clear that remuneration is payable for any unauthorised use (see *Attachment H*). The amendments also provided a means for the patentee to apply to the court to have the exploitation cease when the need for it has expired and also to restrict the exploitation to the provisions of services within Australia.

In submissions received and consultations held by ACIP the issue of remuneration was quite contentious. Many stakeholders argued that the provisions were problematic and uncertain which ultimately lead to inequality of bargaining power for IP owners in negotiations with the Crown and thus unfair terms of remuneration. It was increasingly evident to ACIP that the 1994 amendments did not go far enough and that certain aspects of the remuneration provisions remain ambiguous. The issues viewed as the root cause of this ambiguity identified in consultations can be divided into two parts. The first is the lack of a standard of remuneration and the second the lack of a structured process for determining remuneration.

4.3.2 Remuneration Standard

A remuneration standard refers to a criterion or bench mark in determining a level of remuneration. This type of standard can be beneficial both in attaining equitable remuneration and ameliorating the relative inequality of bargaining power of the patentee compared to the Crown. The existing Crown use provisions do not contain any reference to a standard of remuneration. The only assistance that subsection 165 (2) provides to the question of remuneration is that should the parties fail to come to an agreement either party can apply to a prescribed court for a determination on any terms of the exploitation including remuneration. Leaving the question of remuneration to be determined solely by the parties can leave the IP rights holder disadvantaged. In such a situation the IP right owner does not have the benefit of an applied standard or criterion to refer to in any negotiations and this can weaken their bargaining position in seeking to obtain a fair and equitable agreement.

³³ *The Patents Act 1990*, section 165 (2).

TRIPS

The lack of a remuneration standard stands in stark contrast to the requirements set out under the TRIPS Agreement where it is clear that there is a standard of remuneration to be applied where Crown use is invoked. Article 31, paragraph (h) of the TRIPS Agreement requires the patent holder to be paid,

'adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization'.

Breaking down this Article into its constituent elements three components must be satisfied, these are:

- The patent holder must be paid remuneration that is **adequate**;
- The **circumstances of the case** must be considered; and
- The **economic value** of the authorisation must be taken into account.

The Crown use provisions do not expressly recognise a right to 'adequate' remuneration nor do the provisions provide any other guidance such as considering the 'economic value' of the authorisation in determining remuneration. The lack of express guidance in this area supports arguments raised by stakeholders that the remuneration section of the Crown use provisions in the *Patents and Designs Acts* may not be TRIPS or AUSFTA compliant and need to be amended.

AUSFTA

The language used in the current AUSFTA is different to that used in the TRIPS Agreement however, it is indicative of a standard of remuneration. Article 17.9.7 (ii) states that if a Party to the Agreement i.e., the Crown, uses a patent then the Party must ensure that the patent owner is provided with 'reasonable compensation'. Both the terms 'adequate' used in TRIPS and 'reasonable' used in the AUSFTA imply that a certain standard of remuneration is payable to the patent owner. This is in contrast to the relatively simple statement in the *Patents and Designs Acts* that the terms of exploitation are to be agreed to by the parties or by the courts in the absence of an agreement.

The ALRC

The ALRC Report, *Genes and Ingenuity: Gene Patenting and Human Health*, (Chapter 26), also recognised that whilst the *Patent Act* refers to the fact that remuneration for Crown use is payable to the patentee there is no guidance on the quantum of remuneration, but only the mechanism by which a dispute is to be resolved. This report found that a legislative standard was desirable and proposed the following under recommendation 26-3:

The Commonwealth should amend the *Patents Act* to provide that when a patent is exploited under the Crown Use provisions the remuneration that is to be paid by the relevant authority must be paid promptly and must be just and reasonable having regard to the economic value of the patent³⁴.

³⁴ ALRC, *Genes and Ingenuity: Gene Patenting and Human Health*, Report 99, June, 2004, p 608

This recommendation not only implements a standard of remuneration but also highlights the importance of other factors such as the ‘economic value of the patent’.

4.3.3 Remuneration Process

The Crown use provisions do not expressly outline a structured process of attaining remuneration that places clear obligations on both the Crown and the patentee to obtain a fair and equitable agreement. The provisions appear to have been drafted to cater for national emergencies and situations of extreme urgency, therefore the requirements of the Crown are kept to a minimum e.g. remunerating the patentee *after* actual use. This need for flexibility may explain why there is no provision describing a detailed process of remuneration. However, there is no clear reason why there is no formal process of remuneration, at least in non-emergency type situations. The process and assessment of remuneration is largely left to the parties to sort out for themselves. A lack of guidance in this area is another significant factor that contributes to the inequality of bargaining power between the Crown and the patentee.

If, for example, the remuneration offered by the Crown is inadequate in the IP owner’s view then the only avenue open to them under the Crown use provisions is to apply to a prescribed court. Apart from being costly, this situation places the Crown in a superior bargaining position especially if the patentee has limited finances and the Crown knows the patentee cannot afford the time, money or risk that litigation would entail. These factors reduce the bargaining power of the patentee who is more likely to obtain unfair terms of exploitation and remuneration. This is particularly so if the patentee is not a corporation but an individual or small to medium enterprise.

A structured remuneration process can be beneficial as it can provide more certainty of respective obligations in negotiations in addition to addressing the inherent inequality of bargaining power between the patentee and the Crown. In consultations ACIP accepted that this lack of structured process does not necessarily affect some IP rights holders such as multinational corporations who have considerable resources and bargaining power.

4.3.4 Discussion of Views

Remuneration Standard

Remuneration was a major concern of many stakeholders who submitted the remuneration provisions needed reform. It was argued that the absence of any standard assumed that the terms of remuneration were expected to be determined at the discretion of a court applying its own principles as to what standard, if any, was appropriate in the circumstances of the case.

Some expressed the view that this lack of standard hindered negotiations for want of certainty, forcing reliance on the courts³⁵. Many stakeholders viewed court action as not being conducive to obtaining fair and equitable terms for the patentee³⁶. The apparent reason for this belief was not a lack of faith in the courts but rather the limited resources of the patentee in such a situation. For example, by the time a dispute reaches the courts the bargaining position of many patentees is grossly

³⁵ P7 Pty Ltd, Bruce Bilney, Dimitrius Eliadis (Barrister).

³⁶ P7 Pty Ltd, FICPI, IPTA, Pacific Technologies, Innovative Technologies.

diminished because of the inherent risks, time delays and expense involved. There was broad support for the provisions to expressly state a standard of remuneration as a benchmark for negotiations³⁷. This, some argued, would make court involvement less likely in determining this contentious point.

An opposing view presented in consultations was that current civil litigation avenues available provide IP owners with fair and equitable arrangements on a commercial footing³⁸. Some stakeholders noted that the rarity of recorded court cases proved that there were very few instances of recourse to the courts in any case³⁹. However, others explained this discrepancy as evidence that oppressive tactics were being used by organisations invoking the Crown use provisions to obtain favourable terms⁴⁰. Some cited confidential examples where government departments did not enter into meaningful negotiations in good faith and were very reluctant to even make a statement that they were in fact using a patent and thus liable for compensation⁴¹. These submissions indicated that certain organisations claiming legitimate access to the Crown use provisions considered threats of court action as a necessary first step in negotiations which ultimately lead to unfair or oppressive terms of use. Overall many thought that an express standard of remuneration would provide much needed certainty, assist negotiations for party-party settlement and lower the possibility of having a court rule on the matter thus lowering the significant costs involved and levelling out the disparity of bargaining power between the parties.

However, there was a divergence of views as to what the actual express standard of remuneration should be. Some expressed the view that as in copyright cases, where the Crown can similarly invoke Crown use provisions for copyright, the compensation should be assessed by reference to a ‘market or going rate’ or on a ‘willing licensor’/‘willing licensee’ basis⁴². Other submissions suggested key words to denote a standard such as ‘just terms’ and ‘equitable remuneration’. A common opinion put forward was that the TRIPS Agreement contained a standard of remuneration and that Article 31 (h) of the Agreement should be adopted whilst others concurred with Recommendation 26-3 of the ALRC Report which supported remuneration that was ‘just and reasonable’⁴³.

At least one stakeholder argued this approach on different wording was insufficient and proposed a list of factors be drafted in the patent and designs regulations for a court or negotiating parties to take into consideration when determining remuneration⁴⁴. It was also submitted that this should not be a mandatory list and that, in court, each case should be considered on its own merits.

³⁷ IPTA, FICPI, P7 Pty Ltd, Medicines Australia.

³⁸ Law Council Australia.

³⁹ Department of Health and Ageing.

⁴⁰ P7 Pty Ltd.

⁴¹ Ibid.

⁴² IPTA.

⁴³ ALRC, *Genes and Ingenuity: Gene Patenting and Human Health*, Report 99, June, 2004, p 33.

⁴⁴ Law Council of Australia, Medicines Australia.

Remuneration Process

Various opinions were expressed on this issue, many of which supported a structured remuneration process to be followed in the event that Crown use provisions are invoked. The arguments used to support this position were raised not only to even the relative inequality of bargaining power, but to better educate users of the provisions and to instil much needed certainty and transparency⁴⁵. In contrast, opposing views argued that existing processes of review were sufficient to bring public decisions on Crown use remuneration to account⁴⁶. Some examples of existing processes that may be instigated were through the Australian Government Ombudsman, the offices of the Ombudsman in each state, the Australian National Audit Office, the Administrative Appeals Tribunal and the accessing of documents through Freedom of Information legislation.

Frequent areas of discussion under this issue included the valuation and determination of remuneration. In consultations stakeholders expressed concern on how remuneration and valuation would be assessed by the Crown and whether there should be some provision in the legislation providing guidance on a formula of remuneration. Some submissions argued that the court should appoint an expert IP valuer to assess remuneration, others argued that remuneration should be calculated in the same way that damages are currently assessed in the Federal Court⁴⁷, whilst others focused on the disadvantages of involving a prescribed court in the first place.

Another point of concern for some stakeholders was with the Crown not only using the threat of invoking the provisions to achieve an agreement, but also utilising threats to challenge the validity of granted patents in negotiations. A number of submissions considered it grossly inappropriate for the Crown, having granted a patent, to challenge its validity for Crown interests⁴⁸. However, other submissions supported the view that the Crown should retain its capacity to challenge the validity of a patent and seek revocation just like any other commercial entity⁴⁹. On the issue of a structured process of remuneration, few stakeholders supported the idea that if the Crown questions validity it should bear the cost of litigation. There was at least one submission which opted for upfront payments to be made to patentees by authorities or organisations seeking to invoke Crown use to fund legal defences to patent invalidity claims⁵⁰.

A majority of submissions supported the introduction of a cheaper and a more streamlined process for determining remuneration in the event an agreement could not be reached. Some stakeholders indicated support for a process of remuneration that is facilitated by a Crown use tribunal similar to the Copyright Tribunal⁵¹. The reasoning being that if the Crown, using its vast bargaining power, solely determined the level of remuneration payable this may be seen as a potential conflict of interest. A more widely supported option was the use of alternative dispute resolution and/or the

⁴⁵ Medicines Australia, P7 Pty Ltd, Innovative Technologies, Pacific Technologies.

⁴⁶ Department of Health and Ageing, Department of Defence.

⁴⁷ Dimitriou Eliadis (Barrister).

⁴⁸ IPTA, P7 Pty Ltd, Innovative Technologies, Pacific Technologies.

⁴⁹ Department of Defence.

⁵⁰ Pacific Technologies Pty Ltd.

⁵¹ IPTA.

extension of the jurisdiction of patent and design matters to the Federal Magistrates Service to deal with Crown use matters⁵².

Despite arguments supporting a structured process there was broad support that maximum flexibility was desirable in emergency or exceptional circumstances. It was put forward that in these situations no mandatory process should apply and the question of remuneration should be considered as soon as practicable thereafter. Several submissions argued that any process outlined in the legislation would need to at least include expected time frames and rights of appeal.

4.3.5 ACIP Considerations

As the Crown use provisions are rarely formally invoked ACIP found there is little information on the private and confidential agreements that have been struck between the Crown and patentees. As such there was little information on whether these private agreements were fundamentally fair. From individual consultations and submissions the threat of invoking Crown use may occur more frequently than the evidence suggests. ACIP heard evidence of Crown use provisions being used as a lever in negotiations, being highly advantageous for the Crown seeking use of a patent, but unfortunately this appears to result in unfair terms for the patentee. This was of particular concern to ACIP especially considering the relative disproportion of bargaining power between the Crown and patentee. In order to address these apparent problems ACIP considers that the Crown use provisions should be amended to include a relative standard of remuneration and a structured statutory process of negotiating terms of use such as remuneration. ACIP believes that implementing such changes would be beneficial to all parties concerned.

Remuneration standard

ACIP found that the lack of any indication of a standard in the Crown use provisions necessitated court involvement, increased the expense of negotiations, weakened the bargaining power of the patentee and was a considerable source of uncertainty. Furthermore, ACIP concurred with submissions that this lack of a remuneration standard may render the Crown use provisions non-compliant with TRIPS and the recent AUSFTA. In considering recommendations on this issue ACIP found that the actual terms expressing a standard of remuneration should be similar to the ALRC's recommendation of being 'just and reasonable'. ACIP believes that these terms encapsulate a balance of both an objective test with the term 'reasonable' and a subjective test with the term 'just'. However, ACIP does not consider that the precise wording of TRIPS, 'taking into consideration the economic value of the authorisation' is necessary. Such an inclusion may lead to ambiguity on the application of other important matters in determining remuneration. Instead of focusing on economic value ACIP prefers wording with a wider scope e.g. 'taking into consideration the circumstances of each case'.

ACIP would prefer such a standard to apply to the parties in negotiations irrespective of whether the parties seek court intervention. Should the parties fail to agree on remuneration ACIP believes that the parties and the court should have the benefit of a

⁵² Medicines Australia, Dimitriou Eliades (Barrister), Innovative Technologies, Pacific Technologies.

list of matters to take into consideration. This list should not be exclusive and in court each case should be determined on its own merits. This would ensure from the outset that both parties have, at the very least, a concept of what standard of remuneration should apply thus making negotiations more efficient and expeditious for all concerned. If the provisions are amended to reflect a standard as outlined above, ACIP expects this would also resolve the issue of the provisions not being compliant with international agreements.

Remuneration process

Whilst current civil court procedures are geared to settling disputes rather than all out litigation, ACIP believes that if parties fail to agree on the terms of exploitation then there should be recourse to alternative dispute resolution (ADR). By employing mediation to settle disputes there are considerable benefits e.g. speedy resolution and significantly lower costs. ACIP believes that mediation should be mandatory, i.e. the parties must have endeavoured to actively settle remuneration and other terms prior to proceeding to court.

In considering the option of establishing a special tribunal ACIP concluded that there were probably an insufficient number of disputes concerning the provisions to warrant such a tribunal. Furthermore it is possible, that tribunals may not offer the benefits of judicial courts in maintaining a clear separation from any government influence/pressure, thus allowing greater confidence of a non-partisan adjudication regarding terms of use. ACIP believes that the Federal Magistrates Service (FMS) would be the most beneficial forum to hear Crown use disputes (see further ACIP Paper *Should the Jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?*), which recommended that patent, trade mark and design matters be dealt with by the Federal Magistracy. Should the FMS have jurisdiction in such matters this may increase the bargaining power of the patentee, as proceedings are potentially not as costly compared to proceedings in superior courts like the Federal Court. Whilst recourse to the courts should be a last resort an inherent benefit with the court system is that the decisions on terms of exploitation are completely transparent as proceedings are on the public record.

ACIP proposes that a structured procedure be implemented into the Crown use provisions to guide the parties to reach an amicable outcome. The process should occur in stages and may be temporarily set aside in cases of emergency, situations of urgency, national security, or when it is contrary to the public interest. In the example below an ‘authority’ denotes a Crown organisation and encapsulates ACIP’s recommendations on Ministerial approval, the process is as follows:

Example B: Process of Remuneration

1. An authority makes a decision that a certain patent or design is required or has become aware that it has been using a registered patent or design;
2. The authority should enter into negotiations in good faith in order to obtain a commercial licence from the IP rights holder;
3. In the event of a failure to obtain an agreement or insufficient time to negotiate an agreement at the request of the authority it is open to the Minister to formally approve Crown use;

4. After Ministerial approval has been granted the approved authority must officially notify the IP rights holder that the Crown use provisions have been invoked and that remuneration is payable;
5. If agreement cannot be reached on terms of remuneration then the parties must participate in mandatory ADR;
6. If agreement still not reached, the authority is to advise the patent holder, in writing, of what the authority intends to pay as remuneration;
7. If the IP right holder does not agree they have a right to appeal to a prescribed court, which could include the Federal Magistrates Court.

ACIP concluded that such structured procedural steps would be beneficial to both the IP rights holder and also to the authorities seeking to use the IP. The remuneration process together with the Ministerial approval process can be viewed as one cohesive procedure diagrammatically (see *Attachment F*). All Crown authorities would have the benefit of internal guidelines consistent with a whole of government approach on the utilisation of the Crown use provisions.

Assistance from the Ombudsman

It is accepted by ACIP that there may be situations where an authority is using a patent or design without seeking either a commercial licence constituting authorisation for the use or has not notified the IP rights holder of such use. Should the IP rights holder believe this is the case they could seek the assistance of the State or Commonwealth Ombudsman.

The Ombudsman considers and investigates complaints from people who believe they have been treated unfairly or unreasonably for example by a Commonwealth Government department or agency. The aim of the Ombudsman is to correct defective administration, by conducting independent investigation of complaints about Australian Government administrative action and to resolve complaints impartially, informally and quickly. Should the Ombudsman be unable to assist the IP rights holder the office can explain why, and suggest other avenues for resolving the matter. The Ombudsman cannot override the decisions of Crown agencies however, the office can resolve disputes by negotiation, persuasion and by making formal recommendations to the most senior levels of government.

Should the Ombudsman not remedy the situation the only other option available would most likely involve seeking orders from an appropriate court that an authority is using the intellectual property without authorisation constituting infringement. ACIP believes that the recommendations to the standard of remuneration and structured process of determining disputes regarding remuneration will greatly reduce the incidence of this situation occurring.

Threats of court action

Threats of court action at the outset are counter productive to negotiations. ACIP agrees with submissions that the Crown should not use its financial capacity in oppressive ways, although accepts that recourse to the courts may be inevitable in some situations where agreement cannot be reached. ACIP heard of some instances whereby rather than negotiating with the patentee the Crown or authorised organisation threatens to attack the validity or the effective scope of the patent in a bid to obtain favourable terms of exploitation in negotiations. Defending against this type

of action is hugely expensive in both cost and time for a SME and can prove ruinous to the IP rights holder. It would be open to the IP rights holder to inform the relevant Minister that it has been subjected to groundless threats to the validity of their IP rights by an organisation who has not engaged in constructive genuine negotiations in good faith. It would then be open for the Minister to take this fact into consideration when making the decision to grant approval for invoking the Crown use provisions.

Validity

ACIP considers it appropriate for the Crown to question the validity of a patent just like any other commercial entity negotiating a licensing agreement indeed the validity of a patent or design is a significant factor in determining remuneration. It is a well established principle that even when a patent has been granted this in no way guarantees validity. However, Crown organisations should conduct their own investigations in good faith about the validity of a patent and its scope and not threaten court action on validity when there are no reasonable grounds to do so. ACIP does not consider it appropriate for any Crown entity to fund a patentee's defence to an action to invoke the Crown use provisions or a defence to attacking the validity of a patent. Should a dispute reach the stage of formal litigation the current practice of the court determining which party should pay costs is entirely appropriate.

Attachment A: List of Submissions and Consultations held by ACIP

Submissions

Australian Computing Society
Bilney
Department of Defence
Department of Health & Ageing
Dimitriou Eliades
FICPI
Innovative Technologies Australia
IPRIA
IPTA
Law Council of Australia
Medicines Australia
P7 Pty Ltd Submission
Pacific Technologies Australia

Consultations

Law Council of Australia
FICPI
IPTA
Pacific Technologies
IP Australia
Medicines Australia
Innovative Technologies
Australian Computer Society
Dimitriou Eliadis - Barrister
Department of Defence
P7 Pty Ltd
Department of Health & Ageing

Attachment B: The 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 C: Designs Act 2003

Part 2—Use by the Crown

95 Meaning of terms

- (1) In this Part, a reference to the use of a design, or of a product in relation to which a design is registered, which embodies the design, is a reference to the exercise of the exclusive rights in the design mentioned in paragraphs 10(1)(a) to (e).
- (2) In this Part:

State includes the following:

- (a) the Australian Capital Territory, the Northern Territory and Norfolk Island;
- (b) an authority of the Australian Capital Territory, the Northern Territory or Norfolk Island.

96 Use of design by the Commonwealth or a State

- (1) At any time after a design application disclosing a design has been filed or a design has been registered, the Commonwealth or a State, or a person authorised in writing by the Commonwealth or a State, may use 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; and
 - (b) may relate to, and authorise retrospectively, acts done after the filing of the application and before the giving of the authority; and
 - (c) may be given to a person even if that person is directly or indirectly authorised by the entitled person in relation to the design, or the registered owner of the design, as the case requires, to use the design.
- (3) Subject to section 105, a design is taken for the purposes of this Part to be used for the services of the Commonwealth or a State if the use of the design is necessary for the proper provision of those services within Australia.

97 Applicants, entitled persons and registered owners to be informed of use

- (1) As soon as practicable after the use of a design under section 96, the Commonwealth or a State must inform the following persons of that use:
 - (a) in the case of a design that has not yet been registered—each applicant for registration of the design and each entitled person in relation to the design;
 - (b) in the case of a registered design—the registered owner.
- (2) The Commonwealth or a State must also give to each person mentioned in paragraph (1)(a) or (b) such information about the use of the design as the person from time to time reasonably requires, unless it appears to the Commonwealth or State that it would be contrary to the public interest to do so.

98 Terms of use

- (1) The terms of use of a design:

- (a) are as agreed on, whether before, during or after that use, between the Commonwealth or State and the entitled person in relation to the design or the registered owner of the design, as the case requires; or
 - (b) in absence of agreement, are as determined by a prescribed court.
- (2) A prescribed court may, in determining the terms of use, 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.
- (3) A person may not apply to a prescribed court for a determination under subsection (1) in relation to a design unless a certificate of examination has been issued in relation to the design.

99 Previous agreements inoperative

- (1) This section applies to an agreement or licence (whether made or given before or after the commencement of this section) fixing the terms on which a person other than the Commonwealth or a State may use a design.
- (2) Such an agreement or licence is inoperative with respect to the use, after the commencement of this section, of the design under section 96, unless the agreement or licence has been approved by the Minister or by the Attorney-General of the State.

100 Infringement

Infringement proceedings do not lie in relation to the use of a design under section 96.

101 Declaration by court

- (1) The registered owner of a design who considers that the design has been used under section 96 may apply to a prescribed court for a declaration to that effect.
- (2) An application under subsection (1) may not be made by the registered owner unless a certificate of examination has been issued.
- (3) In a proceeding under subsection (1), the Commonwealth or the State concerned is the defendant and may, by way of counter-claim, apply for the revocation of the registration of the design under section 93.

102 Use of design to cease under court order

- (1) A prescribed court may, on the application of the registered owner, declare that the use of a registered design by the Commonwealth or State is not, or is no longer, necessary for the proper provision of services of the Commonwealth or State.
- (2) The court may make a declaration under subsection (1) if it is satisfied that in all the circumstances of the case, it is fair and reasonable to do so.
- (3) The court may further order that the Commonwealth or the State is to cease to use the design:
 - (a) on and from the day specified in the order; and

- (b) subject to any conditions specified in the order.
- (4) In making an order under subsection (3), the court is to ensure that the legitimate interests of the Commonwealth or State are not adversely affected by the order.
- (5) A person may not apply to a prescribed court for a declaration under subsection (1) in relation to a design unless a certificate of examination has been issued in relation to the design.

103 Sale of products

If a product that embodies a design is sold during the use of the design under section 96, the buyer, and any person claiming through the buyer, is entitled to deal with the product as if the Commonwealth or the State were the registered owner of the design.

104 Forfeited products

Nothing in this Part affects the right 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 a product forfeited under a law of the Commonwealth or the State.

105 Supply of products by the Commonwealth to foreign countries

- (1) This section applies if:
 - (a) the Commonwealth has made an agreement with a foreign country to supply to the country a product in relation to which a design is registered, which embodies the design; and
 - (b) the product is required for the defence of the country.
- (2) The use of the product by the Commonwealth, or by a person authorised in writing by the Commonwealth, for the purposes of supplying the product is taken, for the purposes of this Part, to be a use of the product by the Commonwealth for the services of the Commonwealth.
- (3) The Commonwealth or the authorised person may:
 - (a) sell the product to the country under the agreement; and
 - (b) sell to any person any of the products that are not required for the purpose for which they were made.

Attachment D: Article 31- TRIPS

Other use without authorization of the right holder

Where the law of a Member allows for other use⁷ 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:

⁷ "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 E: Australia and United States Free Trade Agreement

Chapter 17 Intellectual Property

Article 17.9: Patents

1. Each Party shall make patents available for any invention, whether a product or process, in all fields of technology, provided that the invention is new, involves an inventive step, and is capable of industrial application. The Parties confirm that patents shall be available for any new uses or methods of using a known product. For the purposes of this Article, a Party may treat the terms “inventive step” and “capable of industrial application” as synonymous with the terms “non-obvious” and “useful”, respectively.

2. Each Party may only exclude from patentability:

(a) inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect *ordre public* or morality, including to protect human, animal, or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by law; and

(b) diagnostic, therapeutic, and surgical methods for the treatment of humans and animals.

3. A Party may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

4. Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from a patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory, at least where the patentee has placed restrictions on importation by contract or other means.

5. Each Party shall provide that a patent may only be revoked on grounds that would have justified a refusal to grant the patent, or on the basis of fraud, misrepresentation, or inequitable conduct.

6. Consistent with paragraph 3, if a Party permits a third person to use the subject matter of a subsisting patent to generate information necessary to support an application for marketing approval of a pharmaceutical product, that Party shall provide that any product produced under such authority shall not be made, used, or sold in the territory of that Party other than for purposes related to generating information to meet requirements for marketing approval for the product, and if the Party permits exportation, the product shall only be exported outside the territory of that Party for purposes of meeting marketing approval requirements of that Party.

7. A Party shall not permit the use^{17-[22]} of the subject matter of a patent without the authorisation of the right holder except in the following circumstances:

(a) to remedy a practice determined after judicial or administrative process to be anti-competitive under the Party's laws relating to prevention of anti-competitive practices;^{17-[23]} or

(b) in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency, provided that:

(i) the Party shall limit such use to use by the government or third persons authorised by the government;

(ii) the Party shall ensure that the patent owner is provided with reasonable compensation for such use; and

(iii) the Party may not require the patent owner to provide undisclosed information or technical know-how related to a patented invention that has been authorised for use in accordance with this paragraph.

8. (a) If there are unreasonable delays in a Party's issuance of patents, that Party shall provide the means to, and at the request of a patent owner, shall, adjust the term of the patent to compensate for such delays. An unreasonable delay shall at least include a delay in the issuance of a patent of more than four years from the date of filing of the application in the Party, or two years after a request for examination of the application has been made, whichever is later. For the purposes of this paragraph, any delays that occur in the issuance of a patent due to periods attributable to actions of the patent applicant or any opposing third person need not be included in the determination of such delay.

(b) With respect to a pharmaceutical product^{17-[24]} that is subject to a patent, each Party shall make available an adjustment of the patent term to compensate the patent owner for unreasonable curtailment of the effective patent term as a result of the marketing approval process.

9. Each Party shall disregard information contained in public disclosures used to determine if an invention is novel or has an inventive step if the public disclosure (a) was made or authorised by, or derived from, the patent applicant, and (b) occurs within 12 months prior to the date of filing of the application in the territory of the Party.

10. Each Party shall provide patent applicants with at least one opportunity to make amendments, corrections, and observations in connection with their applications.

11. Each Party shall provide that a disclosure of a claimed invention shall be considered to be sufficiently clear and complete if it provides information that allows the invention to be made and used by a person skilled in the art, without undue experimentation, as of the filing date.

12. Each Party shall provide that a claimed invention is sufficiently supported by its disclosure if the disclosure reasonably conveys to a person skilled in the art that the applicant was in possession of the claimed invention, as of the filing date.

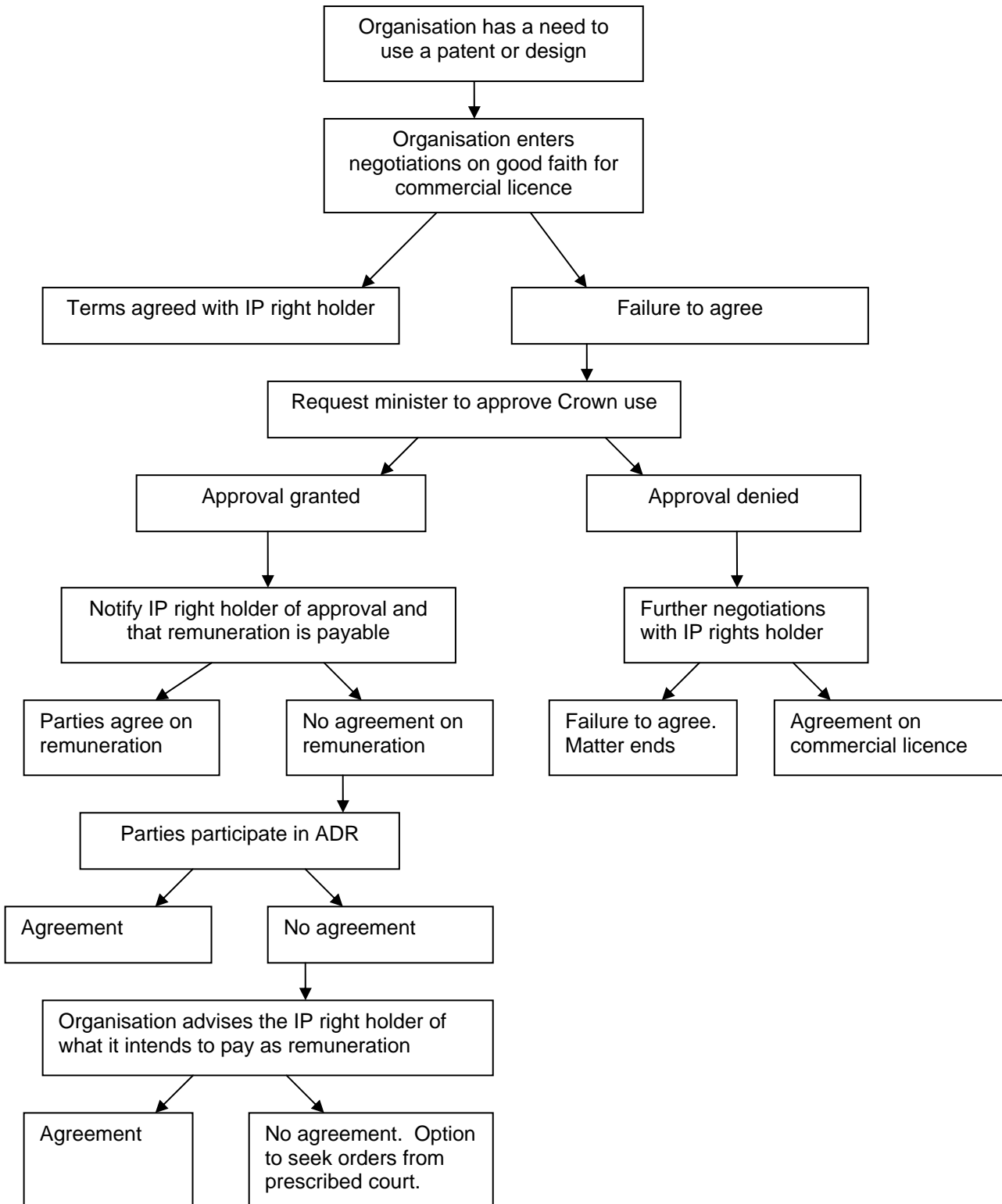
13. Each Party shall provide that a claimed invention is useful if it has a specific, substantial, and credible utility.

14. Each Party shall endeavour to reduce differences in law and practice between their respective systems, including in respect of differences in determining the rights to an invention, the prior art effect of applications for patents, and the division of an application containing multiple inventions. In addition, each Party shall endeavour to participate in international patent harmonisation efforts, including the WIPO fora addressing reform and development of the international patent system.

15. Each Party shall endeavour to establish a cooperative framework between their respective patent offices as a basis for progress towards the mutual exploitation of search and examination work.

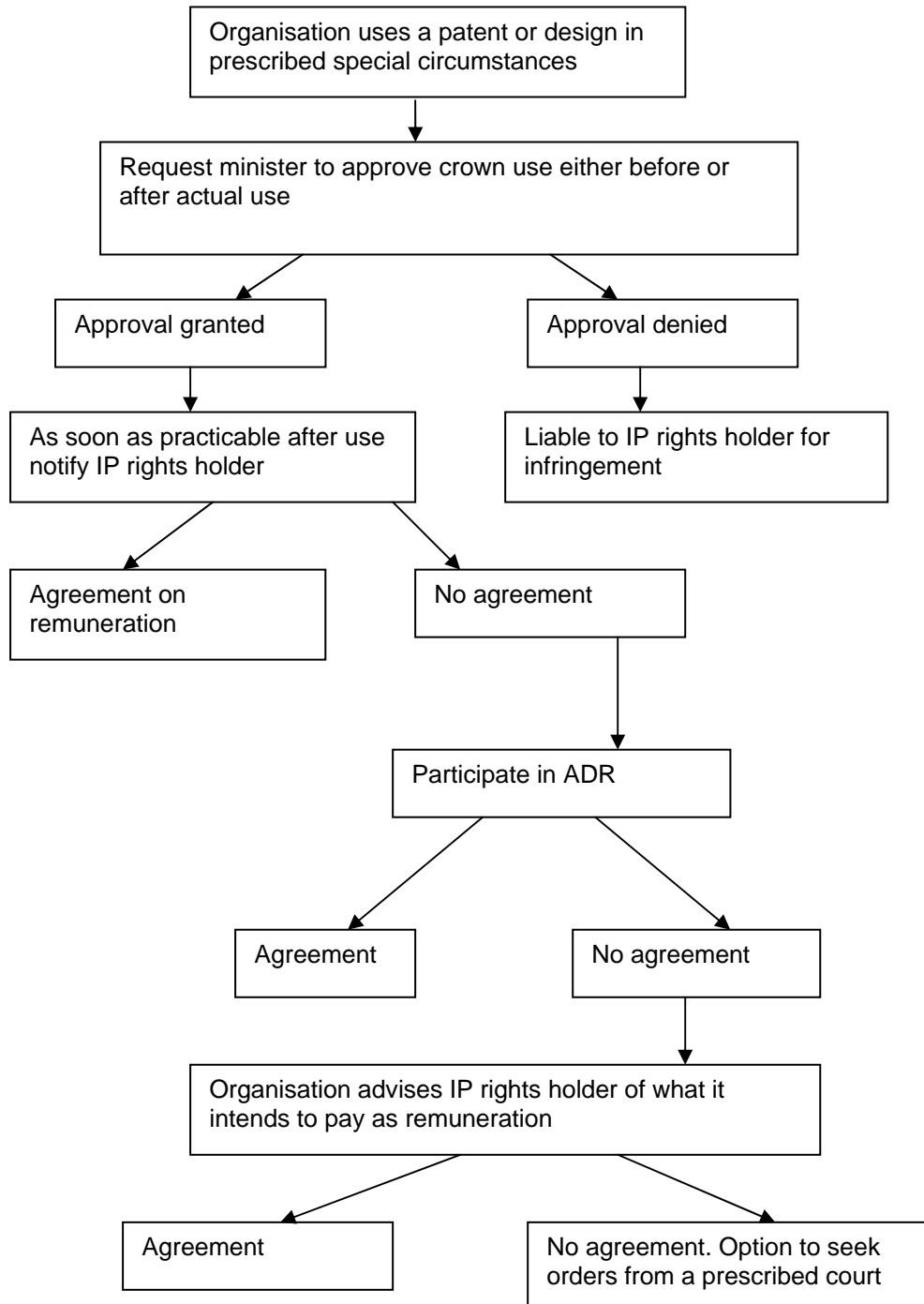
Attachment F: Remuneration and Ministerial Approval Process

*This process may not apply in emergencies; national security situations; situations of urgency; or where it is contrary to the public interest as determined by the organisation seeking to use the patent or design.



Attachment G: Remuneration and Ministerial Approval in Special Circumstances

This process only applies in emergencies; national security situations; situations of urgency or where Ministerial approval needs to be temporarily waived in the public interest.



Attachment H: 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.

